

STATE OF HAWAII  
OAHU METROPOLITAN PLANNING ORGANIZATION  
FINANCIAL AND COMPLIANCE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2014  
WITH INDEPENDENT AUDITOR'S REPORT

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**STATE OF HAWAI'I**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**FINANCIAL AND COMPLIANCE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**Submitted by**  
**The Auditor**  
**State of Hawai'i**

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
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**PART I – TRANSMITTAL LETTER**

GILFORD SATO & ASSOCIATES, CPAS, INC.

PACIFIC PARK PLAZA  
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PHONE (808) 942-8868 FAX (808) 947-3628

March 31, 2015

Office of the Auditor  
State of Hawai'i

Mr. Brian Gibson  
Executive Director  
Oahu Metropolitan Planning Organization  
Ocean View Center  
707 Richards Street, Suite 200  
Honolulu, HI 96813

Dear Mr. Gibson:

We have completed our financial audit of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the year ended June 30, 2014. The audit was performed in accordance with terms of our contract with the Office of the Auditor, State of Hawai'i, and with the requirements of auditing standards generally accepted in the United States of America, the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), and *Government Auditing Standards* issued by the Comptroller General of the United States.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of OahuMPO's financial statements as of and for the fiscal year ended June 30, 2014, and to comply with the requirements of OMB Circular A-133. The objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of OahuMPO's financial statements.
2. To ascertain whether expenditures and other disbursements have been made and revenues and other receipts to which OahuMPO is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawai'i and the federal government.
3. To ascertain whether OahuMPO has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To ascertain whether OahuMPO has complied with the laws and regulations that may have a material effect on the financial statements and on its major federal financial assistance program.
5. To satisfy the audit requirements of the federal grantor agency.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of OahuMPO for the fiscal year ended June 30, 2014.

Organization of the Report

This report is presented in five parts as follows:

- PART I            The transmittal letter.
- PART II           The financial statements and supplementary information and our report on such financial statements and supplementary information, and management's discussion and analysis.
- PART III          Our report on internal control over financial reporting and compliance and other matters and our report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance.
- PART IV          The schedule of findings and questioned costs and schedule of prior findings and questioned costs.
- PART V           The corrective action plan.

We wish to express our sincere appreciation for the cooperation and assistance extended by the personnel of OahuMPO's and the personnel of the State of Hawaii, Department of Transportation – Business Management Office.



Honolulu, Hawaii  
March 31, 2015

## **PART II – FINANCIAL SECTION**

**GILFORD SATO & ASSOCIATES, CPAS, INC.**

PACIFIC PARK PLAZA

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HONOLULU, HAWAII 96813

PHONE (808) 942-8868 FAX (808) 947-3628

**INDEPENDENT AUDITOR'S REPORT**

Office of the Auditor  
State of Hawai'i

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, as listed in the accompanying table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities of OahuMPO, as of June 30, 2014, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United State of America require that the schedule of expenditures by agency and management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Schedule of Federal Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OahuMPO's basic financial statement. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of OahuMPO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OahuMPO's internal control over financial reporting and compliance.

*Guyford Satoh & Associates, CPAs, LLC.*

Honolulu, Hawai'i  
March 31, 2015

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

This section of the annual financial report presents an analysis of OahuMPO's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements which follows this section.

**Financial Highlights**

- OahuMPO's net position increased by \$19,500.
- During the fiscal year, OahuMPO's revenues decreased by \$561,000, and expenditures/expenses decreased by \$586,700.

This is reflective of the cycle of annual planning studies and activities with which OahuMPO is charged with overseeing, as the number of studies increase or decrease from fiscal year to fiscal year.

**Overview of Annual Report**

This annual report consists of the transmittal letter; management's discussion and analysis; financial statements, notes to the financial statements, and supplementary information that explain in more detail some of the information in the financial statements; the reports on internal controls and compliance; and schedule of findings and questioned costs. There was a corrective action plan required for the year ended June 30, 2014.

**Required Financial Statements**

The financial statements of OahuMPO present combined information about the organization as a whole and the activities of its special revenue fund. The financial statements begin with the presentation of fund financial statements, which explains how government activities were financed in the short-term, as well as what resources remain for future spending. These financial statements were prepared on the modified accrual basis of accounting, which reports revenues, when both measurable and available, and expenditures/expenses, when the related liabilities are incurred. The fund financial statements were then adjusted to the accrual basis of accounting to present OahuMPO's activities as a whole. The accrual basis of accounting, which is similar to the accounting used by most private-sector companies, recognizes revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position and Governmental Fund Balance Sheet includes all of OahuMPO's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of the organization to its creditors (liabilities). The Statement of Activity and Governmental Revenues, Expenditures, and Changes in Fund Balance/Net Position reports the organization's activities and the changes in its net position as a result of its activities.

Tables 1 and 2 present a comparative view of net position and changes in net position as of and for the years ending June 30, 2014 and June 30, 2013, respectively.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**TABLE 1**  
**CONDENSED SUMMARY OF NET ASSETS**  
(Rounded to nearest \$1,000)

	<u>2014</u>	(As Restated) <u>2013</u>
<b>ASSETS:</b>		
Current assets	\$ 657,600	\$ 1,083,000
Capital assets, net of accumulated depreciation	<u>7,400</u>	<u>10,000</u>
Total assets	<u><u>\$ 665,000</u></u>	<u><u>\$ 1,093,000</u></u>
<b>LIABILITIES:</b>		
Current liabilities	\$ 599,000	\$ 1,031,700
Long-term liabilities	<u>12,900</u>	<u>28,000</u>
Total liabilities	<u><u>\$ 611,900</u></u>	<u><u>\$ 1,059,700</u></u>
<b>NET ASSETS:</b>		
Invested in capital assets	\$ 7,400	\$ 10,000
Unrestricted	<u>45,700</u>	<u>23,300</u>
Total net assets	<u><u>\$ 53,100</u></u>	<u><u>\$ 33,300</u></u>

OahuMPO's net position increased 59.46% (\$53,100 as compared to \$33,300) between June 30, 2014 and June 30, 2013. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased 96.14% (\$45,700 as compared to \$23,300) between June 30, 2014 and June 30, 2013.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**TABLE 2**  
**CONDENSED SUMMARY OF CHANGES IN NET ASSETS**  
(Rounded to nearest \$1,000)

	2014	(As restated) 2013
<b>EXPENDITURES:</b>		
Regional transportation forecasting and long-range planning	\$ 23,300	\$ 726,000
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	553,900	538,000
Regional transportation monitoring and analysis	205,800	183,000
Planning review and systems management	133,600	136,000
Coordination of the planning program	591,700	512,000
	<u>1,508,300</u>	<u>2,095,000</u>
<b>REVENUES:</b>		
Federal grant contributions	1,222,200	1,669,000
State and City contributions	305,600	416,000
Interest income and other	-	3,800
	<u>1,527,800</u>	<u>2,088,800</u>
Increase (decrease) in net assets	<u>\$ 19,500</u>	<u>\$ (6,200)</u>

OahuMPO's expenditures/expenses decreased by 28.00% between the years ended June 30, 2014 and 2013 in all expenditure/expense categories. OahuMPO's revenues decreased by 26.85% between the years ended June 30, 2014 and 2013. The changes in revenues were attributed largely to the correlating decrease in Federal grant and State and City contributions.

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2014 and 2013, OahuMPO had capital assets net of accumulated depreciation of approximately \$7,400 and \$10,000, respectively. OahuMPO did not have any capital acquisitions or dispositions for both the years ended June 30, 2014 and 2013.

**Debt**

OahuMPO did not have any outstanding debt as of June 30, 2014 and 2013.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET**  
**JUNE 30, 2014**

	Special Revenue	Adjustments (Note 2)	Statement of Net Position
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 191,939	\$ -	\$ 191,939
Receivables from federal government	459,009	-	459,009
Other current assets	6,657	-	6,657
Total current assets	657,605	-	657,605
<b>NONCURRENT ASSETS:</b>			
Capital assets, net of accumulated depreciation	-	7,439	7,439
Total assets	\$ 657,605	\$ 7,439	\$ 665,044
<b>CURRENT LIABILITIES:</b>			
Vouchers payable	\$ 176,287	\$ -	\$ 176,287
Advances from other agencies	377,622	-	377,622
Accrued liabilities	21,303	23,778	45,081
Total current liabilities	575,212	23,778	598,990
<b>NONCURRENT LIABILITIES:</b>			
Accrued liabilities	-	12,936	12,936
Total noncurrent liabilities	-	12,936	12,936
Total liabilities	575,212	36,714	611,926
<b>FUND BALANCES/NET POSITION:</b>			
Restricted fund balance	82,393	(82,393)	-
Net position:			
Invested in capital assets	-	7,440	7,440
Unrestricted	-	45,678	45,678
Total net position	-	53,118	53,118
Total liabilities and fund balance/net position	\$ 657,605	\$ 7,439	\$ 665,044

See accompanying notes to financial statements.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**STATEMENT OF ACTIVITY AND GOVERNMENTAL**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue	Adjustments (Note 2)	Statement of Activity
<b>EXPENDITURES:</b>			
Regional transportation forecasting and long-range planning	\$ 23,261	\$ -	\$ 23,261
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	553,903	-	553,903
Regional transportation monitoring and analysis	205,803	-	205,803
Planning review and system management	133,647	-	133,647
Coordination of the planning program	611,195	(19,514)	591,681
Total expenditures	1,527,809	(19,514)	1,508,295
<b>REVENUES:</b>			
Federal grant contributions	1,222,232	-	1,222,232
Local contributions:			
City and County of Honolulu	209,970	-	209,970
State of Hawai'i	95,607	-	95,607
Total revenues	1,527,809	-	1,527,809
Change in fund balance/net position	-	19,514	19,514
<b>FUND BALANCE/NET POSITION:</b>			
Beginning of the year, as restated	82,393	(48,789)	33,604
End of the year	\$ 82,393	\$ (29,275)	\$ 53,118

See accompanying notes to financial statements.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

1. Reporting Entity

Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO), was established in 1975 by the State Legislature to serve in an advisory capacity to the State Legislature, the City and County of Honolulu (City) Council, and appropriate state and county agencies in carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of Oahu as required by law.

The accompanying financial statements present only the financial activities of OahuMPO. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State of Hawai'i (State) annually, which includes OahuMPO's financial activities.

2. Summary of Significant Accounting Policies

a. Financial Statement Presentation

OahuMPO's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). Governments are required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP and used by OahuMPO is discussed below.

Basis of Accounting

Accrual – Government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual – The government fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Government-Wide

The financial statements focus on the sustainability of OahuMPO as an entity and the change in its net position resulting from the current year's activities. Both the government-wide and fund financial statements categorize the primary activities of OahuMPO as governmental. All costs are charged directly to programs of OahuMPO based on the use of resources.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Government Fund

Governmental fund is the fund through which the acquisition, use, and balances of OahuMPO's expendable financial resources and the related liabilities are accounted. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following describes OahuMPO's governmental fund type:

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than expendable trusts) that are restricted to expenditures for specified purposes. The special revenue funds were established to account for the contracts that the State entered into for OahuMPO with the U.S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA), and those between OahuMPO and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

Governmental Fund Balance

OahuMPO implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal year ended June 30, 2011. The guidance provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new fund balance structure is based primarily on the extent to which OahuMPO is bound to follow constraints on how the resources can be spent. Due to the specific revenue sources and restricted expenditures for specified purposes, OahuMPO's fund balance was classified as restricted as of June 30, 2013.

Net position

OahuMPO implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* for the fiscal year ended June 30, 2013, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net position throughout the financial statements.

Reconciliation

OahuMPO's financial statements include a combined government-wide and fund financial statement. The financial statements begin with the fund financial statements and include an adjustment column that reconciles amounts reported in the fund to an accrual basis of accounting under the government-wide financial statements.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

2. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Reconciling items include the following:

Statement of net assets:

Capital assets, net of accumulated depreciation	\$ 7,439
Accrued liabilities - current	\$ 23,778
Accrued liabilities - non current	12,936
	\$ 36,714
Restricted fund balance	\$ (82,393)
Net assets	53,118
	\$ (29,275)

Statement of activity:

Depreciation	\$ (2,358)
Accrued vacation	\$ 21,872
	\$ 19,514

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

c. Receivables From Federal Government

Revenues for all federal reimbursement-type grants are recorded as receivable from federal government when costs are incurred.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

2. Summary of Significant Accounting Policies (continued)

d. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported in the Statement of Net Position and Governmental Fund Balance Sheet, at cost. Additions, improvement, and other capital outlays that significantly extend the useful life of an asset are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 – 7 years
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e. Accumulated Vacation and Sick Leave

OahuMPO's employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. OahuMPO records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No.16, *Accounting for Compensated Absences*. Sick leave is not convertible to pay upon termination of employment. Sick leave is recorded as expenditures when taken.

f. Encumbrance

OahuMPO's accounting procedures provide for the recording of commitments as encumbrances at the time contracts and other commitments are awarded and executed. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is generally employed as an extension of formal budgetary integration in governmental fund types. Encumbrances outstanding at fiscal year end are generally reported as reservations of fund balances since they do not constitute expenditures or liabilities. Although OahuMPO does not receive appropriations, the State Comptroller allows for the encumbrance of federally funded contracts. As of June 30, 2014, OahuMPO recorded encumbrances of approximately \$141,131.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

3. Federal Grants

Federal Highway Administration (FHWA) Grants

The FHWA-PL grants represent apportionments under 23 USC Section 104(f) made to the OahuMPO through the State Department of Transportation – Highways Division. The FHWA-PL grants reimburse 80% of allowable expenditures claimed by OahuMPO, and the remaining 20% is contributed by the participating State and County agencies.

Federal Transit Administration (FTA) Grants

The FTA apportions funds annually for Section 5303 Metropolitan Planning Program and for Section 5304 State Planning and Research Program. The apportionment is based on the State’s urbanized area population as defined by the U.S. Census Bureau and is made to OahuMPO through the Statewide Transportation Planning Office – Department of Transportation.

The FTA grants provide for the undertaking of (1) metropolitan planning activities pursuant to 49 USC Section 5303 (previously known as Section 8 of the Federal Transit Act), and (2) state planning and research activities pursuant to 49 USC Section 5304 (previously known as Section 5313(b) of the Federal Transit Act). Under Sections 5303 and 5304 grants, FTA participates in 80% of allowable costs claimed by the OahuMPO. The remaining 20% is contributed by the participating State and County agencies.

The FTA grants were executed on the following dates:

<u>Grant No.</u>	<u>Date</u>
HI-80-0023	June 3, 2014
HI-80-0022	September 7, 2012
HI-80-0021	September 19, 2011
HI-80-0020	September 23, 2010
HI-80-0019	February 2, 2010

4. Budgeting and Budgetary Control

A budget, known as the Overall Work Program (OWP) is prepared by OahuMPO on an annual basis. The budget and any additions thereto, are approved by OahuMPO’s Policy Committee and subsequently by the Federal Highway Administration. The OWP encompasses various projects (work elements), in which work performed is specifically for OahuMPO, the State, or the City and County of Honolulu, and are worked on over a multi-year period.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

4. Budgeting and Budgetary Control (continued)

Amounts shown in the OWP include amounts budgeted for in prior fiscal years and for the current fiscal year. Because OahuMPO does not operate under a legally adopted budget, as defined by GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, budgetary comparison information is not included in the supplementary information.

The portion of OahuMPO budget representing work elements to be fully or partially funded by FHWA is financed by current and prior fiscal years' FHWA apportionments, which were obligated by the State. An obligation is a commitment – the federal government's promise to pay the State for the federal share of a project's eligible cost. This commitment occurs when the project is approved and the project agreement is executed. Unobligated FHWA apportionments are available for reprogramming for a period of three years following the federal fiscal year for which it is apportioned.

As of June 30, 2014, the estimated balance of unused FHWA obligated funds amounted to:

<u>Fiscal Year of Appointment</u>	<u>Balance of Unused Obligation</u>
2009	\$ 12,880
2010	24,209
2011	15,600
2012	124,235
2013	1,654,371
2014	<u>1,402,691</u>
	<u>\$ 3,233,986</u>

The portion of OahuMPO budget representing amounts allowable under specific FTA grants are financed by current and prior fiscal years' annual grant agreements which were approved, executed, and obligated to OahuMPO through the State Department of Transportation. At the end of each fiscal year, the unexpended portion of these obligated funds are carried forward to the following fiscal year.

The amount of unexpended FTA funds amounted to \$844,309 as of June 30, 2014.

5. Cash

Cash consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Petty cash	\$ 400	\$ 400
Amounts held in State Treasury	<u>191,539</u>	<u>576,710</u>
Total cash	<u>\$ 191,939</u>	<u>\$ 577,110</u>

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

5. Cash (continued)

Cash in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State Treasury's cash pool. Section 36-21, Hawaii's Revised Statute (HRS), authorizes the State to invest in obligations of the State, the United States Treasury, agencies and instrumentalities, certificate of deposits, and bank repurchase agreements.

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury's cash pool. The State Director of Finance may invest any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. The HRS 36-1 authorizes the State Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State of Hawaii, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Information related to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Earnings on cash held in the State Treasury are allocated to OahuMPO based on its average monthly investment balances at the end of each reporting period in the State Treasury.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

6. Capital Assets

Changes in capital assets during the year ended June 30, 2014 were as follows:

	<u>Beginning</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>June 30, 2014</u>
<u>Capital assets:</u>				
Furniture and equipment	\$ 16,509	\$ -	\$ -	\$ 16,509
Total capital assets	<u>16,509</u>	<u>-</u>	<u>-</u>	<u>16,509</u>
Less accumulated depreciation:				
Furniture and equipment	<u>6,712</u>	<u>2,358</u>	<u>-</u>	<u>9,070</u>
Total accumulated depreciation	<u>6,712</u>	<u>2,358</u>	<u>-</u>	<u>9,070</u>
Capital assets, net of depreciation	<u>\$ 9,797</u>	<u>\$ (2,358)</u>	<u>\$ -</u>	<u>\$ 7,439</u>

7. Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the year ended June 30, 2014 were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Accrued liabilities	\$ 28,292	6,911	22,267	\$ 12,936
Total noncurrent liabilities	<u>\$ 28,292</u>	<u>6,911</u>	<u>22,267</u>	<u>\$ 12,936</u>

8. Retirement Benefits

Employees' Retirement System of the State of Hawai'i

All eligible employees of OahuMPO are required by HRS Chapter 88 to become members of the Employee's Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan that is governed by a Board of Trustees. The ERS provides retirement, survivor, and disability benefits through a contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required information. The report may be obtained by writing to the Employee's Retirement System of the State of Hawai'i at 201 Merchant Street, Suite 1400, Honolulu, Hawai'i 96813.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

8. Retirement Benefits (continued)

Employees' Retirement System of the State of Hawai'i (continued)

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. A new hybrid contributory plan provided employees in the contributory and noncontributory plan the option of joining the hybrid plan or remaining in their existing plan beginning July 1, 2006. All new employees covered by Social Security are required to join the hybrid plan beginning July 1, 2006.

The plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired beginning July 1, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

Contributory Plan:

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits after 5 years of credited service. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire at any age with at least 25 years of credited service with reduced level of benefits. The benefit multiplier is 2% for employees covered by social security.

New employees in the contributory plan hired beginning July 1, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits after 10 years of credited service. Employees may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with at least 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by social security.

Hybrid Plan:

Employees in the hybrid plan are required to contribute 6% of their salary and are fully vested for benefits after 5 years of credited service. Employees may retire with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service, or may retire at age 55 with at least 20 years of credit service with reduced benefits. The benefit multiplier is 2% for employees covered by social security.

New employees in the hybrid plan hired beginning July 1, 2012 are required to contribute 8% of their salary and are fully vested for benefits after 10 years of credited service. Employees may retire at age 65 and 10 years of credited service, or may retire at age 60 and 30 years of credited service with reduced benefits. The benefit multiplier is 1.75 % for employees covered by social security.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

8. Retirement Benefits (continued)

Employees' Retirement System of the State of Hawai'i (continued)

Noncontributory Plan:

Employees in the noncontributory plan are fully vested after 10 years of credited service. Employees may retire with full benefits at age 62 and 10 years of credited service, or age 55 and 30 years of credited service, or at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

Funding Policy:

The funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and the actuarially determined rate of investment return are adequate to accumulate sufficient assets to pay benefits when they become due. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirement as of June 30, 2014, 2013, and 2012, based on the most recent information available were approximately \$463,832,000, \$418,415,000, and \$396,380,000, respectively, and represented the required contributions for each year.

Contributions by OahuMPO for the years ended June 30, 2014, 2013, and 2012 were approximately \$59,800, \$67,000, and \$61,900, respectively, at the pension accumulation rate of 15.00% of annual covered payroll, which were equal to the required contributions for each year.

Postemployment Healthcare and Life Insurance Benefits:

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) which replaced the Hawai'i Public Employer Health Fund was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits under this plan. The EUTF issues a financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Hawai'i Employer-Union Health Benefits Trust Fund at P.O. Box 2121, Honolulu, Hawai'i 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly healthcare premium for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

8. Retirement Benefits (continued)

Employees' Retirement System of the State of Hawai'i (continued)

Postemployment Healthcare and Life Insurance Benefits (continued):

For employees hired from July 1, 1996 to June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the monthly healthcare premium. For employees who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the monthly healthcare premium. For those employees retiring with over 25 years of service, the State pays the entire healthcare premium. Retirees can elect a family plan to cover dependents.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the healthcare premium. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the healthcare premium. For those employees retiring with at least 25 years of service, the State pays the entire healthcare premium. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State Policy:

The actuarial valuation of the EUTF does not provide other postemployment healthcare and life insurance benefits information by department or agency. Accordingly, the State policy on the accounting and reporting for postemployment healthcare and life insurance benefits is to allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in the State's CAFR. The basis of the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

OahuMPO contributions for postemployment benefits for the years ended June 30, 2014, 2013, and 2012, were approximately \$38,700, \$44,000, and \$32,900, respectively.

The State's CAFR includes the required financial disclosures and required supplementary information on the State's pension and non-pension retirement benefits. The State's CAFR can be found at the Department of Accounting and General Services website at <http://hawaii.gov/dags/rpts>.

9. Commitments and Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an OahuMPO employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The accumulated sick leave is based on the employee's current salary rate including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2014, accumulated sick leave was approximately \$120,600.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

9. Commitments and Contingencies (continued)

Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, as well as property and rights purchased with those amounts and income attributable to those amounts, are held in trust by third-party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the deferred compensation plan are not reflected in OahuMPO's financial statements.

Leases

OahuMPO's lease for its office space situated at 707 Richards Street, Oceanview Center, Suite 200, Honolulu, Hawai'i under a new lease agreement entered into in November 2011, which is retroactive to March 1, 2011 and expires on January 31, 2016. Under the terms and conditions of the lease agreement, OahuMPO is responsible for the monthly base rent and a share of operating costs.

OahuMPO also leases equipment under a 5-year operating lease agreement that expires on October 25, 2015. In addition to the base rent, OahuMPO is responsible for all operating costs related to the use of this equipment.

At June 30, 2014, the minimum lease payments due under the new office space lease agreement and under the equipment agreement will be approximately \$40,900 for the year ended June 30, 2015 and \$22,900 for the year ended June 30, 2016.

The total rental expenditures incurred on the office space lease, including common area fees and on the equipment lease, including operating costs were approximately \$75,000 and \$7,300 for the year ended June 30, 2014, respectively.

10. Risk Management

OahuMPO is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. A summary of the State's insurance coverage for property insurance, general liability, including torts, and self-insured risks are described below.

Property Insurance and Crime Insurance

The State has property insurance coverage with a variety of insurers. The deductible for coverage is 3% of the loss subject to a \$1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler machinery coverage. The limit of loss per occurrence is \$175,000,000, except for flood and earthquake which individually is a \$175,000,000 aggregate loss and terrorism which is \$50,000,000 per occurrence and a \$50,000 deductible.

The State also has a crime insurance policy for various types of coverage with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 limit per occurrence and a \$1,000 deductible.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

11. Risk Management (continued)

General Liability (Including Torts)

The State handles general liability claims under \$10,000 by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has a personal injury and property damage liability insurance policy, including automobile and public errors and omissions, in force with a \$4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is \$15,000,000.

A liability for a claim is established if information indicates that it is probable that a liability has incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. As of June 30, 2014, there are no liabilities related to the OahuMPO that requires a provision and accordingly, no provision for any liabilities have been made in the accompanying financial statements.

Self-Insured Risks

The State generally self-insures its automobile, no-fault, and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

12. Related Party Transactions

OahuMPO utilizes the State Department of Transportation, for staff support, accounting, information technology, human resources, and other services. The Code of Federal Regulations requires that there be an agreement between the State, the transit operator, and OahuMPO specifying the cooperative procedures for carrying out transportation planning. A Comprehensive Agreement between the State, the County of Honolulu, and OahuMPO was executed on October 23, 2008.

The State and the City and County of Honolulu each contribute 10% of funding to OahuMPO's projects based on the budget for the Overall Work Program. For the year ended June 30, 2014, the State and the City and County of Honolulu each paid \$163,425 to OahuMPO for those projects.

As discussed in Note 4, the Overall Work Program includes projects for the State and the City and County of Honolulu. In these instances, the entity requesting the project pays for the entire cost of the project and is reimbursed 80% through federal grant monies. The remaining 20% is the local match as established in Federal regulations for these projects. OahuMPO serves as the fiscal agent in processing the federal reimbursements to the State and the City and County of Honolulu.

As of June 30, 2014, OahuMPO had a payable of \$135,599 to the City and County of Honolulu for federal grant monies received by OahuMPO, which will be paid to the City and County of Honolulu.

13. Prior Period Adjustment

During the fiscal year ended June 30, 2014, it was determined that interest income and Purchasing Card (pCard) rebates should be returned to the State of Hawaii, the City and County of Honolulu, and the Federal Government instead of being recognized as income. The net effect results in an overstatement of fund balance / net position and an understatement of advances from agencies by \$240,563 for the fiscal years prior to June 30, 2013 and an understatement of \$2,169 for the fiscal year ended June 30, 2013.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

13. Prior Period Adjustment (continued)

		June 30, 2013
Fund balance / net position, at beginning of year, as previously reported	\$	280,139
Adjustment for overstatement of fund balance / net position		(240,563)
Fund balance / net position, at beginning of year, as restated		39,576
Net loss, as previously reported	\$	(3,803)
Adjustment for overstatement of fund balance / net position		(2,169)
Net loss, as restated		(5,972)
Fund balance / net position, at end of year	\$	33,604

14. Subsequent Events

On September 17, 2014, the FHWA conducted its Transportation Management Area (TMA) Certification Review on OahuMPO, which will remain in effect until July 17, 2015. The review indicated several corrective actions and recommendations to be addressed by OahuMPO. OahuMPO will be working to address Tier 1 corrective actions indicated in the review by July 17, 2015 and Tier 2 corrective actions indicated in the review by September 17, 2015.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF EXPENDITURES BY AGENCY**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	W.E.	CITY	HWY	OMPO	TOTAL
<u>Regional Transportation Forecasting and Long-Range Planning:</u>					
	202				
Central Oahu Transportation Study	202.02	\$ -	\$ -	\$ 1,528	\$ 1,528
Oahu Regional Transportation Plan	202.06	-	-	15,033	15,033
Waikiki Transit Circulator Study	202.84	6,700	-	-	6,700
		6,700	-	16,561	23,261
<u>Short-Range TSM/TDM Planning:</u>					
	203				
Honolulu Urban Core Parking Master Plan	203.79	159,344	-	-	159,344
Makakilo Traffic Study	203.80	7,445	-	-	7,445
West Waikiki Traffic Study	203.81	11,700	-	-	11,700
Separate Left-Turn Phase Alternatives Study	203.82	31,800	-	-	31,800
Village Park - Kupuna Loop Corridor Study	203.83	25,000	-	-	25,000
Contra-flow Update Study	203.84	120,000	-	-	120,000
Emergency Evacuation Plan	206.01	198,614	-	-	198,614
		553,903	-	-	553,903
<u>Regional Transportation Monitoring and Analysis:</u>					
	201				
Traffic Signal Prioritization Methodology	201.01	77,900	-	40	77,940
Title IV & Environmental Justice Monitoring	201.04	-	-	5,869	5,869
Census Data	201.06	-	-	649	649
Federal Planning Requirements	201.11	-	-	16,773	16,773
Land Use Model Enhancement and Demonstration	201.50	-	-	184	184
Travel Demand Forecasting Model	201.60	-	-	4,930	4,930
Tantalus and Round Top Drive Boundary Identification Study	201.65	16,383	-	-	16,383
Pedestrian Master Plan	201.66	-	83,075	-	83,075
		94,283	83,075	28,445	205,803
<u>Planning Review and System Management:</u>					
	205				
OahuMPO Planning Process Review	205.01	-	-	112,596	112,596
OahuMPO Website Update and E-TIP and E-ORTP Development	205.02	-	-	21,051	21,051
		-	-	133,647	133,647
<u>Coordination of the Planning Program:</u>					
	301				
Program Administration & Support	301.01	-	-	184,264	184,264
General Technical Assistance and Planning Support	301.02	-	-	24,885	24,885
Overall Work Programs	301.03	-	-	65,843	65,843
Support for Citizen Advisory Committee & Additional Public Outreach	301.04	-	-	59,909	59,909
Single Audit	301.05	-	-	56,399	56,399
Disadvantaged Business Enterprise Program	301.08	-	-	1,203	1,203
Professional Development	301.09	-	-	7,641	7,641
Computer and Network Maintenance	301.10	-	-	7,205	7,205
Census Data	301.13	-	-	79	79
Oahu Regional Transportation Plan	301.16	-	-	16,646	16,646
Transportation Improvement Program	301.17	-	-	76,119	76,119
Transportation Alternatives Program	301.18	-	-	499	499
Overhead (Indirect Costs)	302.01	-	-	110,503	110,503
		-	-	611,195	611,195
Total expenditures by agency		\$ 654,886	\$ 83,075	\$ 789,848	\$ 1,527,809

See accompanying notes to financial statements.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Rounded FY 2014 Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed Through State Department of Transportation -			
Highway Planning and Construction: *			
OahuMPO Work Program	20.205	PL-0052(31)	\$ 66,460
OahuMPO Work Program	20.205	PL-0052(32)	1,812
OahuMPO Work Program	20.205	PL-0052(33)	2,651
OahuMPO Work Program	20.205	PL-0052(35)	556,797
OahuMPO Work Program	20.205	PL-0052(36)	171,334
			<u>799,054</u>
Federal Transit Technical Studies Grant: *			
FTA, Section 5303	20.505	HI-80-0019	(20,922)
FTA, Section 5303	20.505	HI-80-0020	24,152
FTA, Section 5303	20.505	HI-80-0021	149,367
FTA, Section 5303	20.505	HI-80-0022	32,274
FTA, Section 5303	20.505	HI-80-0023	238,307
			<u>423,178</u>
Total Federal Expenditures			<u><u>\$ 1,222,232</u></u>

\* Major Program

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Major Program

OahuMPO's major program is identified in the Schedule of Expenditures of Federal Awards.

3. Amount of Reimbursement Claims by Sub-Recipients

OahuMPO processed federal reimbursement claims on State of Hawai'i, Department of Transportation – Highways (SOH DOT HWY) and the City and County of Honolulu, Department of Transportation Services (C&C DTS) contracts, which amounted to \$590,369 during the fiscal year ended June 30, 2014.

**PART III – INTERNAL CONTROL AND COMPLIANCE SECTION**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

GILFORD SATO & ASSOCIATES, CPAS, INC.

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HONOLULU, HAWAII 96813

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

State of Hawai'i  
Office of the Auditor  
Honolulu, Hawaii

We have audited in accordance with the standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* used by the Comptroller General of the United States of America, the financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, and have issued our report thereon dated March 31, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OahuMPO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OahuMPO's internal control. Accordingly, we do not express an opinion on the effectiveness of OahuMPO's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the schedule of findings and questioned costs as items 2014-001 through 2014-006 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OahuMPO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-007 through 2014-008.

### **OahuMPO's Responses to Findings**

OahuMPO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. OahuMPO's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the management of the OahuMPO, Office of the Auditor, federal awarding agencies, pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.



Honolulu, Hawaii  
March 31, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

State of Hawai'i  
Office of the Auditor  
Honolulu, Hawaii

**Report on Compliance for Each Major Program**

We have audited Oahu Metropolitan Planning Organization, State of Hawai'i (OahuMPO)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. OahuMPO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirement of laws, regulations, contracts, and grants applicable to its major federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of OahuMPO's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OahuMPO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OahuMPO's compliance.

**Basis for Qualified Opinion on Major Programs**

As described in the accompanying schedule of findings and questioned costs, OahuMPO did not comply with requirements regarding CFDA 20.205 – *Highway Planning and Construction, U.S. Department of Transportation* and CDFA 20.505 – *Federal Transit Technical Studies, U.S. Department of Transportation* as described in finding numbers 2014-007 regarding the activities allowed or unallowed requirement and 2014-008 regarding the sub-recipient monitoring requirement. Compliance with such requirements is necessary, in our opinion, for OahuMPO to comply with the requirements applicable to those programs.

### Qualified Opinion on Major Programs

In our opinion, OahuMPO, except for the noncompliance described in the Basis of Qualified Opinion on Major Programs paragraph OahuMPO complied, in all material aspects, with the requirements referred to above that could have a direct and material effect on CFDA 20.205 – *Highway Planning and Construction, U.S. Department of Transportation* and CDFA 20.505 – *Federal Transit Technical Studies, U.S. Department of Transportation* for the year ended June 30, 2014.

### Reporting on Internal Control Over Compliance

Management of OahuMPO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered OahuMPO's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OahuMPO's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance exists* when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-007 and 2014-008 to be material weaknesses.

OahuMPO's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. OahuMPO's responses were not subject to auditing procedures applied in the audit of compliance and, accordingly, we expressed no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of the management of the OahuMPO, Office of the Auditor, federal awarding agencies, pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

*Griffith & Associates, CPA, LLC.*

Honolulu, Hawaii  
March 31, 2015

**PART IV – SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness?  yes  none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?  yes  no

Identification of major program:

**CFDA Number**

**Name of Federal Program**

20.205

U.S. Department of Transportation  
Highway Planning and Construction,

20.505

U.S. Department of Transportation  
Federal Transit Technical Studies

Dollar threshold used to distinguish between Type A and Type B programs? \$300,000

Auditee qualified as low-risk auditee?  yes  no

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Summary of Financial Statement Findings**

<u>Finding Number</u>	<u>Finding</u>
2014-001	Control Environment – Improve Oversight of the Accounting, Grants Management, and Financial Reporting Functions
2014-002	Control Environment – Improve Commitment to Integrity and Ethical Values
2014-003	Proper Risk Assessment
2014-004	Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures
2014-005	Lack of Complete Documentation of Key Cost Allocation Summary Worksheets
2014-006	Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-001  
**Area:** Control Environment – Improve Oversight of the Accounting, Grants Management, and Financial Reporting Functions

Criteria:

OahuMPO's control environment is a key component of internal control over the accounting, grants management, and financial reporting areas. Proper oversight of work performed in these areas enhances and strengthens OahuMPO's overall control environment.

Condition:

During our examination we noted that the Policy Committee (PC) did not have quorum for a majority of its meetings held during the period July 1, 2013 through June 30, 2014.

Cause:

There appears to be weak internal controls regarding OahuMPO's control environment related to the oversight of the entity.

Effect:

The effect of the above condition is a weak control environment, which will reduce the effectiveness of the other components of OahuMPO's system of internal controls over these areas. Weak internal control over these areas could result in incomplete and inaccurate financial reporting and noncompliance with laws, regulations, grant agreements, and other contractual arrangements. In addition, the lack of quorum hinders the decision making ability of the PC, which in turns affects the operating effectiveness of OahuMPO.

Recommendation:

We recommend that the Executive Director and the PC work to improve how the meetings are scheduled, emphasize the importance of attending the meetings, and emphasize the roles and responsibilities of the committee members. Attaining quorum will provide the PC with the ability to properly act on matters that requires their attention.

Auditee Response and Corrective Action Plan:

The Executive Director agrees that it is important to routinely attain quorum for PC meetings. OahuMPO is currently re-evaluating and updating the State law governing MPOs in Hawai'i and the agency's Comprehensive Agreement. It is also drafting Policy Board Bylaws. One of the most important reasons for these changes is to help ensure Policy Board quorum is achieved regularly. Since the fiscal year 2014, OahuMPO staff has also been working with the PC members to identify and remove or avoid any barriers to achieving quorum. Since October 1, 2014, five meetings of the PC have been called, and quorum was achieved at four of those meetings. OahuMPO staff will continue working with the members of its Policy Board to help ensure quorum is regularly attained.

Auditee Contact Person:

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-002

**Area:** Control Environment – Improve Commitment to Integrity and Ethical Values

Criteria:

OahuMPO's control environment is a key component of internal controls over the accounting, grants management, and financial reporting areas. The Executive Director must make a commitment to integrity and ethical values to strengthen OahuMPO's control environment.

Condition:

During our examination, we noted that OahuMPO does not have code of conduct and conflict of interest policies that were reviewed and signed by the PC and employees of OahuMPO. Due to the nature of the role and responsibilities of the PC members and the SOH DOT HWY and C&C DTS recipients of OahuMPO's grant monies related to transportation projects, it is important to have a code of conduct and conflict of interest policies that is acknowledged by the PC and employees of OahuMPO.

Cause:

There appears to be weak internal controls regarding the control environment related to the oversight of the entity.

Effect:

The effect of the above condition is a weak control environment, which will reduce the effectiveness of the other components of OahuMPO's system of internal controls over these areas. Weak internal control over these areas could result in incomplete and inaccurate financial reporting and noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO develop and implement code of conduct and conflict of interest policies to ensure that integrity and ethical values are maintain at the control environment level.

Auditee Response and Corrective Action Plan:

The Executive Director concurs and appreciates the recommendation. In the fiscal year 2016, OahuMPO staff will develop Code of Conduct and Conflict of Interest policies.

Auditee Contact Person:

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-003  
**Area:** Proper Risk Assessment

Criteria:

OahuMPO's risk assessment process is a key component of internal controls to determine the risks associated with accounting, grants management, and financial reporting areas, particularly with respect to federal reporting and compliance requirements.

Condition:

During our examination, we noted that management did not complete an assessment of its accounting, grants management, and financial reporting areas in terms of the related risks associated with each area.

Cause:

There appears to be weak internal controls regarding OahuMPO's ability to determine the risks associated with each area and the development of policies and procedures to address these risks.

Effect:

The effect of the above condition is a weak risk assessment process, which will reduce the effectiveness of the other components of OahuMPO's system of internal controls over these areas. Weak internal controls over these areas could result in incomplete and inaccurate financial reporting and noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO establish a process to identify and document its objectives for the accounting, grants management, and financial reporting areas and the related risks associated with achieving those objectives, so that OahuMPO can generate the accurate and reliable financial information and comply with laws, regulations, grant agreements, and other contractual arrangements.

Proper identification of these objectives and related risks will provide critical information that can be used to design the appropriate policies and procedures related to these areas. When designing internal controls, management should consider where material misstatements could occur in the financial statements and areas where non-compliance may occur, and design appropriate policies and procedures to prevent or detect these errors on a timely basis.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-003  
**Area:** Proper Risk Assessment (continued)

Auditee Response and Corrective Action Plan:

OahuMPO staff will recommend the budgeting of resources in the Fiscal Year 2016 to evaluate the applicability of the Committee of Sponsoring Organization of the Treadway Commission (COSO) Internal Control Framework document dated May 2013 and evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

Auditee Contact Person:

Brian Gibson, Executive Director

**Finding Number:** 2014-004  
**Area:** Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

Criteria:

OahuMPO's control activities over accounting, grants management, and financial reporting are key components of internal controls. Current written policies and procedures and adherence to those policies and procedures are required to ensure that material misstatements are identified on a timely basis, grants are properly managed, grants are in compliance with applicable regulations and grant agreements, assets are properly safeguarded, and to provide a basis to evaluate the effectiveness of those internal controls over these areas.

Condition:

During our examination, we noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not specific or undocumented related to these areas. Some of the decisions on how to handle accounting and grants management issues were made without consideration of internal control to prevent or detect material misstatements to the financial statements on a timely basis and to ensure compliance with federal regulations and grant agreements.

Cause:

There appears to be weak internal controls over the accounting, grants management, and financial reporting areas related to OahuMPO's policies and procedures. There is also a lack of adequate evaluation and monitoring of these policies and procedures on a timely basis.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-004  
**Area:** Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures (continued)

Effect:

The effect of the above condition is a weak component of internal controls, regarding OahuMPO's control activities. Weak internal controls over the accounting, grants management, and financial reporting areas will result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend OahuMPO review and update its policies and procedures over the accounting, grants management, and financial reporting areas on a timely basis. OahuMPO should also review and determine areas where policies and procedures are missing and develop the appropriate policies and procedures related to grant management as required. OahuMPO must also consistently adhere to its policies and procedures in these areas to prevent or detect material misstatements to the financial statements on a timely basis, to issue accurate financial statements on a timely basis, and to ensure compliance with federal regulations and grant agreements.

Auditee Response and Corrective Action Plan:

OahuMPO staff will recommend the budgeting of resources in the Fiscal Year 2016 to evaluate the applicability of the COSO Internal Control Framework document dated May 2013 and evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

Auditee Contact Person:

Brian Gibson, Executive Director

**Finding Number:** 2014-005  
**Area:** Lack of Complete Documentation of Key Cost Allocation Summary Worksheets

Criteria:

OahuMPO's control activities over accounting, grants management, and financial reporting are key components of internal controls. Written policies and procedures and adherence to those policies and procedures are required to ensure that material misstatements are identified on a timely basis, grants are properly managed, grants are in compliance with applicable regulations and grant agreements, assets are properly safeguarded, and to provide a basis to evaluate the effectiveness of those internal controls over these areas.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-005  
**Area:** Lack of Complete Documentation of Key Cost Allocation Summary Worksheets  
(continued)

Condition:

During our examination, we noted that the Financial Specialist maintains a spreadsheet that is used to allocate and summarize costs charged to specific grants. At the beginning of each fiscal year, the Financial Specialist modifies the spreadsheet to add new grants and to remove expired grants. However, the Financial Specialist does not maintain documentation on the objectives of the worksheet, how to use the worksheet, how the worksheets allocates and summarizes costs charged to the various grants, how to modify the worksheets for changes in the grants administered by OahuMPO, how to test the worksheets, and what testing documentation must be maintained to ensure the worksheets are computing properly.

During our testing of major program expenditures, we did not note any instances of unallowable costs or misstatements related to the Financial Specialist's allocation worksheets.

Cause:

There appears to be weak internal controls regarding the appropriate documentation over a key spreadsheet that allocates and summarizes costs to the various grants.

Effect:

The effect of the above condition is a weak component of internal controls, regarding OahuMPO's control activities. Weak internal controls over the accounting, grants management, and financial reporting areas will result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that the Financial Specialist prepare documentation of the process used to summarize the allocation of costs to the appropriate grants.

Auditee Response and Corrective Action Plan:

The Executive Director will direct the Financial Specialist to prepare, at the earliest time that their workload will allow, but no later than the end of the fiscal year 2016, documentation of the process used to summarize the allocation of costs to the appropriate grants.

Auditee Contact Person:

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-006  
**Area:** Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

Criteria:

OahuMPO's monitoring efforts is a key component of internal controls. Proper monitoring of internal controls over accounting, grants management, and financial reporting will evaluate whether controls established for these areas are operating as designed and identify internal control deficiencies and to correct the deficiencies on a timely basis.

Condition:

During our examination, we noted that OahuMPO's policies and procedures for the accounting, grants management, and financial reporting were not formally established or reviewed and updated on a periodic basis for changes in the respective area's processes and procedures. OahuMPO also lacked a process to appropriately monitor the internal controls over these areas.

Cause:

There appears to be weak internal controls over the monitoring of internal controls over the accounting, grants management, and financial reporting areas.

Effect:

The effect of the above condition is a weak component of internal controls. Weak internal controls over the accounting, grants management, and financial reporting areas may result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO establish a process to evaluate the design and implementation of the OahuMPO's internal controls over the accounting, grants management, and financial reporting areas, so that deficiencies in the current or new processes can be identified and corrected on a timely basis. The process should include the staff, management, and the Policy Committee. The Executive Director should keep the Policy Committee informed of the changes in policies and procedures in these areas. Lastly, if deficiencies in internal controls exist, the management should notify the Policy Committee of the situation and the corrective action that will be taken to address the situation noted.

Auditee Response and Corrective Action Plan:

OahuMPO staff will use the COSO Internal Control Framework document dated May 2013 to evaluate and design the internal controls over the accounting, grants management, and financial reporting areas and to develop a process to monitor the effectiveness of the internal controls implemented. OahuMPO anticipates the need to rely on outside accounting and/or auditing expertise to assist OahuMPO staff to accomplish this task. The Policy Committee will be kept informed of any deficiencies found and any policies or procedures that result from this effort.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-006  
**Area:** Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas (continued)

Auditee Contact Person:

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST**

**Summary of Federal Award Findings and Questioned Cost**

<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2014-007	Implement Federal Cost Principle Training	None
2014-008	Improve Sub-Recipient Monitoring Process	None

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-007  
**Federal Agency:** Department of Transportation  
**CFDA Program Number:** 20.205 and 20.505  
**CFDA Program Name:** Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303  
**Area:** Implement Federal Cost Principle Training  
**Questioned Cost:** None

Criteria:

Training related to federal allowable/cost principles is a key component of internal controls in the grants management area. Training of key personnel involved with the grants management area of the OahuMPO facilitates their understanding of the federal allowable/cost principles compliance requirement of OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, understanding of OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and compliance with the respective grant agreements.

Condition:

During our examination, we noted that OahuMPO did not conduct any training on federal allowable/cost principles for key personnel involved with the grants management area. Appropriate training on federal allowable/cost principles is important to ensure compliance with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and compliance with the respective grant agreements. We also noted that OahuMPO did not have any formalized training plan to ensure that its key personnel receives the appropriate training that will ensure compliance with OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and compliance with the respective grant agreements.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. Therefore, there will be no question costs related to the major programs. However, OahuMPO must address this issue of proper training of federal allowable/cost principles to ensure compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and compliance with the respective grant agreements.

Cause:

There appears to be weak internal controls in the grants management process regarding OahuMPO's training process on federal allowable/cost principles. In addition, OahuMPO does not have a formalized training plan on key aspects of grants management to ensure compliance with OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and compliance with the respective grant agreements.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-007  
**Federal Agency:** Department of Transportation  
**CFDA Program Number:** 20.205 and 20.505  
**CFDA Program Name:** Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303  
**Area:** Implement Federal Cost Principle Training  
**Questioned Cost:** None

**Effect:**

The effect of the above condition is a weak component of internal control in the grants management area, regarding training of federal allowable/cost principles. Weak internal control in this area can result in non-compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and non-compliance with the respective grant agreements. Non-compliance with these guidelines may result in unallowable costs being incurred, which will lead to questioned costs, return of funds by OahuMPO and possible loss of funding in the future.

**Recommendation:**

We recommend that OahuMPO conduct federal allowable/cost principles training on OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* to the key personnel, such as the Financial Specialist and Project Managers. It should be noted that OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* was replaced with 2 CFR 200 *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* effective December 26, 2014. This will ensure that all personnel in the fiscal and project management aspects of OahuMPO understand the federal allowable/cost principles that apply to the management of their grants.

**Auditee Response and Corrective Action Plan:**

As soon as practicable, but no later than the end of the fiscal year 2016, OahuMPO's staff will work with the Federal Highway Administration Hawaii Division Office to identify and utilize federal allowable/cost principles training opportunities for key OahuMPO staff.

**Auditee Contact Person:**

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-008  
**Federal Agency:** U.S. Department of Transportation  
**CFDA Program Number:** 20.205 and 20.505  
**CFDA Program Name:** Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303  
**Area:** Improve Sub-Recipient Monitoring Process  
**Questioned Cost:** None

Criteria:

OahuMPO's sub-recipient monitoring process is a key component of internal control in the grants management area. Sub-recipient monitoring is a critical process to ensure that OahuMPO is in compliance with regulations such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, terms and conditions of the respective grant agreements, and the State Procurement Office (SPO Guidelines).

Condition:

During our examination, we noted that OahuMPO did not have a formalized documented sub-recipient monitoring process to address key compliance areas with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, the terms and conditions of the respective grant agreements, and SPO Guidelines. It should be noted that OahuMPO conducted some monitoring, but improvements in their monitoring process with respect to OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements* is required. It should also be noted that OahuMPO did not conduct any procedures to ensure that the sub-recipients (SOH DOT HWY and C&C DTS) complied with the SPO Guidelines.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. Therefore, there will be no question costs related to the major programs. However, OahuMPO must address this issue of proper sub-recipient monitoring to ensure compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*.

Cause:

There appears to be weak internal control in the grants management process regarding OahuMPO's sub-recipient monitoring process for those receiving federal funds from the Organization. In addition, OahuMPO does not have a formalized documented sub-recipient monitoring process.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-008  
**Federal Agency:** Department of Transportation  
**CFDA Program Number:** 20.205 and 20.505  
**CFDA Program Name:** Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303  
**Area:** Improve Sub-Recipient Monitoring Process  
**Questioned Cost:** None

Effect:

The effect of the above condition is a weak component of internal control in the grants management area, regarding whether the sub-recipients that received federal funds from OahuMPO were properly monitored prior to awarding the federal funds, during the award period, and at the end of the grant period. Weak internal controls in this area could result in non-compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, the respective grant agreements, and with SPO Guidelines. Non-compliance with these guidelines may result in unallowable costs being incurred, which will lead to questioned costs, return of funds by OahuMPO and possible loss of funding in the future.

Recommendation:

We recommend that OahuMPO review its grants management process and formally document a process to ensure that sub-recipients who receive federal funds from OahuMPO are properly monitored prior to awarding the federal funds, during the award period, and at the end of the grant period.

The process should include a risk assessment of each sub-recipient. The risk assessment should be based on a review of the grant agreement with the grantor or pass-through agency, review of OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, an understanding of the background of the sub-recipient that will receive federal funds from OahuMPO, including the results of other projects performed by the sub-recipient, and other checks by OahuMPO, such as compliance with SPO Guidelines. This assessment will determine the approach and extent of the monitoring of the sub-recipient.

Based on the approach and extent of the monitoring of the sub-recipient, OahuMPO can determine the level of documentation required. Documentation should include checklists, certifications, including certifications from the sub-recipients that they complied with the SPO Guidelines, narratives related to understanding the sub-recipient and results of desk audits or site visits, establishment of timelines, correspondence with the sub-recipients, timelines of submissions, analysis of the amount of federal funds received by the sub-recipient from all sources, standards for submitting costs for reimbursements, and review of progress and final project reports.

Lastly, OahuMPO should conduct training of its key personnel involved with the management of its grants on sub-recipient monitoring requirements of OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*.

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Finding Number:** 2014-008  
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**Area:** Improve Sub-Recipient Monitoring Process  
**Questioned Cost:** None

Auditee Response and Corrective Action Plan:

OahuMPO staff will recommend the budgeting of resources in the Fiscal Year 2016 to evaluate the applicability of the COSO Internal Control Framework document dated May 2013 and evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

OahuMPO will also review OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirement*, as it relates to the sub-recipient monitoring requirements and incorporate those requirements into its internal control over the sub-recipient monitoring process.

Auditee Contact Person:

Brian Gibson, Executive Director

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**AS OF JUNE 30, 2014**

**SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no findings and questioned cost reported for the year ended June 30, 2013.

**PART V – CORRECTIVE ACTION PLAN**

**STATE OF HAWAII**  
**OAHU METROPOLITAN PLANNING ORGANIZATION**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**AS OF JUNE 30, 2014**

**CORRECTIVE ACTION PLAN**

Management's correction action plan related to the findings noted in this report for the year ended June 30, 2014 are summarized in Section II, Financial Statement Findings and in Section III, Federal Awards Findings and Questioned Cost of this report.