

# STATE OF HAWAII

## SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015



**DOUGLAS MURDOCK**  
COMPTROLLER

Independent Audit Contracted and Administered by  
Office of the State Auditor

**State of Hawaii**  
**Single Audit of Federal Financial Assistance Programs**  
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**SCHEDULE OF EXPENDITURES OF FEDERAL  
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REPORTS**

**Report of Independent Auditors 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***

The Auditor  
State of Hawaii

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 30, 2015.

Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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 a 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 accompanying schedule of findings and questioned costs as Finding No. 2015-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding Nos. 2015-001 and 2015-002 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **State's Response to Findings**

The State's response to the findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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.

*Accuity LLP*

Honolulu, Hawaii  
December 30, 2015

## **Report of Independent Auditors on Compliance for Each Major Program, Internal Control Over Compliance, and the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

The Auditor  
State of Hawaii

### **Report on Compliance for Each Major Federal Program**

We have audited the State of Hawaii's Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, Department of Business, Economic Development and Tourism, Department of Commerce and Consumer Affairs, Department of Defense, Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Land and Natural Resources, Department of Public Safety, Department of Taxation, and the Governor's Office (collectively, the State) 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 State's major federal programs for the year ended June 30, 2015. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended \$3,427,348,720 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of the Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units separately engaged auditors to perform audits in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, or did not require an audit in accordance with OMB Circular A-133.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the State's major federal 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 OMB Circular A-133. 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 the State'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 the State's compliance.

**Basis for Qualified Opinion on Major Federal Programs**

As described in Finding Nos. 2015-005, 2015-007, 2015-008, 2015-012, 2015-014, 2015-020, and 2015-021 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding:

Finding No.	CFDA No.*	Program or Cluster Name	Compliance Requirement
2015-005	12.401	National Guard Military Operations and Maintenance Projects	Cash Management
2015-007	12.404	National Guard ChalleNGe Program	Eligibility
2015-008 and 2015-012	Various	Research and Development Cluster	Cash Management and Reporting
2015-014	15.904	Historic Preservation Fund Grants-In-Aid	Allowable Costs and Period of Performance
2015-020	81.041	State Energy Program	Cash Management
2015-021	97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	Cash Management

\* *Catalog of Federal Domestic Assistance number*

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

**Qualified Opinion on Major Federal Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Programs section, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified above for the year ended June 30, 2015.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2015-004, 2015-006, 2015-09 through 2015-011, 2015-013, 2015-015 through 2015-019, and 2015-022 through 2015-027. Our opinion on each major federal program is not modified with respect to these matters.

The State's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the State 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 of compliance, we considered the State'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 the State'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 and significant deficiencies.

*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 Finding Nos. 2015-005, 2015-007, 2015-008, 2015-012, 2015-014, 2015-020 and 2015-021 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2015-004, 2015-006, 2015-09 through 2015-011, 2015-013, 2015-015 through 2015-019, and 2015-022 through 2015-027 to be significant deficiencies.

The State's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements. We issued our report thereon dated December 30, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. As described in Note 4 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Accuity LLP*

Honolulu, Hawaii  
March 9, 2016

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>DEPARTMENT OF AGRICULTURE</b>			
U.S. Department of Agriculture Direct Programs			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,208,098	\$ -
Federal-State Marketing Improvement Program	10.156	52,281	-
Inspection Grading and Standardization	10.162	10,288	-
Market Protection and Promotion	10.163	16,400	-
Specialty Crop Block Grant Program – Farm Bill	10.170	335,229	-
Organic Certification Cost Share Programs	10.171	57,122	-
Senior Farmers Market Nutrition Program	10.576	455,423	-
Cooperative Forestry Assistance	10.664	883,770	100,000
Urban and Community Forestry Program	10.675	204,493	19,982
Forest Legacy Program	10.676	3,296,469	-
Forest Stewardship Program	10.678	367,984	29,666
Forest Health Protection	10.680	960,661	-
Rural Energy for America Program	10.868	43,352	-
Watershed Protection and Flood Prevention	10.904	723,222	-
Wildlife Habitat Incentive Program	10.914	19,500	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	7,523	-
Emergency Food Assistance Program (Administrative Costs)	10.568	139,924	-
Emergency Food Assistance Program (Food Commodities)	10.569	1,295,680	1,295,680
Total Food Distribution Cluster		1,443,127	1,295,680
Total U.S. Department of Agriculture Direct Programs		10,077,419	1,445,328
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	155,982	-
Total U.S. Department of Agriculture		10,233,401	1,445,328
<b>DEPARTMENT OF COMMERCE</b>			
U.S. Department of Commerce Direct Programs			
National Oceanic and Atmosphere Administration – Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement			
	11.000	178,552	-
Interjurisdictional Fisheries Act of 1986	11.407	37,262	-
Fishery Products Inspection and Certification	11.413	11,852	-
Coastal Zone Management Administration Awards	11.419	1,867,639	922,950
Coastal Zone Management Estuarine Research Reserves	11.420	26,615	26,615
Marine Sanctuary Program	11.429	212,830	-
Pacific Fisheries Data Program	11.437	441,535	-
Habitat Conservation	11.463	194,529	-
Meteorologic and Hydrologic Modernization Development	11.467	132,161	-
Unallied Science Program	11.472	211,402	-
Office for Coastal Management	11.473	335,746	141,155
Coral Reef Conservation Program	11.482	919,527	-
State and Local Implementation Grant Program	11.549	317,766	-
ARRA – State Broadband Data and Development Grant Program	ARRA 11.558	656,329	656,329
Manufacturing Extension Partnership	11.611	590,479	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
Economic Development Cluster			
Investments for Public Works and Economic Development Facilities	11.300	2,444,879	1,114,129
Economic Adjustment Assistance	11.307	277,474	197,058
Total Economic Development Cluster		<u>2,722,353</u>	<u>1,311,187</u>
Total U.S. Department of Commerce Direct Programs		<u>8,856,577</u>	<u>3,058,236</u>
Pass-through from the State Department of Health			
National Oceanic and Atmosphere Administration – Japan Tsunami Marine Debris Cleanup	11.000	56,214	-
Total U.S. Department of Commerce		<u>8,912,791</u>	<u>3,058,236</u>
<b>DEPARTMENT OF DEFENSE</b>			
U.S. Department of Defense Direct Programs			
National Guard Military Operations and Maintenance Projects	12.401	22,645,211	-
National Guard ChalleNGe Program	12.404	5,002,665	-
Basic, Applied and Advanced Research in Science and Engineering	12.630	20,250	-
Air Force Defense Research Sciences Program	12.800	5,933,762	-
Total U.S. Department of Defense		<u>33,601,888</u>	<u>-</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
U.S. Department of Housing and Urban Development Direct Program			
Fair Housing Assistance Program – State and Local	14.401	85,360	-
Total U.S. Department of Housing and Urban Development		<u>85,360</u>	<u>-</u>
<b>DEPARTMENT OF INTERIOR</b>			
U.S. Department of Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	25,201	-
Coastal Wetlands Planning, Protection and Restoration Program	15.614	74,945	-
Cooperative Endangered Species Conservation Fund	15.615	1,709,088	-
Clean Vessel Act Program	15.616	283,440	-
Coastal Program	15.630	27,835	-
State Wildlife Grants	15.634	707,050	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	76,770	-
National Fire Plan – Wildland Urban Interface Community Fire Assistance	15.674	3,919	-
Economic, Social, and Political Development of the Territories	15.875	158,148	-
Historic Preservation Fund Grants-In-Aid	15.904	484,354	8,677
Outdoor Recreation – Acquisition, Development and Planning	15.916	106,101	56,431
Natural Resource Stewardship	15.944	53,003	-
Total U.S. Department of Interior Direct Programs		<u>3,709,854</u>	<u>65,108</u>
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605	2,801,233	-
Wildlife Restoration and Basic Hunter Education	15.611	2,332,033	-
Total Fish and Wildlife Cluster		<u>5,133,266</u>	<u>-</u>
Total U.S. Department of Interior		<u>8,843,120</u>	<u>65,108</u>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>DEPARTMENT OF JUSTICE</b>			
U.S. Department of Justice Direct Programs			
Marijuana Eradication	16.000	200,772	-
U.S. Drug Enforcement Agency	16.000	149,978	-
Services for Trafficking Victims	16.320	160,183	-
Crime Victim Compensation	16.576	280,125	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	31,489	-
Second Chance Act Reentry Initiative	16.812	198,132	-
Total U.S. Department of Justice Direct Programs		1,020,679	-
Pass-through from the State Department of the Attorney General			
Residential Substance Abuse Treatment for State Prisoners	16.593	66,939	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	9,172	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	24,627	-
Pass-through from the Council of State Governments			
Edward Byrne Memorial Competitive Grant Program	16.751	59,919	-
Total U.S. Department of Justice Pass-through Programs		160,657	-
Total U.S. Department of Justice		1,181,336	-
<b>DEPARTMENT OF LABOR</b>			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	553,006	-
Compensation and Working Conditions	17.005	46,241	-
Unemployment Insurance	17.225	198,096,367	-
ARRA – Unemployment Insurance	ARRA 17.225	156,812	-
Senior Community Service Employment Program	17.235	1,853,297	1,672,174
Trade Adjustment Assistance	17.245	38,288	-
Workforce Investment Act/WIOA Pilots, Demonstrations, and Research Projects	17.261	385,922	-
Work Opportunity Tax Credit Program	17.271	78,144	-
Temporary Labor Certification for Foreign Workers	17.273	59,811	-
Workforce Investment Act National Emergency Grants	17.277	851,293	821,982
Occupational Safety and Health – State Program	17.503	1,249,150	-
Consultation Agreements	17.504	422,888	-
Total U.S. Department of Labor Direct Programs		203,791,219	2,494,156
Employment Service Cluster			
Employment Service/Wagner-Peyser Funded Activities	17.207	3,015,663	-
Disabled Veterans' Outreach Program	17.801	354,597	-
Local Veterans' Employment Representative Program	17.804	373,016	-
Total Employment Service Cluster		3,743,276	-
Workforce Investment Act (WIA) Cluster			
WIA/WIOA Adult Program	17.258	2,824,283	2,368,151
WIA/WIOA Youth Activities	17.259	1,970,050	1,903,457
WIA/WIOA Dislocated Worker Formula Grants	17.278	2,702,099	2,134,357
Total WIA Cluster		7,496,432	6,405,965
Pass-through from the Research Corporation of the University of Hawaii			
Trade Adjustment Assistance Community College and Career Training Grants	17.282	277,205	98,006
Total U.S. Department of Labor		215,308,132	8,998,127

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>DEPARTMENT OF TRANSPORTATION</b>			
U.S. Department of Transportation Direct Programs			
Space Transportation Infrastructure Matching Grants	20.110	79,761	-
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	15,525	-
Recreational Trails Program	20.219	1,324,189	-
Total Highway Planning and Construction Cluster		1,339,714	-
Total U.S. Department of Transportation Direct Programs		1,419,475	-
Pass-through from the State Department of Transportation			
Federal Transit Administration			
Alien Species Action Plan	20.000	22	-
Capital Investment Grants	20.500	1,556,698	-
Total U.S. Department of Transportation Pass-through Programs		1,556,720	-
Total U.S. Department of Transportation		2,976,195	-
<b>DEPARTMENT OF THE TREASURY</b>			
U.S. Department of Treasury Direct Program			
State Small Business Credit Initiative	21.000	1,572,289	1,572,289
Total U.S. Department of the Treasury		1,572,289	1,572,289
<b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>			
U.S. Equal Employment Opportunity Commission Direct Program			
Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	126,435	-
Total U.S. Equal Employment Opportunity Commission		126,435	-
<b>GENERAL SERVICES ADMINISTRATION</b>			
U.S. General Services Administration Direct Programs			
Donation of Federal Surplus Personal Property	39.003	281,624	-
Help America Vote Act 2002, Title I, Section 101	39.011	887,147	-
Total U.S. General Services Administration		1,168,771	-
<b>NATIONAL ENDOWMENT FOR THE ARTS</b>			
U.S. National Endowment for the Arts Direct Program			
Promotion of the Arts – Partnership Agreements	45.025	656,762	173,525
Total U.S. National Endowment for the Arts		656,762	173,525
<b>SMALL BUSINESS ADMINISTRATION</b>			
U.S. Small Business Administration Direct Program			
State Trade and Export Promotion Pilot Grant Program	59.061	162,869	9,168
Total U.S. Small Business Administration		162,869	9,168
<b>DEPARTMENT OF VETERANS AFFAIRS</b>			
U.S. Department of Veterans Affairs Direct Program			
State Cemetery Grants	64.203	842,939	-
Total U.S. Department of Veterans Affairs		842,939	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
U.S. Environmental Protection Agency Direct Programs			
Performance Partnership Grants	66.605	429,136	-
Pollution Prevention Grants Program	66.708	35,833	-
Total U.S. Environmental Protection Agency		<u>464,969</u>	<u>-</u>
<b>DEPARTMENT OF ENERGY</b>			
U.S. Department of Energy Direct Programs			
State Energy Program	81.041	356,662	-
Weatherization Assistance for Low-Income Persons	81.042	98,083	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	253,455	251,123
State Energy Program Special Projects	81.119	602,101	506,344
ARRA Energy Efficiency and Conservation Block Grant Program	ARRA 81.128	226,084	-
Total U.S. Department of Energy		<u>1,536,385</u>	<u>757,467</u>
<b>DEPARTMENT OF EDUCATION</b>			
Pass-through from the State Department of Education			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013A	92,873	-
Total U.S. Department of Education		<u>92,873</u>	<u>-</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
U.S. Department of Health and Human Services Direct Programs			
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	25,007	-
Affordable Care Act Grants to States for			
Health Insurance Premium Review	93.511	818,207	-
Refugee and Entrant Assistance – State Administered Programs	93.566	90,649	17,008
Community Services Block Grant	93.569	3,380,526	-
Head Start	93.600	79,738	-
Affordable Care Act – State Innovation Models:			
Funding for Model Design and Model Testing Assistance	93.624	74,262	-
Total U.S. Department of Health and Human Services Direct Programs		<u>4,468,389</u>	<u>17,008</u>
Pass-through from the State Department of Human Services			
Temporary Assistance for Needy Families	93.558	281,721	-
Pass-through from Hawaii Health Connector			
State Planning and Establishment Grants for the Affordable Care Act's Exchanges	93.525	130,344	-
Total U.S. Department of Health and Human Services Pass-through Programs		<u>412,065</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>4,880,454</u>	<u>17,008</u>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

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<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
U.S. Department of Homeland Security Direct Programs			
Boating Safety Financial Assistance	97.012	818,997	-
Community Assistance Program State Support Services Element	97.023	146,595	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	3,901,824	3,350,017
National Dam Safety Program	97.041	110,632	-
Emergency Management Performance Grants	97.042	3,200,202	479,526
Cooperating Technical Partners	97.045	107,070	-
Pre-Disaster Mitigation	97.047	25,532	-
Port Security Grant Program	97.056	6,174,050	289,279
Homeland Security Grant Program	97.067	5,850,983	5,848,334
Regional Catastrophic Preparedness Grant Program	97.111	1,623,704	1,623,704
Total U.S. Department of Homeland Security		<u>21,959,589</u>	<u>11,590,860</u>
Total Expenditures of Federal Awards		<b><u>\$ 314,606,558</u></b>	<b><u>\$ 27,687,116</u></b>

(concluded)

See accompanying notes to the schedule of expenditures of federal awards.

# State of Hawaii

## Notes to Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2015

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#### 1. Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services
- Department of Agriculture
- Department of Budget and Finance
- Department of Business, Economic Development and Tourism
- Department of Commerce and Consumer Affairs
- Department of Defense
- Department of Human Resources Development
- Department of Labor and Industrial Relations
- Department of Land and Natural Resources
- Department of Public Safety
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with OMB Circular A-133, and accordingly, separate A-133 submissions have been made (see Note 2).

#### 2. Other State of Hawaii Departments and Agencies not Included in the Accompanying Schedule of Expenditures of Federal Awards

The following is a summary of State of Hawaii departments and agencies that obtain separate OMB Circular A-133 audits or do not receive federal grants and, therefore, do not obtain an OMB Circular A-133 audit. Awards listed in these audit reports are not included in the accompanying SEFA.

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance and Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority
- Judiciary
- University of Hawaii
- Water Pollution Control Revolving Fund



**State of Hawaii**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

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**3. Basis of Accounting**

The basic financial statements of the State of Hawaii have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**4. Basis of Presentation**

The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures reported in the schedule are reported on the cash basis of accounting.

**5. Nonmonetary Assistance**

The SEFA contains values of a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Personal Property program (CFDA No. 39.003) is presented at the estimated fair value at the time of donation.

**6. Unemployment Insurance**

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$198,096,367 reported as expenditures for the Unemployment Insurance program (CFDA No. 17.225), \$183,972,280 represented expenditures of the State of Hawaii.

**7. Relationship to Federal and State Financial Reports**

The regulations and guidelines governing the preparation of federal and State financial reports vary by State and federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and State financial reports do not necessarily agree with the amounts reported in the accompanying SEFA which is prepared as explained in Notes 3 and 4 above.

**State of Hawaii**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2015**

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**8. Research and Development Cluster Expenditures**

The SEFA includes the following Research and Development amounts:

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
U.S. Department of Agriculture Direct Programs		
Federal-State Marketing Improvement Program	10.156	\$ 52,281
Urban and Community Forestry Program	10.675	204,493
Forest Stewardship Program	10.678	<u>367,984</u>
Total U.S. Department of Agriculture		<u>624,758</u>
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	37,262
Pacific Fisheries Data Program	11.437	441,535
Habitat Conservation	11.463	194,529
Coral Reef Conservation Program	11.482	<u>919,527</u>
Total U.S. Department of Commerce		<u>1,592,853</u>
U.S. Department of Defense Direct Programs		
Basic, Applied, and Advanced Research in Science and Engineering	12.630	20,250
Air Force Defense Research Sciences Program	12.800	<u>5,933,762</u>
Total U.S. Department of Defense		<u>5,954,012</u>
U.S. Department of Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	25,201
Cooperative Endangered Species Conservation Fund	15.615	1,709,088
State Wildlife Grants	15.634	707,050
Economic, Social and Political Development of the Territories	15.875	158,148
Natural Resource Stewardship	15.944	<u>53,003</u>
Total U.S. Department of Interior		<u>2,652,490</u>
Total Research and Development Cluster		<u>\$ 10,824,113</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	<u> X </u> yes    ___ no
• Significant deficiencies identified?	<u> X </u> yes    ___ none reported
Noncompliance material to financial statements noted?	___ yes <u> X </u> no

**Federal Awards**

Internal control over major programs	
• Material weaknesses identified?	<u> X </u> yes    ___ no
• Significant deficiencies identified?	<u> X </u> yes    ___ none reported

Type of auditors’ report issued on compliance for major programs	Qualified
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An unmodified opinion was issued on the State of Hawaii’s compliance with its major federal programs for the year ended June 30, 2015, except for the requirements regarding cash management that are applicable to CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 81.041, *State Energy Program*, CFDA No. 97.036, *Disaster Grants-Public Assistance (Presidentially Declared Disasters)*, and the Research and Development Cluster, eligibility requirements applicable to CFDA No. 12.404, *National Guard ChalleNGe Program*, allowable costs and period of performance applicable to CFDA No. 15.904, *Historic Preservation Fund Grants-In-Aid*, and reporting for the Research and Development Cluster, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<u> X </u> yes    ___ no
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## **FINANCIAL STATEMENT FINDINGS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Section II – Financial Statement Findings**

**Finding No. 2015-001: Internal Control over Financial Reporting (Significant Deficiency)**

**State Department of Accounting and General Services**

**Condition**

During the audit of the fiscal year 2015 financial statements, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the State of Hawaii's (State) internal control over financial reporting.

The process used by the State Department of Accounting and General Services (DAGS) Accounting Division to consolidate required information from State departments and agencies to prepare the State's Comprehensive Annual Financial Report (CAFR) (e.g., preparing Governmental Funds financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2015, DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive timely responses from some of the departments.

In addition, a number of issues were noted regarding the accounting for capital assets. We noted several instances where departments did not report complete information on construction projects in progress to DAGS, resulting in understatements of the reported capital asset balance as of June 30, 2015. We also noted several instances where DAGS-managed capital assets were not placed into service timely and impairment on information technology projects that was not identified by management until brought to their attention.

**Criteria**

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The DAGS Accounting Division is responsible for preparing the CAFR in accordance with GAAP.

**Effect**

Due to the untimely submission of information to DAGS, inadequate review of journal entries by the departments and DAGS, and issues in accounting for capital assets, there were 24 audit adjustments and reclassification entries recorded in the fiscal year 2015 financial statements.

Sixteen other misstatements were not corrected as the effects, both individually and in the aggregate, were not deemed material to the financial statements.

**Cause**

The deficiencies were due to inefficiencies in the financial statement preparation process, the lack of timely information from various departments, and the lack of adequate reviews of the information packages and capital asset schedules at the departments and at DAGS.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Recommendation**

DAGS should continue to develop well-defined, systematic, efficient and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Furthermore, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper source codes, appropriations, and object codes being used. Departments should also perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries and all journal entries properly reflect what is shown on the schedules.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.



**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Finding No. 2015-002: Accounting for Component Units and Proprietary Funds**  
**(Significant Deficiency)**

**State Department of Accounting and General Services**

**Condition**

During fiscal year 2008, DAGS implemented a financial statement policy on reporting material component units (CU) and proprietary funds (PF), which indicated that only material CUs and PFs would be reported as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS. During the year ended June 30, 2013, DAGS revised its financial reporting policy to comply with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and 34*.

Consequently, although DAGS determined that the Stadium Authority, Hawaii Strategic Development Corporation, High Technology Development Corporation, Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation met the definition of discretely presented CUs as defined in GASB Statement No. 61, these CUs did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented in the June 30, 2015 CAFR. Instead, these entities were reported as blended component units within the State's governmental activities and the governmental funds to which they were administratively attached.

DAGS also determined that the Department of Labor and Industrial Relations – Disability Compensation Fund, the Department of Public Safety – Correctional Industries Fund, the Department of Accounting and General Services – State Parking Revolving Fund, and the Department of Accounting and General Services – State Motor Pool Revolving Fund met the definition of PFs as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. However, they did not meet the materiality threshold under the State's financial reporting policy. Therefore, these PFs were not reported as PFs in the June 30, 2015 CAFR but were reported as part of the State's governmental activities and within the governmental funds to which they were administratively attached.

A similar finding was reported in prior years.

**Criteria**

CUs are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement No. 61. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a discretely presented CU of the State.

Similarly, enterprise funds that meet the definition of proprietary funds established by GASB Statement No. 34 should be reported within the PFs' financial statements and the business-type activities in the government-wide financial statements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Effect**

In accordance with the State's policy, the CUs and PFs noted above were incorrectly included in the governmental activities and respective governmental funds in the State's CAFR, rather than as discretely presented CUs or PFs, despite meeting the discretely presented CU and PF criteria under GAAP.

A summary of account balances and funds that were incorrectly classified by State management as governmental activities in the government-wide and governmental funds financial statements is presented below (amounts expressed in millions):

	<u>Assets</u>	<u>Revenues</u>	<u>Expenditures</u>
<b>Discretely presented component units</b>			
Stadium Authority	\$ 85.5	\$ 14.1	\$ 12.5
Hawaii Strategic Development Corporation	17.1	4.6	2.8
High Technology Development Corporation	10.5	7.5	9.7
Natural Energy Laboratory of Hawaii	17.7	6.3	8.2
Agribusiness Development Corporation	35.1	2.6	10.0
<b>Nonmajor proprietary funds</b>			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 17.9	\$ 3.9	\$ 5.0
Department of Accounting and General Services – State Motor Pool Fund	4.3	2.7	2.7
Department of Public Safety – Correctional Industries Fund	0.7	4.9	5.5
Department of Labor and Industrial Relations – Disability Compensation Fund	12.5	15.1	16.1

**Cause**

In determining which CUs and PFs should be presented as discretely presented CUs and nonmajor PFs in the CAFR, management did not follow the guidelines described in GASB Statements No. 61 and 34, respectively. DAGS also determined that some of the potential CUs and PFs are unable to close their accounting records and to complete audits in a timely manner, such that audited financial statements would not be available for the preparation of the CAFR. Therefore, application of GASB Statements No. 61 and 34 would require time and resources to complete and would likely delay the completion of the CAFR.

**Recommendation**

DAGS should consider changing the CAFR accounting and reporting policy to conform to the provisions of GASB Statements No. 61 and 34.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Finding No. 2015-003: IT General Control Deficiencies (Material Weakness)**

**Condition**

Information technology (IT) is a strategic element of the State's operations. Because of the high volume of transactions at the State, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit of the State for the year ended June 30, 2015, we performed an IT general controls review of selected State departments' systems, including the following systems operated by the Information and Communication Services Division (ICSD), Department of Taxation (DoTAX), and DAGS:

<b>ICSD</b>	<b>DoTAX</b>	<b>DAGS</b>
FAMIS	ITPS	FAMIS
Payroll	eFile (as it relates to data received from Hawaii Information Consortium)	Payroll
CWWS		CWWS
Recon		Recon
Data Entry		Statewide Inventory System
Statewide Inventory System		
UI BPS		
UI Tax		
QWRS		

Our review resulted in IT control deficiencies in the areas of logical security and change management as follows:

Logical security

*ICSD*

- Users with the ability to create or modify a user account on the mainframe were also authorized requestors (e.g., approvers) in the Online User Access Request system and have the ability to authorize access.
- Developers and ICSD Systems Support personnel have access to the Payroll online application causing a segregation of duties issue.
- Developers have access to the security administration function in the mainframe for the FAMIS, Payroll, CWWS and Recon applications causing a segregation of duties issue.
- Logical access to the mainframe was not removed in a timely manner for 1 out of 37 online access notifications selected for testing.
- Certain password settings have limited security features enabled and do not comply with the current ICSD Information System Access Policy.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2015

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- An annual user access review to confirm mainframe application users have appropriate access rights based on job function and user listings are free of terminated users was not performed.
- No evidence that RACF daily logs were monitored for 4 of 41 days tested.
- Information security policies and standards were not periodically reviewed and updated.

#### *DoTAX*

- User access rights on the ITPS were not reviewed on at least an annual basis.
- Weak password security.

#### *DAGS*

- Numerous FAMIS users whose job function does not include security administration had the ability to modify permissions assigned to users in their own department.

#### Change management

##### *ICSD*

- Developers have the ability to implement changes directly into the production environment for the mainframe applications listed above, and those responsible for implementing changes into production are not confirming that changes are tested and authorized.
- No evidence that mainframe security patches and software releases were evaluated to determine if the patch or release was needed, the decision to implement the change was documented and approved, or approved changes were applied as scheduled.

##### *DoTAX*

- Developers have access to the production environment in the ITPS.

##### *DAGS*

- Developers have access to the production environment in the Statewide Inventory System.

Collectively, the number and related nature of the IT control deficiencies resulted in an overall material weakness.

#### **Criteria**

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

#### **Effect**

Internal controls in the areas of logical security and change management address the following risks:

##### Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made or transactions being inaccurately recorded.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2015

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#### Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

#### **Cause**

The State's IT policies and procedures do not include internal control procedures addressing the risks discussed above or such controls are not consistently followed.

#### **Recommendation**

We recommend that ICSD, DoTAX and DAGS perform the following:

#### Logical security

##### *ICSD*

- Reevaluate current processes and rights to implement proper segregation of duties.
- Modify or remove user access rights that cause segregation of duties issues or cause users to have access rights that are not commensurate with their job responsibilities.
- Ensure user access for terminated users is removed on a timely basis.
- Improve system password security parameters.
- Coordinate and perform a user access review with the DAGS Accounting Division on at least an annual basis.
- Develop a procedure to retain evidence that RACF daily logs are monitored and inappropriate activity was researched and resolved.
- Evaluate information security policies and standards on at least an annual basis and incorporate necessary updates.

##### *DoTAX*

- Perform a user access review of the ITPS on at least an annual basis.
- Ensure user access rights are commensurate with job responsibilities.
- Improve system password security parameters.

#### Change management

##### *ICSD*

- Reevaluate current processes and implement proper segregation of duty internal controls.
- Develop a procedure to retain evidence that vendor-released modifications were tested and approved prior to implementation into the production environment.
- Develop a procedure to retain evidence that mainframe security patches and software releases were evaluated to determine if the patch or release was needed, the decision to implement the change was documented and approved, or approved changes were applied as scheduled.

##### *DoTAX*

- Remove developers' access to the ITPS production environment.

##### *DAGS*

- Remove developers' access to the Statewide Inventory System production environment.

**FEDERAL AWARD FINDINGS  
AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Section III – Federal Award Findings and Questioned Costs**

**Finding No. 2015-004: Schedule of Expenditures of Federal Awards (SEFA)**  
**(Significant Deficiency)**

**Condition**

The State’s current accounting process does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal awards, it must prepare and maintain separate accounting records outside of FAMIS, the State’s accounting system, to be able to segregate the cash balances, receipts and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled into FAMIS periodically.

**Criteria**

The Office of Management and Budget (OMB) issued Circular A-133, which requires non-federal entities that expend \$500,000 or more in federal awards in a year to have a Single Audit conducted on its federal award programs and SEFA.

OMB Circular A-133 established responsibilities for auditees, including:

- Identify all federal awards received and expended and the federal programs under which they were received.
- Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- Prepare appropriate financial statements, including the SEFA.

**Effect**

Due to the deficiencies in internal control over SEFA preparation noted, material misstatements occurred in the SEFA that were not detected by management’s internal controls, and were subsequently identified and corrected as part of our auditing procedures.

- CFDA No. 10.565, Commodity Supplemental Food Program, was improperly excluded from the Food Distribution Cluster.
- Federal expenditures for CFDA No. 39.003, Donation of Federal Surplus Personal Property, were overstated by \$907,667.
- The following amounts reported as provided to subrecipients for these programs were understated:

<b>CFDA No.</b>	<b>Program Name</b>	<b>Amount</b>
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	\$3,350,017
10.569	Emergency Food Assistance Program (Food Commodities)	1,295,680
97.042	Emergency Management Performance Grants	479,526

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Cause**

A thorough review of each department's reconciliation of its separate accounting records that track federal expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts were accurate. Although formal reporting instructions were created by DAGS to establish internal control over preparing the SEFA and sent to other departments for the year ended June 30, 2015, certain departments failed to follow the instructions and process established by DAGS.

**Recommendation**

We recommend DAGS enforce its established process for preparing the SEFA. We also recommend DAGS provide training to the other departments to ensure proper information is provided by the departments for DAGS to accurately prepare the State's SEFA.



**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-005:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.401 – National Guard Military Operations and Maintenance (O&M) Projects	
<b>Award Number and Award Year:</b>	W912J6-10-2-1000      2014 to 2015 W912J6-14-2-1000 W912J6-15-2-1000	

**Condition**

During our audit, we tested 45 disbursements of federal advances and determined that in all 45 instances the State department did not comply with cash management requirements.

- For 38 instances, the funding technique was not in accordance with the Cash Management Improvement Act (CMIA) Agreement between the United States Department of Treasury and the State of Hawaii (Treasury-State Agreement) for the year ended June 30, 2015. Additionally, we identified one instance totaling \$32,000 in which the request for federal funds was not made one month prior to the 15<sup>th</sup> day of the advanced month, as specified in the Treasury-State Agreement.
- For seven instances, the number of days elapsed between the receipt of the federal cash advance and the State department’s disbursement of federal funds received exceeded 45 days and ranged from 318 to 490 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

- The 2015 Treasury-State Agreement requires the State to use the Payment Schedule – Monthly Drawdown funding technique for the O&M program. Under the Payment Schedule – Monthly Drawdown technique, “The State shall request funds such that they are deposited in a State account on the median business day of the month. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit 1. The amount of the request shall be a prorated share of the lesser of (1) the annual grant divided by 12, or (2) the total amount of Federal funds expected to be paid out for the program purposes during the year divided by 12. This funding technique is interest neutral.”
- The seven instances were for draws made in fiscal year 2014 when the program was not subject to the Treasury-State Agreement. For such programs, U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State’s disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. National Guard Regulations 5-1, *National Guard Grants and Cooperative Agreements* (NGR 5-1) Chapter 11-5: Advance Payment Method, requires grantees to minimize the time elapsing between the transfer of funds from the federal government and its disbursement to no more than 45 days.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2015

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#### **Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government and results in noncompliance with federal cash management requirements.

#### **Cause**

- The deficiency is due to differences between the funding requirements in the Master Cooperative Agreement (MCA) and the Treasury-State Agreement. Additionally, when the Treasury-State Agreement was created, program personnel were not aware that they could specify a funding technique to match the MCA. The delayed funding report submission was due to the performance of quarterly reconciliations. While the reconciliation is performed, nothing can be posted. As such, the request is put on hold until the reconciliation is completed.
- The delays resulted from the State department's drawdown of award funds for all unpaid obligations at the end of each cooperative agreement's funding period, based upon department personnel's understanding of discussions with the United States Property and Fiscal Office (USPFO) personnel. Although the availability of funds is extended (period of performance), there is no written documentation of the USPFO's approval to draw down all unliquidated obligations without disbursing the funds in accordance with cash management requirements.

#### **Recommendation**

We recommend the State department adopt policies and procedures that will enable the State to meet cash management requirements imposed by the MCA and the Treasury-State Agreement by working with the Department of Budget and Finance (B&F) and the National Guard Bureau (NGB). In years the program is not subject to the Treasury-State Agreement, the State department obtains adequate documentation supporting exceptions to established requirements. The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds in accordance with 31 CFR Section 205.33 and NGR 5-1 Chapter 11-5.

**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-006:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.404 – National Guard ChalleNGe Program	
<b>Award Number and Award Year:</b>	W912J6-14-2-4001      2015 W912J6-14-2-400K	

**Condition**

During our audit, we tested 45 disbursements of federal advances and identified six instances totaling approximately \$90,000 in which the number of days elapsed between the receipt of the federal cash advance and the State department’s disbursement of federal funds received exceeded 45 days and ranged from 50 to 259 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State’s disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. National Guard Regulations 5-1, *National Guard Grants and Cooperative Agreements* (NGR 5-1) Chapter 11-5: Advance Payment Method, requires grantees to minimize the time elapsing between the transfer of funds from the federal government and its disbursement to no more than 45 days.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government.

**Cause**

The delays resulted from the State department’s drawdown of award funds for all unpaid obligations at the end of each cooperative agreement’s funding period, based upon department personnel’s understanding of discussions with the USPFO personnel. However, there is no written documentation of the USPFO’s approval to draw down all unliquidated obligations.

**Recommendation**

We recommend the State department obtain adequate documentation supporting exceptions to established requirements. The State department should also work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds in accordance with 31 CFR Section 205.33 and NGR 5-1 Chapter 11-5.

**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-007:</b>	<b>Eligibility (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.404 – National Guard ChalleNGe Program	
<b>Award Number and Award Year:</b>	W912J6-14-2-4001      2015 W912J6-14-2-400K	

**Condition**

During our audit, we examined 40 participant applications to test the eligibility requirements under the Master Youth Program Cooperative Agreement (MYPCA). For all 15 of the participants we selected from the Hilo program, there was no available evidence to verify that the participant was unemployed or underemployed. For one participant, there was no evidence to verify that the participant was not currently on parole or probation for other than juvenile status offenses, not awaiting sentencing, and not under indictment, charged or convicted of a crime that is considered a felony when charged as an adult.

**Criteria**

MYPCA Section 201e(3) requires the State to select program participants from applicants who meet eligibility standards, including being unemployed or underemployed (d), and not currently on parole or probation for other than juvenile status offenses, not awaiting sentencing, and not under indictment, charged or convicted of a crime that is considered a felony when charged as an adult (e).

**Effect**

Without appropriate evidence that eligibility requirements were met, the State department may have allowed ineligible participants to participate in the program.

**Cause**

The lack of employment status evidence was due to the exclusion of the requirement from the application form for the Hilo Youth Challenge Academy in fiscal year 2015. The lack of evidence for criminal offenses was due to unsuccessful attempts to obtain such information. Despite numerous efforts to obtain the evidence from the participant and the participant’s parents, the State Department failed to obtain evidence that the participant was not on parole or probation for other than juvenile offenses, awaiting sentencing, or convicted of a felony as an adult but still allowed for participation in the ChalleNGe program.

**Recommendation**

We recommend that the State department implement a standardized application document to properly determine the eligibility of each applicant and ensure all necessary evidence is obtained before admitting applicants into the program. Personnel involved in student recruitment and admissions should receive training regarding the criteria for admission to the Youth ChalleNGe program.

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**Schedule of Findings and Questioned Costs**  
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		<b>Questioned Cost</b>
<b>Finding No. 2015-008:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Business, Economic Development and Tourism (DBEDT) – HITDC	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.800 – Air Force Defense Research Sciences Program (Research and Development (R&D) Cluster)	
<b>Award Number and Award Year:</b>	FA8650-11-2-5605      2011 to 2015	

**Condition**

During our audit, we examined 20 disbursements of federal advances and identified 12 instances totaling approximately \$914,000 in which the federal cash draws were received more than 15 days prior to disbursement. We noted that the time elapsed for those 12 instances ranged from 39 to 97 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 15 days to be a reasonable period of time to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursement basis.

**Cause**

The delays were due to the State department attempting to estimate its cash needs for a month, resulting in over or under draws depending on the actual expenditures for the month. As drawdowns are only performed monthly, any payments made at the end of the monthly drawdown period could be close to 30 days after the federal funds were received. Additionally, program management noted that the Air Force must also approve payments, and that there are often delays in receiving its approval.

**Recommendation**

The State department should design and implement internal controls over monitoring of cash management timeliness requirements and work with Air Force personnel to ensure timely disbursement of federal funds. The State department should also work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

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**Schedule of Findings and Questioned Costs**  
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		<b>Questioned Cost</b>
<b>Finding No. 2015-009:</b>	<b>Reporting (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Land and Natural Resources (DLNR)	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.611 – Wildlife Restoration and Basic Hunter Education (Fish and Wildlife Cluster)	
<b>Award Number and Award Year:</b>	F14AF01023                      2014	

**Condition**

During our audit, we examined four performance reports for programs included in the Fish and Wildlife Cluster and identified one performance report that was filed 38 days beyond the respective due date of September 28, 2015.

**Criteria**

The federal award specified the reporting period and due date required for the performance report, which is generally 90 days after the end date of the performance period for each award.

**Effect**

Failure to submit the reports timely prevents the granting agency from assessing the status and activities of the program.

**Cause**

The untimely submission of the performance report was due to a misunderstanding by program personnel. An extension on the award period was granted, however, the new program manager was not aware that the original due date for the interim performance report was still applicable.

**Recommendation**

We recommend that program management implement procedures to ensure that reports are submitted within the required deadlines and with consideration of any additional time needed as personnel responsible for preparation and submission may be in different offices.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-010:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.611 – Wildlife Restoration and Basic Hunter Education (Fish and Wildlife Cluster)	
<b>Award Number and Award Year:</b>	F13AF00962                      2013	

**Condition**

During our audit, we examined 17 disbursements of federal cash drawdowns for the Fish and Wildlife Cluster programs and identified two instances totaling approximately \$34,000 in which the federal cash draws were received more than 15 days prior to disbursement. We noted the time elapsed for those two instances ranged from 34 to 42 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 15 days to be a reasonable period of time to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursement basis.

**Cause**

The delay in disbursing the funds was due to the lack of resources and internal controls to ensure that the federal funds were disbursed on a timely basis. Additionally, one of the delays was due to funds initially being deposited to the wrong appropriation code.

**Recommendation**

The Division of Forestry and Wildlife (DOFAW) should design and implement internal controls over monitoring of cash management timeliness requirements and work with DLNR fiscal personnel to ensure timely disbursement of federal funds. DLNR should also work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-011:</b>	<b>Equipment Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.611 – Wildlife Restoration and Basic Hunter Education (Fish and Wildlife Cluster)	
<b>Award Number and Award Year:</b>	F13AF00962                      2014 to 2015 F14AF00912	

**Condition**

During our audit, we examined four equipment purchases for Fish and Wildlife Cluster programs and identified three purchases totaling approximately \$36,000 that were recorded two to three quarters beyond the period required under the State’s inventory policy.

**Criteria**

The June 2015 OMB Circular A-133 Compliance Supplement Part 3 Section F states, “a State shall use, manage, and dispose of equipment acquired under a federal grant in accordance with State laws and procedures.” In accordance with the State’s Inventory System User Manual, “newly acquired property shall be recorded in the Fixed Asset Inventory System (FAIS) in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property.”

**Effect**

Failure to maintain an accurate inventory of equipment may result in unknown differences between the accounting records and the actual inventory of equipment.

**Cause**

The delay in recording was due to staff shortages in smaller branches and a lack of internal controls for proper monitoring over acquisitions and timely record keeping.

**Recommendation**

We recommend that the DLNR implement additional controls within their programs to ensure that DLNR personnel comply with the policies and procedures in the State Inventory System User Manual.



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		<b>Questioned Cost</b>
<b>Finding No. 2015-012:</b>	<b>Reporting (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
<b>Award Number and Award Year:</b>	F13AP00890                      2013 to 2014 F14AF00877 F14AF00879	

**Condition**

During our audit, we examined four performance reports from the Cooperative Endangered Species Conservation Fund and identified one instance where the performance report was filed beyond its due date and two instances where performance reports were not filed. The interim performance report for award F13AP00890 was submitted 51 days after the due date of September 28, 2015. The final performance reports for awards F14AF00877 and F14AF00879, which were due on September 28 and December 27, 2015, respectively, were not filed as of January 15, 2016.

**Criteria**

The federal award requires performance reports to be submitted within 90 days after the end date of the performance period for each award.

**Effect**

Delayed and failed reporting prevents the granting agency from assessing the status and activities of the program.

**Cause**

The untimely submissions of the performance reports were due to outstanding details needed from field and accounting personnel to complete the reports.

**Recommendation**

We recommend that DOFAW management ensure that division personnel are aware of their responsibilities in the reporting process to ensure timely submission of required reports.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-013:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
<b>Award Number and Award Year:</b>	F12AP00807                      2012 to 2014 F13AP00889 F14AF00877	

**Condition**

During our audit, we examined 17 disbursements of federal advances and identified three instances totaling approximately \$221,000 in which the federal cash draws were received more than 15 days prior to disbursement. We noted that the time elapsed for those three instances ranged from 24 to 36 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 15 days to be a reasonable period of time to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursement basis.

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

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**Schedule of Findings and Questioned Costs**  
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		<b>Questioned Cost</b>
<b>Finding No. 2015-014:</b>	<b>Allowable Costs and Period of Performance (Material Weakness)</b>	<b>\$ <u>269,266</u></b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	15-12-41918                      2012	

**Condition**

During the audit, we tested 60 program expenditures and identified one item totaling \$269,266 in which there was no evidence to determine whether the expenditure was for an allowable activity, or if the underlying obligations occurred within the period of performance.

**Criteria**

Pursuant to the OMB Circular A-87, to be allowable under Federal awards, costs must be adequately documented. Additionally, 43 CFR Section 12.63 states, “where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.”

**Effect**

Failure to provide evidence or support for the underlying obligations of the general fund liability resulted in noncompliance with federal requirements for allowable costs and the period of performance.

**Cause**

The absence of documentation was attributed to faulty recordkeeping. Expenditures recorded to special funds were initially paid with general funds in fiscal year 2012. However, the general fund’s reimbursement to the program’s federally funded special funds’ appropriation was not made until fiscal year 2015. Although DLNR believes appropriate documentation was maintained, department personnel were unable to provide the documentation supporting the expenditures in question.

**Recommendation**

The State department should design and implement internal controls to ensure that charges to Federal awards are adequately supported and that documentation is properly maintained.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-015:</b>	<b>Allowable Costs (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	P14AF00129                      2014 to 2015 P15AF00130	

**Condition**

During our audit, we noted that State Historic Preservation Division (SHPD) employees do not utilize timesheets to track hours worked. In addition, we noted that there are no formal reviews or supervisory procedures in place to ensure that employees are working on activities allowable under the CFDA 15.904 grants.

**Criteria**

OMB Circular A-87 requires the following:

- Where employees work on a single federal award or cost objective, the entity is required to provide at least semi-annually certifications that employees worked solely on the assigned program. Certifications must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, the entity is required to provide a distribution of salaries or wages supported by personnel activity reports signed by a supervisory official that reflect the actual activities of each employee.

**Effect**

Failure to provide certifications or other equivalent employee compensation support resulted in noncompliance with Federal grant requirements.

**Cause**

SHPD program management was unaware of the requirement until February 2015 and required time to implement a timesheet and certification process. The process went into effect on October 1, 2015.

**Recommendation**

We recommend that the SHPD management ensure that program personnel are familiar with all grant requirements, including the requirements in OMB Circular A-87. Management should develop procedures to ensure payroll expenditures charged to federal awards are adequately supported.

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**Schedule of Findings and Questioned Costs**  
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		<b>Questioned Cost</b>
<b>Finding No. 2015-016:</b>	<b>Special Tests and Provisions (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	P15AF00130                      2015	

**Condition**

During our audit, we determined that there were 22 properties nominated to the National Register of Historic Places and selected five properties for testing. However, there was no available evidence to verify that the SHPD consulted with Native Hawaiian organizations in assessing the cultural significance of the nominated properties.

**Criteria**

Pursuant to Section 101(d), subsection (6)(C) of the National Historic Preservation Act, the State must:

- (1) Consult with Native Hawaiian organizations in assessing the cultural significance of any property in determining whether to nominate such property to the National Register of Historic Places;
- (2) Consult with Native Hawaiian organizations in assessing the cultural significance of a preservation program or plan for such property; and
- (3) Enter into a memorandum of understanding or agreement with Native Hawaiian organizations for the assessment of the cultural significance of any property in determining whether to nominate such property to the National Register, and to carry out the cultural component of such preservation program or plan.

**Effect**

Failure to consult and lack of evidence of consultation with Native Hawaiian organizations in determining whether to nominate a property to the National Historic Register of Historic Places could lead to a preservation plan that does not adequately address the property’s cultural significance.

**Cause**

Subsequent to the disbursement of nomination notification letters, the SHPD program personnel failed to retain evidence that the notifications were sent.

**Recommendation**

We recommend that program management develop procedures over the retention of documents evidencing consultation with Native Hawaiian organizations.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
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		<b>Questioned Cost</b>
<b>Finding No. 2015-017:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	P13AF00183                      2013	

**Condition**

During our audit, we examined one subrecipient under this program and noted that the subrecipient had expended more than the \$500,000 in Federal awards during the prior fiscal year, which established the requirement for the subrecipient to obtain a Single Audit and for the SHPD, as the pass-through entity, to obtain the subrecipient’s audit report. However, program management did not obtain the subrecipient’s audit report.

**Criteria**

Sections 400 and 405 of OMB Circular A-133 require a pass-through entity to perform subrecipient monitoring procedures including:

- Ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements and the required audits are completed within nine months of the subrecipient’s fiscal year end.
- Issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit reports.
- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

**Effect**

Failure to obtain subrecipient Single Audit reports could result in the misuse of federal funds by subrecipients.

**Cause**

Failure to obtain the subrecipient’s Single Audit report was due to program management’s emphasis on other subrecipient monitoring activities.

**Recommendation**

We recommend that the SHPD management ensure that program personnel are familiar with all grant requirements, including OMB Circular A-133. Management should develop procedures to ensure SHPD’s responsibilities as a pass-through entity are fulfilled – determination of subrecipient’s requirements to obtain Single Audits, followed by obtaining and reviewing subrecipient Single Audit reports, issuing management decision on any applicable audit findings, and following up with the subrecipient to ensure appropriate and timely corrective action on those findings.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-018:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Labor and Industrial Relations (DLIR)	
<b>Federal Agency:</b>	Department of Labor	
<b>CFDA Number and Title:</b>	17.225 – Unemployment Insurance	
<b>Award Number and Award Year:</b>	UI-25198-14-55-A-15 2014	

**Condition**

During our audit, we examined six disbursements of federal cash draws for administrative costs of the Unemployment Insurance (UI) program and determined that in all six instances, federal funds were requested on a monthly basis for amounts expended for payroll and administrative costs occurring in the month previous to the draw, which is inconsistent with the funding technique specified in the Treasury-State Agreement.

**Criteria**

The 2015 Treasury-State Agreement requires the State to use the Direct Administrative Costs – Drawdowns on a Payroll Cycle funding technique for the UI program. For direct administrative costs, the State is required to request funds such that they are deposited on the dollar-weighted average date of clearance of payroll. Therefore, the timing of funds being requested and received must be aligned with the State’s payroll cycle, which is a semi-monthly basis.

**Effect**

The effect of the condition results in noncompliance with the 2015 Treasury-State Agreement and delay in the receipt of funds by the State.

**Cause**

The deviation from the prescribed funding technique was caused by a delay in reporting of administrative costs. Program expenditures, including administrative costs, are entered into the DLIR reporting system. Data files must be prepared and transmitted for processing, which takes approximately three to four weeks before expenditure reports are generated. Moreover, the DLIR experienced a staff shortage at that time due to the departure of several key employees, causing delays in the preparation of the necessary data files.

**Recommendation**

The State DLIR should prepare semi-monthly fund requests in accordance with the Treasury-State Agreement, allowing the State to receive federal funding sooner and resulting in greater liquidity for the State. Alternatively, DLIR may seek to update the funding technique specified in future agreements.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-019:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Labor	
<b>CFDA Number and Title:</b>	17.258, 17.259, and 17.278 – WIA Cluster	
<b>Award Number and Award Year:</b>	AA-24088-13-55-A-15 2014	

**Condition**

During our audit, we examined 15 disbursements of federal advances and identified one instance totaling approximately \$1,000 in which the time elapsed between the receipt of federal cash draws and related disbursements was more than 15 days. We noted that the period to disbursement was 22 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for program costs. Based on our testing, we determined 15 days to be a reasonable period to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring drawdowns on a reimbursement basis.

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.



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		<b>Questioned Cost</b>
<b>Finding No. 2015-020:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DBEDT	
<b>Federal Agency:</b>	Department of Energy	
<b>CFDA Number and Title:</b>	81.041 – State Energy Program	
<b>Award Number and Award Year:</b>	DE-EE0003928                      2010	

**Condition**

During our audit, we examined eight disbursements of federal advances and identified four instances totaling approximately \$121,000 in which the time elapsed between the receipt of federal cash draws and related disbursements was more than 15 days. We noted that the time elapsed for those four instances ranged from 16 to 32 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for program costs. Based on our testing, we determined 15 days to be a reasonable period to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring drawdowns on a reimbursement basis.

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

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		<b>Questioned Cost</b>
<b>Finding No. 2015-021:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	
<b>Award Number and Award Year:</b>	FEMA-1814-DR-HI      2006, 2009, and 2014 FEMA-4194-DR-HI FEMA-1664-DR-HI	

**Condition**

During our audit, we examined seven disbursements of federal advances and identified five instances totaling approximately \$1,208,000 in which the time elapsed between the receipt of federal cash draws and related disbursements was more than 15 days. We noted that the time elapsed for those five instances ranged from 18 to 29 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for program costs. Based on our testing, we determined 15 days to be a reasonable period to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring drawdowns on a reimbursement basis.

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-022:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.042 – Emergency Management Performance Grants	
<b>Award Number and Award Year:</b>	EMW-2012-EP-00012    2012 to 2013 EMW-2013-EP-00006	

**Condition**

During our audit, we examined 60 disbursements of federal advances and identified 15 instances totaling approximately \$375,000 in which the time elapsed between the receipt of federal cash draws and related disbursements was more than 15 days. We noted that the time elapsed for those 15 instances ranged from 16 to 137 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for program costs. Based on our testing, we determined 15 days to be a reasonable period to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring drawdowns on a reimbursement basis.

**Cause**

Of the 15 instances identified, 11 were caused by a \$425,000 advance that was drawn to cover payroll and other expected payments in response to the possible U.S. Department of Homeland Security shutdown on February 27, 2015 as recommended by Department of Homeland Security program personnel. One delay, identified as taking 137 days between receipt and disbursement of federal funds, was due to the late submissions of vendor invoices related to a contract. The remaining three delays were attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should design and implement internal controls over monitoring of cash management requirements and work with DAGS and B&F to ensure the timely disbursement of federal funds.

**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-023:</b>	<b>Period of Performance (Significant Deficiency)</b>	<b><u>\$ 31,715</u></b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.042 – Emergency Management Performance Grants	
<b>Award Number and Award Year:</b>	EMW-2012-EP-00012 2012	

**Condition**

During our audit, we examined 26 transactions and identified two instances totaling approximately \$32,000 in which funds were disbursed after the close of the period of performance.

**Criteria**

In accordance with A-102 Common Rule (32 CFR Section 33.23(b)), the State is required to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

**Effect**

The 2012 grant expenditures included expenditures that should have been paid from subsequent grants or other funding sources (e.g., State funds).

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process payments through DAGS resulting in processing delays.

**Recommendation**

We recommend the State department work with other State departments to improve the design and implementation of the deposit and payment processes to reduce the purchase order processing time in order to comply with period of performance requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-024:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.056 – Port Security Grant Program	
<b>Award Number and Award Year:</b>	2009-PU-T9-K035      2009 and 2011 2011-PU-K00004	

**Condition**

During our audit, we examined 19 disbursements of federal advances and identified four instances totaling approximately \$210,000 in which the federal advances were received more than 15 days prior to disbursement. We noted that the time elapsed for those four instances ranged from 21 to 25 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 15 days to be a reasonable period to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursement basis.

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

The State department should work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-025:</b>	<b>Period of Performance (Significant Deficiency)</b>	<b>\$ <u>186,213</u></b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.056 – Port Security Grant Program	
<b>Award Number and Award Year:</b>	2009-PU-T9-K035      2009	

**Condition**

During our audit, we tested 19 transactions and identified one payment totaling \$186,213 that was disbursed more than 90 days after the end of the grant’s project period.

**Criteria**

In accordance with A-102 Common Rule (32 CFR Section 33.23(b)), the program is required to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

**Effect**

The 2009 grant expenditures included expenditures that should have been paid from subsequent grants or other funding sources (e.g., State funds).

**Cause**

The delay in disbursing the funds was attributed to the State’s manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

We recommend the State department work with other State departments to improve the design and implementation of the deposit and payment processes to reduce the purchase order processing time in order to comply with period of performance requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-026:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.056 – Port Security Grant Program	
<b>Award Number and Award Year:</b>	2009-PU-T9-K035      2009 to 2012 2010-PU-T0-K010 2011-PU-K0004-S01 2012-PU-00002-S01	

**Condition**

During our audit, we examined one subrecipient under this program and noted that the subrecipient had expended more than \$500,000 in Federal awards during the prior fiscal year, which established the requirement for the subrecipient to obtain a Single Audit and for the State department, as the pass-through entity, to obtain the subrecipient’s audit report. We found that the subrecipient did not have the required audit and that program management did not follow up with the subrecipient or issue management decisions for noncompliance.

**Criteria**

Sections 400 and 405 of OMB Circular A-133 require a pass-through entity to perform subrecipient monitoring procedures including:

- Ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements and the required audits are completed within nine months of the subrecipient’s fiscal year end.
- Issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit reports.
- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

**Effect**

Failure to obtain subrecipients’ Single Audit reports could result in the misuse of federal funds by subrecipients.

**Cause**

Failure to obtain the subrecipient’s Single Audit report was due to program management’s emphasis on other subrecipient monitoring activities.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Recommendation**

We recommend that the department's management follow established procedures to ensure the department's responsibilities as a pass-through entity are fulfilled, including determination of subrecipient's requirements to obtain Single Audits, obtaining and reviewing subrecipient Single Audit reports, issuing management decisions on any applicable audit findings, following up with the subrecipient to ensure appropriate and timely corrective action on those findings, and, in cases of continued inability or unwillingness of a subrecipient to have the required audits, taking appropriate actions such as sanctions against the subrecipient.



**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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		<b>Questioned Cost</b>
<b>Finding No. 2015-027:</b>	<b>Period of Performance (Significant Deficiency)</b>	<b>\$ <u>181,723</u></b>
<b>State Agency:</b>	Department of Defense	
<b>Federal Agency:</b>	Department of Homeland Security	
<b>CFDA Number and Title:</b>	97.067 – Homeland Security Grant Program	
<b>Award Number and Award Year:</b>	2011-SS-00129-S01      2011	

**Condition**

During our audit, we tested 40 expenditures and identified three payments totaling \$181,723 that were disbursed more than 90 days after the end of the project period of the grant. Payment requests were submitted in October 2014, but payments were not made until after November 29, 2014, the end of the project period for the grant.

**Criteria**

In accordance with A-102 Common Rule (32 CFR Section 33.23(b)), the program is required to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

**Effect**

The 2011 grant expenditures included expenditures that should have been paid from subsequent grants or other funding sources (e.g., State funds).

**Cause**

The delay in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

**Recommendation**

We recommend the State department work with other State departments to improve the design and implementation of the deposit and payment processes to reduce the purchase order processing time in order to comply with period of performance requirements.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2015**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2014-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2015-001
2014-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2015-002
2014-003	IT General Control Deficiencies	DAGS; ICSD; DoTAX	Material Weakness		X	2015-003
2014-004	Schedule of Expenditures of Federal Awards (SEFA)	DAGS	Significant Deficiency		X	2015-004
09-01	Improve Controls over Inmate Agency Accounts	DPS	Material Weakness		X	
2014-005	Cash Management	Department of Defense (DOD)	Material Weakness		X	2015-005
2014-006	Davis-Bacon Act	DOD	Significant Deficiency	X		
2014-007	Suspension and Debarment	DOD	Significant Deficiency	X		
2014-008	Reporting	DOD	Significant Deficiency	X		
2014-009	Matching	DOD	Significant Deficiency	X		
2014-010	Reporting	DOD	Significant Deficiency	X		
2014-011	Cash Management	DBEDT	Material Weakness		X	2015-008
2014-012	Reporting	DLNR	Significant Deficiency		X	2015-009
2014-013	Cash Management	DLNR	Significant Deficiency		X	2015-010
2014-014	Equipment Management	DLNR	Significant Deficiency		X	2015-011
2014-015	Reporting	DLNR	Significant Deficiency		X	
2014-016	Cash Management	DLNR	Material Weakness		X	2015-013
2014-017	Subrecipient Monitoring	DLNR	Significant Deficiency		X	2015-017
2014-018	Allowable Costs	DLNR	Significant Deficiency		X	2015-015
2014-019	Special Tests and Provisions	DLNR	Significant Deficiency		X	2015-016

(continued)

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2015**

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2014-020	Special Tests and Provisions	DLIR	Significant Deficiency	X		
2014-021	Reporting	DLIR	Significant Deficiency	X		
2014-022	Cash Management	DOD	Material Weakness		X	2015-021
2014-023	Cash Management	DOD	Significant Deficiency		X	2015-022
2014-024	Reporting	DOD	Significant Deficiency	X		
2014-025	Reporting	DOD	Significant Deficiency		X	
2014-026	Cash Management	DOD	Significant Deficiency		X	2015-024
2014-027	Period of Availability	DOD	Significant Deficiency		X	2015-025
2014-028	Reporting	DOD	Significant Deficiency	X		
2014-029	Period of Availability	DOD	Material Weakness		X	2015-027
2014-030	Reporting	DOD	Significant Deficiency		X	
2013-011	Timing Not Minimized Between the Receipt and Disbursement of Federal Funds	DLNR	Significant Deficiency	X		
2013-012	Unrecorded Property Acquisitions	DLNR	Significant Deficiency		X	
2013-026	Unrecorded and Untimely Recorded Property Acquisitions	DLNR	Significant Deficiency		X	
2013-027	Timing Not Minimized Between the Receipt and Disbursement of Federal Funds	DLNR	Significant Deficiency	X		
2013-031	Unrecorded and Untimely Recorded Property Acquisitions	DLNR	Significant Deficiency		X	
2013-032	Untimely Recorded Property Acquisition	DLNR	Significant Deficiency		X	
2013-033	Untimely Submission of Report	DLNR	Significant Deficiency	X		

(continued)

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2015**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2013-034	Timing Not Minimized Between the Receipt and Disbursement of Federal Funds	DLNR	Significant Deficiency	X		
2013-052	Transparency Act Reports Not Filed	DOD	Significant Deficiency	X		
2012-25	Acquisitions Not Recorded in FAIS	DPS	Significant Deficiency		X	

(concluded)

# State of Hawaii

## Summary Schedule of Prior Audit Findings

### Year Ended June 30, 2015

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#### Corrective Actions Taken for Unresolved Findings

##### **Finding No. 2014-001: Internal Control Over Financial Reporting**

In fiscal year 2015, DAGS requested formal reporting information packages from State departments but did not receive timely responses from some departments. As a current year finding (Finding No. 2015-001) is reported, Finding No. 2014-001 will not be carried forward.

##### **Finding No. 2014-002: Accounting for Component Units and Proprietary Funds**

No corrective action was taken in fiscal year 2015. As a current year finding (Finding No. 2015-002) is reported, Finding No. 2014-002 will not be carried forward.

##### **Finding No. 2014-003: IT General Control Deficiencies**

Corrective actions were taken in fiscal year 2015 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2015-003) is reported, Finding No. 2014-003 will not be carried forward.

##### **Finding No. 2014-004: Schedule of Expenditures of Federal Awards**

Formal reporting instructions were created by DAGS and sent to other departments and agencies for the year ended June 30, 2015. As a current year finding (Finding No. 2015-004) is reported, Finding No. 2014-004 will not be carried forward.

##### **Finding No. 09-01: Improve Controls over Inmate Agency Accounts**

No corrective action was taken in fiscal year 2015. Implementation of the corrective action plan is anticipated to be completed by December 2017.

##### **Finding No. 2014-005: Cash Management**

DOD is working with B&F to revise the Treasury-State Agreement to be in line with the MCA. As a current year finding (Finding No. 2015-005) is reported, Finding No. 2014-005 will not be carried forward.

##### **Finding No. 2014-011: Cash Management**

The program has been working closely with the Federal granting agency to reduce the time it takes to process draw requests. In addition, there have been ongoing modifications to the methodology used in projecting the anticipated cash needs for invoices from contractors. As a current year finding (Finding No. 2015-008) is reported, Finding No. 2014-011 will not be carried forward.

##### **Finding No. 2014-012: Reporting**

The program is in the process of developing a tracking system to remind report preparers and reviewers of the various reporting deadlines. As a current year finding (Finding No. 2015-009) is reported, Finding No. 2014-012 will not be carried forward.

##### **Finding No. 2014-013: Cash Management**

The program is in the process of implementing corrective actions, including developing a worksheet to monitor drawdowns from the start of processing to the time a TDR is prepared and posted in Datamart. The program is also working with the DLNR Fiscal Office to expedite the processing of invoices. As a current year finding (Finding No. 2015-010) is reported, Finding No. 2014-013 will not be carried forward.

##### **Finding No. 2014-014: Equipment Management**

The program is in the process of implementing corrective actions, including agency reminders to timely and accurately record equipment purchases to FAIS, employee training on procurement and payment processing, and ongoing monitoring. As a current year finding (Finding No. 2015-011) is reported, Finding No. 2014-014 will not be carried forward.

# State of Hawaii

## Summary Schedule of Prior Audit Findings

### Year Ended June 30, 2015

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#### **Finding No. 2014-015: Reporting**

The program is in the process of implementing corrective actions, including making written instructions available as a reference and providing additional training to staff as needed. Implementation of the corrective action plan is anticipated to be completed by June 2016.

#### **Finding No. 2014-016: Cash Management**

The program is in the process of implementing corrective actions, including developing a worksheet to monitor drawdowns from the start of processing to the time a TDR is prepared and posted in Datamart. The program is also working with the DLNR Fiscal Office to expedite the processing of invoices. As a current year finding (Finding No. 2015-013) is reported, Finding No. 2014-016 will not be carried forward.

#### **Finding No. 2014-017: Subrecipient Monitoring**

The program is in the process of implementing corrective actions, including identifying subrecipients anticipated to expend more than \$500,000 at the beginning of the fiscal year and developing a checklist of subrecipient monitoring requirements along with detailed written instructions on meeting each requirement. As a current year finding (Finding No. 2015-017) is reported, Finding No. 2014-017 will not be carried forward.

#### **Finding No. 2014-018: Allowable Costs**

The program is in the process of implementing procedures to ensure payroll expenditures charged to federal awards are adequately supported, including reminding employees and supervisors of the timesheet requirements. As a current year finding (Finding No. 2015-015) is reported, Finding No. 2014-018 will not be carried forward.

#### **Finding No. 2014-019: Special Tests and Provisions**

The program is in the process of developing and implementing written procedures to ensure that the required consultations are taking place. As a current year finding (Finding No. 2015-016) is reported, Finding No. 2014-019 will not be carried forward.

#### **Finding No. 2014-022: Cash Management**

The agency continues to monitor the processes to reduce the reimbursement timeframe. As a current year finding (Finding No. 2015-021) is reported, Finding No. 2014-022 will not be carried forward.

#### **Finding No. 2014-023: Cash Management**

The agency continues to monitor the processes to reduce the reimbursement timeframe. As a current year finding (Finding No. 2015-022) is reported, Finding No. 2014-023 will not be carried forward.

#### **Finding No. 2014-025: Reporting**

The agency is reviewing the process used in determining whether a recipient of program funds is a subrecipient subject to FFATA or a contractor that is not. The agency's administrator will monitor the overall Federal reporting process to ensure compliance with the FFATA requirements. Implementation of the corrective action is anticipated to be completed by June 2016.

#### **Finding No. 2014-026: Cash Management**

The agency continues to monitor the processes to reduce the reimbursement timeframe. As a current year finding (Finding No. 2015-024) is reported, Finding No. 2014-026 will not be carried forward.

#### **Finding No. 2014-027: Period of Availability**

The program is in the process of implementing corrective actions, including strengthening closeout procedures in the FY 2015 Grants Management Procedural Manual and collaborating with the State DOD Fiscal Office to ensure last requests are processed and completed before the end of the closeout performance period. As a current year finding (Finding No. 2015-025) is reported, Finding No. 2014-027 will not be carried forward.

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2015**

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**Finding No. 2014-029: Period of Availability**

The program is in the process of implementing corrective actions, including strengthening closeout procedures in the FY 2015 Grants Management Procedural Manual and collaborating with the State DOD Fiscal Office to ensure last requests are processed and completed before the end of the closeout performance period. As a current year finding (Finding No. 2015-027) is reported, Finding No. 2014-029 will not be carried forward.

**Finding No. 2014-030: Reporting**

The program is establishing a monitoring process to ensure FFATA reports are filed timely. FFATA reports have been submitted as of November 2015.

**Finding No. 2013-012: Unrecorded Property Acquisitions**

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action is anticipated to be completed by June 2016.

**Finding No. 2013-026: Unrecorded and Untimely Recorded Property Acquisitions**

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action was completed by January 2016.

**Finding No. 2013-031: Unrecorded and Untimely Recorded Property Acquisitions**

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action is anticipated to be completed by June 2016.

**Finding No. 2013-032: Untimely Recorded Property Acquisitions**

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action is anticipated to be completed by June 2016.

**Finding No. 2012-25: Acquisitions Not Recorded in FAIS**

DPS is establishing monitoring procedures over reconciliations between equipment purchases and FAIS. Implementation of the corrective action is expected to be completed by December 2016.



# **CORRECTIVE ACTION PLAN**

DAVID Y. IGE  
GOVERNOR



DOUGLAS MURDOCK  
COMPTROLLER  
AUDREY HIDANO  
Deputy Comptroller

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

March 9, 2016

ACC 16.U009

Accuity LLP  
999 Bishop Street, Suite 1900  
Honolulu, Hawaii 96813

Gentlemen:

Thank you for the opportunity to provide comments on the Schedule of Findings and Questioned Costs issued in connection with the Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2015. We have also attached our comments on the status of prior audit findings.

We commend Accuity LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call Mr. Wayne M. Horie, Accounting Division at 586-0600.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas Murdock".

DOUGLAS MURDOCK  
Comptroller

Attachments

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2015

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### SECTION II – FINANCIAL STATEMENT FINDINGS

#### **2015-001 – Internal Control over Financial Reporting (Significant Deficiency)** (Page 18)

##### Corrective Action Plan

Concur. The Department of Accounting and General Services (DAGS) will continue to develop a well-defined, systematic, efficient, and orderly process for financial reporting that will include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process will be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

DAGS will review audit entries for use of improper source codes, object codes, and appropriation accounts and work with individuals who perform reviews of journal entries at the identified departments on specific issues relating to proper use of such codes and accounts. Departments will be reminded to perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries and all the journal entries properly reflect what is shown on the schedules.

While DAGS will continue to improve efficiencies within the current system, significant efficiencies are not anticipated to be achieved until implementation of a new financial system. A new financial system will improve internal controls and facilitate a more efficient financial reporting process, allowing more time for review and analysis of financial results.

Person Responsible	Wayne Horie, Administrator DAGS Accounting Division
Anticipated Completion Date	June 30, 2017

#### **2015-002 – Accounting for Component Units and Proprietary Funds** (Page 20) **(Significant Deficiency)**

##### Corrective Action Plan

Concur. DAGS will review the State's policy annually regarding the reporting of discretely presented Component Units and nonmajor Proprietary Funds as compared with Government Accounting Standards Board Statement Nos. 34 and 61.

Person Responsible	Wayne Horie, Administrator DAGS Accounting Division
Anticipated Completion Date	June 30, 2016

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2015

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2015-003 – IT General Control Deficiencies (Material Weakness)

(Page 22)

### Corrective Action Plan

Concur. The Information and Communication Services Division (ICSD), the Department of Tax (DoTax), and DAGS address their respective IT control deficiencies in the areas of logical security and change management as follows:

#### Logical security

##### *ICSD*

- **Finding:** Users with the ability to create or modify a user account on the mainframe were also authorized requestors (e.g. approvers) in the Online User Access Request system and have the ability to authorize access.  
**Response:** The Access to Production Datasets and Libraries Procedure and Special Account Procedure were developed to improve data security and user account management in the mainframe environment. The Special Account Procedure will restrict the access rights of project managers, where the principle of least privilege is applied. Access rights to FAMIS, Central Warrant Writer, and Recon were restricted on January 20, 2016. Access rights to Payroll was restricted on February 22, 2016. Restricting access rights to other departments and agencies is currently being investigated.
- **Finding:** Developers and ICSD Systems Support personnel have access to the Payroll online application causing a segregation of duties issue.  
**Response:** The Production Move Procedure and Access to Production Datasets and Libraries Procedure were developed to improve the segregation of duties controls. On January 20, 2016, both procedures were implemented by FAMIS, Central Warrant Writer, and Recon applications. On February 22, 2016, both procedures were implemented by the payroll application.
- **Finding:** Developers have access to the security administration function in the mainframe for the FAMIS, Payroll, CWWS, and Recon applications causing a segregation of duties issue.  
**Response:** The Access to Production Datasets and Libraries Procedure and Special Account Procedure were developed to improve data security and user account management in the mainframe environment. The Special Account Procedure will restrict the access rights of project managers, where the principle of least privilege is applied. Access rights to FAMIS, Central Warrant Writer, and Recon were restricted on January 20, 2016. Access rights to Payroll was restricted on February 22, 2016. Restricting access rights to other departments and agencies is currently being investigated.

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- **Finding:** Logical access to the mainframe was not removed in a timely manner for 1 out of 37 online access notifications selected for testing.  
**Response:** A procedure will be developed to call back deletion of user accounts of terminated employees to ensure that all requests are completed. The target completion date is April 2016.
- **Finding:** Certain password settings have limited security features enabled and do not comply with the current ICSD Information System Access Policy.  
**Response:** Converting password settings on all hosts to conform to management's policies and procedures is in progress. The target date to complete all conversions is July 31, 2016.
- **Finding:** An annual user access review to confirm mainframe application users have appropriate access rights based on job function and user listings are free of terminated users was not performed.  
**Response:** The Access to Production Datasets and Libraries Procedure and Special Account Procedure were developed to improve data security and user account management in the mainframe environment. The Special Account Procedure will restrict the access rights of project managers, where the principle of least privilege is applied. Access rights to FAMIS, Central Warrant Writer, and Recon were restricted on January 20, 2016. Access rights to Payroll was restricted on February 22, 2016. Restricting access rights to other departments and agencies is currently being investigated. The FAMIS annual user access review was completed in September 2015.
- **Finding:** No evidence that RACF daily logs were monitored for 4 of 41 days tested.  
**Response:** A procedure has been developed to ensure that log monitoring covers all events.
- **Finding:** Information security policies and standards were not periodically reviewed and updated.  
**Response:** Information policies and standards are being reviewed and updates need to be made.

### *DoTax*

- **Finding:** User access rights on the ITPS were not reviewed on at least an annual basis.  
**Response:** With the Tax System Modernization (TSM) Program fully underway, work has begun to replace the current ITPS application. This is causing departmental resources and focus to shift more towards the new GenTax application and away from the current ITPS application. Therefore, this finding will be

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comprehensively addressed within the new GenTax application. At that time, GenTax user access rights will be reviewed on at least an annual basis. Likewise, reviews will be conducted by an authorized security person in the DoTax in coordination with appropriate division and staff office managers and supervisors. Reviews will ensure that user access rights are commensurate with job responsibilities and users not requiring GenTax access are de-provisioned in a timely manner.

- **Finding:** Weak password security.

**Response:** With the TSM Program fully underway, work has begun to replace the current ITPS application. This is causing departmental resources and focus to shift more towards the new GenTax application and away from the current ITPS application. Therefore, this finding will be comprehensively addressed within the new GenTax application. Until then, ITPS password security functionality remains limited for this mature application which has been in production use for 13+ years as modifying password functionality to address shortcomings requires infrastructure and baseline code changes that would be counterproductive at this time. Doing so now would also introduce significant disruptions and risk to production 24/7 operations at a time when it can least be afforded. In the interim, risk will continue to be mitigated by employing user education.

### *DAGS Systems Accounting*

- **Finding:** Numerous FAMIS users whose job function does not include security administration had the ability to modify permissions assigned to users in their own department.

**Response:** DAGS will modify FAMIS operator IDs with security administration capabilities to prevent unauthorized departmental FAMIS users from accessing the security administration screen. Modification was completed in May 2015.

### Change Management

#### *ICSD*

- **Finding:** Developers have the ability to implement changes directly into the production environment for the mainframe applications listed above, and those responsible for implementing changes into production are not confirming that changes are tested and authorized.

**Response:** The Production Move Procedure and Access to Production Datasets and Libraries Procedure were developed to improve the segregation of duties controls. On January 20, 2016, both procedures were implemented by FAMIS, Central Warrant Writer, and Recon applications. On February 22, 2016, both procedures were implemented by the payroll application.

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- **Finding:** No evidence that mainframe security patches and software releases were evaluated to determine if the patch or release was needed, the decision to implement the change was documented and approved, or approved changes were applied as scheduled.

**Response:** A written procedure was developed to retain evidence that mainframe security patches and software releases were evaluated by ICSD that addresses this finding.

### *DoTax*

- **Finding:** Developers have access to the production environment in the ITPS.  
**Response:** With the TSM Program fully underway, work has begun to replace the current ITPS application and production environment. This is causing departmental resources and focus to shift more towards the new GenTax environment and away from the current ITPS environment. Therefore, this finding will be comprehensively addressed within the new GenTax environment. Until then, the department's operations will continue to rely on the ability of developers to access the ITPS production environment to facilitate and maintain overall operations. Developer access to the ITPS production environment is a function which was designed into ITPS application maintenance when ITPS was first implemented in 2002. From the onset, developer access to the ITPS production environment was and continues to be paramount in ensuring that the ITPS online and batch applications are effectively maintained in accordance with the DoTax operations and user requirements and expectations. In the interim, risk has been reduced by reducing the number of developers actively working on maintaining the ITPS production environment. Also, risk will continue to be mitigated by strengthening existing procedures and/or devising new ones, when deemed necessary.

### *DAGS Systems and Procedures Office*

- **Finding:** Developers have access to the production environment in the Statewide Inventory System.  
**Response:** Systems and Procedures Office (S&PO) is utilizing the ICSD emergency procedures that allows S&PO temporary access to the production environment. S&PO is in the process of meeting the requirements of the ICSD emergency procedures by March 31, 2016. Until S&PO fulfills ICSD's requirements, it will continue to access the Statewide Inventory System's production environment in order to quickly resolve production job problems.

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### **2015-004 – Schedule of Expenditures of Federal Awards (Significant Deficiency)** (Page 25)

##### Corrective Action Plan

Concur. DAGS' management has developed a well-defined process for Federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA. DAGS will remind the departments to follow these established policies and procedures when preparing the SEFA.

Person Responsible                      Wayne Horie, Administrator  
DAGS Accounting Division

Anticipated Completion Date          June 30, 2016

#### **2015-005 – Cash Management (Material Weakness) (Page 27)** **State Department of Defense**

CFDA No. 12.401: National Guard Military Operations and Maintenance (O&M) Projects  
Direct award from the U.S. Department of Defense (Awards W912J6-10-2-1000, W912J6-14-2-1000, W912J6-15-2-1000)

##### Corrective Action Plan

Concur and not concur. The State DOD's agency will revise the Treasury-State Agreement to be in line with the Master Cooperative Agreement (MCA). The agency is in the process of initiating revisions with the Department of Budget and Finance (B&F).

The agency agrees with the findings; however, as discussed with the Auditors previously, they do not concur with the unreasonable time restrictions interjected in the process. The agency argues that if they follow the MCA rules, they may be violating standard State rules. If they follow State practices, they may not qualify for the MCA Cash Advance method.

The MCA follows unique and specific guidelines which are reinforced in the National Guard Bureau's (NGB) MCA training class. One item is:

The State is allowed to draw cash advances BEFORE the end of the initial FY in an amount covering all unliquidated obligations. The State is allowed to retain the cash advances equal to the balance of unliquidated obligations until all obligations are paid. The CA program is allowed to remain open for no more than five years.











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Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Effective July 1, 2015, the agency designed and implemented internal control over monitoring of cash management. The agency developed a Federal Cash Flow Worksheet for all of the Federal grant appropriation accounts. The agency monitors when the drawdown was processed to the time the Treasury Deposit Report (TDR) was prepared and eventually posted in Datamart. As soon as the TDR is posted, the agency sends down the invoices to the Fiscal Office with the date stamp "*Federal Funds Received*." The agency has no control from the time the invoice is sent down to the Fiscal Office to the time the check is cut.

The agency will work with the Fiscal Office to expedite processing of invoices with the "*Federal Funds Received*" date stamp to ensure that the invoices are paid within the required period.

Person Responsible: Michelle del Rosario and Judy Garo, Accountants  
Division of Forestry and Wildlife

Anticipated Completion Date: June 30, 2016

### **2015-011 – Equipment Management (Significant Deficiency) State Department of Land and Natural Resources**

(Page 34)

CFDA No. 15.611: Wildlife Restoration and Basic Hunter Education (Fish and Wildlife Cluster)  
Direct award from the U.S. Department of Interior (Awards F13AF00962, F14AF00912)

#### Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's Fixed Asset Inventory System (FAIS) in the calendar quarter that the equipment was received.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17A for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written

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instructions will be available as reference. The procurement, payment, and State Form 17A process will be reviewed by the individual's supervisor for each equipment purchase.

Person Responsible                      Rick Lau, Procurement Specialist and Michelle Del Rosario, Accountant  
Division of Forestry and Wildlife  
Andrew Choy, Hunter Education Program Manager  
Division Conservation and Resource Enforcement

Anticipated Completion Date        June 30, 2016

**2015-012 – Reporting (Material Weakness)** (Page 35)  
**State Department of Land and Natural Resources**

CFDA No. 15.615: Cooperative Endangered Species Conservation Fund (R&D Cluster)  
Direct award from the U.S. Department of Interior (Awards F13AP00890, F14AF00877, F14AF00879)

### Corrective Action Plan

Concur. The State DLNR's agency will be reminded that the interim and final performance reports shall be submitted by the required due date.

The agency will develop a tracking system of required reports to remind preparers and reviewers of the report due dates to be monitored for timely preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its Federal grant reporting process. The agency's individuals, supervisors, and administrator responsible for preparing, reviewing, and monitoring Federal reports will receive additional training in the preparation and submission of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The Program Manager will monitor the report preparation, review and submission process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

Person Responsible                      James Cogswell, Program Manager  
Division of Forestry and Wildlife

Anticipated Completion Date        June 30, 2016







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Person Responsible Alan S. Downer, Ph.D., Administrator  
Historic Preservation Division

Anticipated Completion Date June 30, 2016

### **2015-017 – Subrecipient Monitoring (Significant Deficiency) State Department of Land and Natural Resources**

(Page 40)

CFDA No. 15.904: Historic Preservation Fund Grants-In-Aid  
Direct award from the U.S. Department of Interior (Award P13AF00183)

#### Corrective Action Plan

Concur. The State DLNR's agency will be reminded to conduct its subrecipient monitoring responsibilities for subrecipient grants.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. At the beginning of the fiscal year, subrecipients anticipated to expend more than \$500,000 will be identified. These subrecipients will be reminded of the Single Audit report requirement should their expenditures exceed \$500,000. After each fiscal year end, the agency will compile a list of subrecipients that expended in excess of \$500,000 and will request a Single Audit report from these subrecipients. The agency will also monitor the implementation of the subrecipient's corrective action plan, if any, and will evaluate the impact of any continued subrecipient noncompliance.

For future subrecipient grants, the agency will include in its subrecipient agreements the: (1) Federal award information; (2) grant compliance requirements; (3) subrecipient activities will be monitored; (4) subrecipient findings will be resolved; (5) impact of subrecipient noncompliance will be evaluated; and (6) for subrecipient grants with annual expenditures in excess of \$500,000, a Single Audit will be requested in compliance with OMB Circular A-133.

The agency will develop a check list of subrecipient monitoring requirements with written detailed instructions on accomplishing each requirement. The individuals assigned to perform the subrecipient monitoring, supervisors, and the agency's administrator will receive additional training to accomplish the monitoring requirements. The subrecipient monitoring activity will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall subrecipient monitoring activities to ensure compliance with the Federal requirements.

Person Responsible Alan S. Downer, Ph.D., Administrator  
Historic Preservation Division

Anticipated Completion Date June 30, 2016

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### **2015-018 – Cash Management (Significant Deficiency)** **State Department of Labor and Industrial Relations**

(Page 41)

CFDA No. 17.225: Unemployment Insurance

Direct award from the U.S. Department of Labor (Award UI-25198-14-55-A-15)

#### Corrective Action Plan

Concur. The State DLIR's agency will use the prior period payroll and known UI administrative costs in concert with any known significant changes to determine an estimate for the required cash drawdowns. The drawdowns will be made semi-monthly and be aligned with the State's semi-monthly payroll cycle. Continued emphasis will be placed on recruitment to fill our staff shortages, and training of new hires on compliance with the CMIA and proper drawdown techniques.

Person Responsible                      Norman Ahu, Business Management Officer  
DLIR

Anticipated Completion Date              June 30, 2016

### **2015-019 – Cash Management (Significant Deficiency)** **State Department of Labor and Industrial Relations**

(Page 42)

CFDA No. 17.258, 17.259, 17.278: Workforce Investment Act Cluster

Direct award from the U.S. Department of Labor (Award AA-24088-13-55-A-15)

#### Corrective Action Plan

Concur. The State DLIR's agency makes every effort to work within the systems established by B&F and DAGS to minimize the time elapsed from the point that Federal funds are received to the point that disbursement is made. Once a drawdown request is submitted to the Federal government, the agency staff initiates the process to generate a payment voucher. However, the payment voucher is held at the agency until it is verified that a deposit has been posted to the appropriation. When the deposit posting is verified, the voucher is submitted to DAGS for disbursement. However, the disbursement process at DAGS can take several days.

The agency's staff will continue to timely initiate the payment voucher process, and develop a trace procedure to monitor appropriation accounts to determine when deposits are posted. If a deposit is not posted within seven days after a drawdown is received, the agency's staff will contact DAGS to determine the status of the deposit posting and request prompt posting.

Person Responsible                      Norman Ahu, Business Management Officer  
DLIR

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Anticipated Completion Date                  June 30, 2016

**2015-020 – Cash Management (Material Weakness)**  
**State Department of Budget, Economic Development and Tourism**

(Page 43)

CFDA No. 81.041: State Energy Program  
Direct award from the Department of Energy (Award DE-EE0003928)

Corrective Action Plan

Concur. The State DBEDT's agency had previously determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government). The agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate the processing of Federal funds and identify areas where the overall payment cycle can be minimized. As certain areas of responsibility are external to the agency, the agency will focus on improving the functions that reside within the agency. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as close as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will be trained in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

Person Responsible                                  Donna Mau, Energy Program Operations Officer  
Strategic Industries Division

Anticipated Completion Date                  June 30, 2016

**2015-021 – Cash Management (Material Weakness)**  
**State Department of Defense**

(Page 44)

CFDA No. 97.036: Disaster Grants-Public Assistance (Presidentially Declared Disasters)





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### **2015-025 – Period of Performance (Significant Deficiency)** **State Department of Defense**

(Page 48)

CFDA No. 97.056: Port Security Grant Program  
Direct award from the Department of Homeland Security (Award 2009-PU-T9-K035)

#### Corrective Action Plan

Concur and not concur. The State DOD's Grants Management Office works closely with the subrecipient during the closeout period. Additional controls have been instituted to limit recipients submitting requests for reimbursement after 45 days of the closeout date. While 45 days is currently the baseline for submitting reimbursements during the closeout period, the Office will ensure controls are adhered to when publishing the closeout letter to each of the subrecipients. In addition, the Office has implemented a closer collaboration with the State DOD's Fiscal Office to ensure last requests are processed and completed before the end of the closeout performance period. Closeout procedures were strengthened in the FY 2015 Grants Management Procedural Manual.

Person Responsible Dolores Cook, Homeland Security Administrator  
Office of Homeland Security

Anticipated Completion Date Completed

### **2015-026 – Subrecipient Monitoring (Significant Deficiency)** **State Department of Defense**

(Page 49)

CFDA No. 97.056: Port Security Grant Program  
Direct award from the Department of Homeland Security (Awards 2009-PU-T9-K035, 2010-PU-T0-K010, 2011-PU-K0004-S01, 2012-PU-00002-S01)

#### Corrective Action Plan

Concur and not concur. To clarify, the State DOD's Grant Management Office did not issue a subrecipient memorandum except for the FY 2008 Port Security Grant. The four grant programs noted were executed via the State DOD's Grants Management Office in conjunction with the Department of Transportation and DAGS. However, in FY 2008, the Department of Transportation did complete a subrecipient agreement for the Homeland Security Command and Control Surveillance System.

The responsible staff agrees the A-133 audit report has not been submitted to the DOD, and will discuss with the Department of Transportation to determine if the report was completed and is on file.

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## CORRECTIVE ACTION PLAN JUNE 30, 2015

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Person Responsible Dolores Cook, Homeland Security Administrator  
Office of Homeland Security

Anticipated Completion Date June 2016

**2015-027 – Period of Performance (Significant Deficiency) (Page 51)**  
**State Department of Defense**

CFDA No. 97.067: Homeland Security Grant Program  
Direct award from the Department of Homeland Security (Award 2011-SS-00129-S01)

### Corrective Action Plan

Concur and not concur. The State DOD's Grants Management Office works closely with the subrecipient during the closeout period. Additional controls have been instituted to limit recipients submitting requests for reimbursement after 45 days of the closeout date. While 45 days is currently the baseline for submitting reimbursements during the closeout period, the Office will ensure controls are adhered to when publishing the closeout letter to each of the subrecipients. In addition, the Office has implemented closer collaboration with the State DOD's Fiscal Office to ensure last requests are processed and completed before the end of the closeout performance period. Closeout procedures were strengthened in the FY 2015 Grants Management Procedural Manual.

Person Responsible Dolores Cook, Homeland Security Administrator  
Office of Homeland Security

Anticipated Completion Date Completed