

# STATE OF HAWAII

## SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016



**RODERICK K. BECKER**  
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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**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, 2016, 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, 2016.

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 deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2016-003 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 Findings No. 2016-001 and 2016-002 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, 2016

## Report of Independent Auditors on Compliance for Each Major Program, Internal Control Over Compliance, and the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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) *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, 2016. 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, 2016. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or did not require an audit in accordance with the Uniform Guidance.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards 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 the requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 Findings No. 2016-007, 2016-008, 2016-011, 2016-012, 2016-015 and 2016-018 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
2016-007	12.401	National Guard Military Operations and Maintenance Projects	Cash Management
2016-008	12.800	Research and Development Cluster	Cash Management
2016-011	17.225	Unemployment Insurance	Cash Management
2016-012	93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Subrecipient Monitoring
2016-015	93.569	Community Services Block Grant	Reporting
2016-018	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, 2016.

**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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2016-004 through 2016-006, 2016-009, 2016-010, 2016-013, 2016-014, 2016-016, 2016-017 and 2016-019. 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 the Uniform Guidance, 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 Findings No. 2016-007, 2016-008, 2016-011, 2016-012, 2016-015, and 2016-018 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 Findings No. 2016-004 through 2016-006, 2016-009, 2016-010, 2016-013, 2016-014, 2016-016, 2016-017 and 2016-019 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2016, 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, 2016, 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 the Uniform Guidance 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 10, 2017

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

<b>Federal Grantor / Pass-through Grantor and Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
U.S. Department of Agriculture Direct Programs			
Plant and Animal Disease, Pest Control and Animal Care	10.025	\$ 700,006	\$ -
Federal-State Marketing Improvement Program	10.156	22,718	-
Inspection Grading and Standardization	10.162	8,657	-
Market Protection and Promotion	10.163	38,889	-
Specialty Crop Block Grant Program – Farm Bill	10.170	459,642	-
Organic Certification Cost Share Programs	10.171	61,812	-
Senior Farmers Market Nutrition Program	10.576	454,058	-
Cooperative Forestry Assistance	10.664	1,012,002	106,250
Urban and Community Forestry Program	10.675	245,322	36,144
Forest Legacy Program	10.676	10,698	-
Forest Stewardship Program	10.678	213,157	34,524
Forest Health Protection	10.680	228,753	-
Watershed Protection and Flood Prevention	10.904	334,216	-
Environmental Quality Incentives Program	10.912	20,242	-
Wildlife Habitat Incentive Program	10.914	4,800	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	146,618	-
Emergency Food Assistance Program (Administrative Costs)	10.568	201,002	-
Emergency Food Assistance Program (Food Commodities)	10.569	1,811,961	1,811,961
Total Food Distribution Cluster		2,159,581	1,811,961
Total U.S. Department of Agriculture Direct Programs		5,974,553	1,988,879
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)	10.561	166,616	-
Total U.S. Department of Agriculture		6,141,169	1,988,879
<b>U.S. 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.U01	998,540	-
Interjurisdictional Fisheries Act of 1986	11.407	35,784	-
Fishery Products Inspection and Certification	11.413	13,475	-
Coastal Zone Management Administration Awards	11.419	1,661,766	830,590
Coastal Zone Management Estuarine Research Reserves	11.420	22,442	22,442
Marine Sanctuary Program	11.429	115,506	-
Pacific Fisheries Data Program	11.437	447,417	-
Habitat Conservation	11.463	6,382	-
Meteorologic and Hydrologic Modernization Development	11.467	666,863	-
Unallied Science Program	11.472	415,979	-
Office for Coastal Management	11.473	69,375	69,375
Coral Reef Conservation Program	11.482	518,089	-
State and Local Implementation Grant Program	11.549	291,090	-
Manufacturing Extension Partnership	11.611	636,289	-

(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, 2016**

<b>Federal Grantor / Pass-through Grantor and Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
Economic Development Cluster			
Investments for Public Works and Economic Development Facilities	11.300	1,653,984	1,653,984
Economic Adjustment Assistance	11.307	180,909	59,995
Total Economic Development Cluster		<u>1,834,893</u>	<u>1,713,979</u>
Total U.S. Department of Commerce Direct Programs		7,733,890	2,636,386
Pass-through from the State Department of Health			
National Oceanic and Atmosphere Administration – FY13 Japan Tsunami Marine Debris Removal Grant	11.U02	192,800	-
Total U.S. Department of Commerce		<u>7,926,690</u>	<u>2,636,386</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
U.S. Department of Defense Direct Programs			
Collaborative Research and Development	12.114	320,849	-
National Guard Military Operations and Maintenance Projects	12.401	18,772,082	-
National Guard ChalleNGe Program	12.404	5,034,543	-
Basic, Applied and Advanced Research in Science and Engineering	12.630	26,037	-
Air Force Defense Research Sciences Program	12.800	1,870,040	-
Total U.S. Department of Defense		<u>26,023,551</u>	<u>-</u>
<b>U.S. 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	122,975	-
Total U.S. Department of Housing and Urban Development		<u>122,975</u>	<u>-</u>
<b>U.S. DEPARTMENT OF INTERIOR</b>			
U.S. Department of Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	9,597	-
Coastal Wetlands Planning, Protection and Restoration	15.614	157,705	-
Cooperative Endangered Species Conservation Fund	15.615	2,304,346	-
Sport Fishing and Boating Safety Act	15.622	302,429	-
Coastal	15.630	10,952	-
State Wildlife Grants	15.634	597,846	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	416,384	-
National Fire Plan – Wildland Urban Interface Community Fire Assistance	15.674	437,629	-
Economic, Social and Political Development of the Territories	15.875	13,097	-
Historic Preservation Fund Grants-In-Aid	15.904	262,898	-
Outdoor Recreation – Acquisition, Development and Planning	15.916	240,096	91,846
Natural Resource Stewardship	15.944	27,938	-
Fish and Wildlife Cluster			
Sport Fish Restoration	15.605	2,503,223	-
Wildlife Restoration and Basic Hunter Education	15.611	3,363,955	-
Total Fish and Wildlife Cluster		<u>5,867,178</u>	<u>-</u>
Total U.S. Department of Interior		<u>10,648,095</u>	<u>91,846</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, 2016**

<b>Federal Grantor / Pass-through Grantor and Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
U.S. Department of Justice Direct Programs			
Domestic Cannabis	16.U01	91,120	-
Eradication / Suppression Program	16.U02	203,034	-
Services for Trafficking Victims	16.320	166,392	-
Crime Victim Compensation	16.576	341,845	-
Total U.S. Department of Justice Direct Programs		802,391	-
Pass-through from the State Department of the Attorney General			
Residential Substance Abuse Treatment for State Prisoners	16.593	126,756	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	89,980	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	31,086	-
Pass-through from the Council of State Governments			
Edward Byrne Memorial Competitive Grant Program	16.751	58,075	-
Total U.S. Department of Justice Pass-through Programs		305,897	-
Total U.S. Department of Justice		1,108,288	-
<b>U.S. DEPARTMENT OF LABOR</b>			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	664,395	-
Compensation and Working Conditions	17.005	88,819	-
Unemployment Insurance	17.225	159,988,522	-
Senior Community Service Employment Program	17.235	1,375,544	1,264,017
Trade Adjustment Assistance	17.245	130,075	-
Workforce Investment Act / WIOA Pilots, Demonstrations and Research Projects	17.261	134,335	-
H-1B Job Training Grants	17.268	42,507	-
Work Opportunity Tax Credit Program	17.271	38,593	-
Temporary Labor Certification for Foreign Workers	17.273	53,728	-
WIOA National Dislocated Workers Grants / WIA National Emergency Grants	17.277	575,672	390,644
Occupational Safety and Health – State Program	17.503	1,533,308	-
Consultation Agreements	17.504	430,980	-
Employment Service Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207	2,940,342	-
Disabled Veterans' Outreach Program	17.801	204,874	-
Local Veterans' Employment Representative Program	17.804	267,705	-
Total Employment Service Cluster		3,412,921	-
WIA / WIOA Cluster			
WIA / WIOA Adult Program	17.258	1,538,094	1,366,746
WIA / WIOA Youth Activities	17.259	1,864,052	1,583,530
WIA / WIOA Dislocated Worker Formula Grants	17.278	1,685,951	1,166,321
Total WIA / WIOA Cluster		5,088,097	4,116,597
Total U.S. Department of Labor Direct Programs		173,557,496	5,771,258
Pass-through from the Research Corporation of the University of Hawaii			
Trade Adjustment Assistance Community College and Career Training Grants	17.282	273,457	29,187
Total U.S. Department of Labor		173,830,953	5,800,445

(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, 2016**

<b>Federal Grantor / Pass-through Grantor and Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
U.S. Department of Transportation Direct Programs			
Space Transportation Infrastructure Matching Grants	20.110	25,839	-
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	87,597	-
Recreational Trails Program	20.219	1,110,256	-
Total Highway Planning and Construction Cluster		<u>1,197,853</u>	-
Total U.S. Department of Transportation Direct Programs		<u>1,223,692</u>	-
Pass-through from the State Department of Transportation			
Federal Transit Cluster			
Federal Transit – Capital Investment Grants	20.500	3,770,793	-
Total U.S. Department of Transportation		<u>4,994,485</u>	-
<b>U.S. DEPARTMENT OF THE TREASURY</b>			
U.S. Department of Treasury Direct Program			
State Small Business Credit Initiative	21.U01	1,992,663	1,992,663
Total U.S. Department of the Treasury		<u>1,992,663</u>	<u>1,992,663</u>
<b>U.S. 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	130,991	-
Total U.S. Equal Employment Opportunity Commission		<u>130,991</u>	-
<b>U.S. GENERAL SERVICES ADMINISTRATION</b>			
U.S. General Services Administration Direct Program			
Donation of Federal Surplus Personal Property	39.003	1,839,558	-
Total U.S. General Services Administration		<u>1,839,558</u>	-
<b>U.S. NATIONAL ENDOWMENT FOR THE ARTS</b>			
U.S. National Endowment for the Arts Direct Program			
Promotion of the Arts – Partnership Agreements	45.025	709,624	261,245
Total U.S. National Endowment for the Arts		<u>709,624</u>	<u>261,245</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
U.S. Small Business Administration Direct Program			
State Trade Expansion	59.061	329,238	167,500
Total U.S. Small Business Administration		<u>329,238</u>	<u>167,500</u>
<b>U.S. DEPARTMENT OF VETERANS AFFAIRS</b>			
U.S. Department of Veterans Affairs Direct Program			
Veterans Cemetery Grants Program	64.203	192,570	-
Total U.S. Department of Veterans Affairs		<u>192,570</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, 2016**

<b>Federal Grantor / Pass-through Grantor and Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
U.S. Environmental Protection Agency Direct Programs			
Performance Partnership Grants	66.605	247,690	-
Pollution Prevention Grants Program	66.708	1,224	-
Total U.S. Environmental Protection Agency		248,914	-
<b>U.S. DEPARTMENT OF ENERGY</b>			
U.S. Department of Energy Direct Programs			
State Energy Program	81.041	540,322	-
Weatherization Assistance for Low-Income Persons	81.042	137,370	-
State Energy Program Special Projects	81.119	141,308	-
Total U.S. Department of Energy		819,000	-
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Pass-through from the State Department of Education			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	269,169	-
Pass-through from the State University of Hawaii			
Career and Technical Education – Basic Grants to States	84.048	35,567	-
Total U.S. Department of Education Pass-through Programs		304,736	-
Total U.S. Department of Education		304,736	-
<b>U.S. ELECTION ASSISTANCE COMMISSION</b>			
U.S. Election Assistance Commission Direct Program			
Help America Vote Act Requirements Payments	90.401	978,445	-
Total U.S. Election Assistance Commission		978,445	-
<b>U.S. 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	169,256	-
Affordable Care Act Grants to States for Health Insurance Premium Review	93.511	1,497,563	-
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	846,098	513,297
Refugee and Entrant Assistance – State Administered Programs	93.566	105,551	10,458
Community Services Block Grant	93.569	3,274,171	3,052,987
Affordable Care Act – State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	1,055,963	-
Total U.S. Department of Health and Human Services Direct Programs		6,948,602	3,576,742
Pass-through from the State Department of Human Services			
Temporary Assistance for Needy Families (TANF Cluster)	93.558	315,337	-
Total U.S. Department of Health and Human Services		7,263,939	3,576,742

(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, 2016**

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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>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
U.S. Department of Homeland Security Direct Programs			
Boating Safety Financial Assistance	97.012	1,239,877	-
Community Assistance Program State Support Services Element	97.023	73,124	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	5,388,030	4,213,247
National Dam Safety Program	97.041	49,596	-
Emergency Management Performance Grants	97.042	3,344,757	791,422
Cooperating Technical Partners	97.045	70,668	-
Pre-Disaster Mitigation	97.047	60,750	-
Port Security Grant Program	97.056	2,855,103	-
Homeland Security Grant Program	97.067	4,438,024	3,410,376
Total U.S. Department of Homeland Security Direct Programs		17,519,929	8,415,045
Pass-through from the State Department of Transportation			
Port Security Grant Program	97.056	349,084	-
Total U.S. Department of Homeland Security		17,869,013	8,415,045
Total Expenditures of Federal Awards		<b>\$ 263,474,897</b>	<b>\$ 24,930,751</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, 2016

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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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and accordingly, separate Uniform Guidance submissions are 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 Uniform Guidance audits or do not receive federal grants and, therefore, do not obtain an audit under the Uniform Guidance. 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, 2016**

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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 Uniform Guidance. 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 \$159,988,522 reported as expenditures for the Unemployment Insurance program (CFDA No. 17.225), \$143,589,765 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.

**8. Indirect Costs**

The State of Hawaii does not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**State of Hawaii**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

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**9. Research and Development Cluster Expenditures**

The SEFA includes the following Research and Development amounts:

<u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Direct Programs		
Federal-State Marketing Improvement Program	10.156	\$ 22,718
Urban and Community Forestry Program	10.675	245,322
Forest Stewardship Program	10.678	213,157
Total U.S. Department of Agriculture		<u>481,197</u>
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	35,784
Marine Sanctuary Program	11.429	115,506
Pacific Fisheries Data Program	11.437	447,417
Unallied Science Program	11.472	415,979
Coral Reef Conservation Program	11.482	518,089
Total U.S. Department of Commerce		<u>1,532,775</u>
U.S. Department of Defense Direct Programs		
Collaborative Research and Development	12.114	320,849
Basic, Applied and Advanced Research in Science and Engineering	12.630	26,037
Air Force Defense Research Sciences Program	12.800	1,870,040
Total U.S. Department of Defense		<u>2,216,926</u>
U.S. Department of Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	9,597
Cooperative Endangered Species Conservation Fund	15.615	2,304,346
State Wildlife Grants	15.634	597,846
Economic, Social and Political Development of the Territories	15.875	13,097
Natural Resource Stewardship	15.944	27,938
Total U.S. Department of Interior		<u>2,952,824</u>
Total Research and Development Cluster		<u>\$ 7,183,722</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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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, 2016, except for the requirements regarding cash management that are applicable to CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 17.225, *Unemployment Insurance*, CFDA No. 97.036, *Disaster Grants-Public Assistance (Presidentially Declared Disasters)*, and the Research and Development Cluster, reporting applicable to CFDA No. 93.569, *Community Services Block Grant*, and subrecipient monitoring applicable to CFDA No. 93.525, *State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges*, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> X </u> yes    ___ no
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**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Identification of Major Programs**

<b>Federal CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
12.401	National Guard Military Operations and Maintenance Projects
12.404	National Guard Challenge Program
17.225	Unemployment Insurance
20.500	Federal Transit – Capital Investment Grants
93.525	State Planning and Establishment Grants for the ACA's Exchanges
93.569	Community Services Block Grant
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.042	Emergency Management Performance Grants
97.056	Port Security Grant Program
<b>Research and Development (R&amp;D) Cluster</b>	
10.156	Federal-State Marketing Improvement Program
10.675	Urban and Community Forestry Program
10.678	Forest Stewardship Program
11.407	Interjurisdictional Fisheries Act of 1986
11.429	Marine Sanctuary Program
11.437	Pacific Fisheries Data Program
11.472	Unallied Science Program
11.482	Coral Reef Conservation Program
12.114	Collaborative Research and Development
12.630	Basic, Applied and Advanced Research in Science and Engineering
12.800	Air Force Defense Research Sciences Program
15.608	Fish and Wildlife Management Assistance
15.615	Cooperative Endangered Species Conservation Fund
15.634	State Wildlife Grants
15.875	Economic, Social and Political Development of the Territories
15.944	Natural Resource Stewardship

Dollar threshold used to distinguish between type A and type B program                   \$ 3,000,000  
Auditee qualified as low-risk auditee?    \_\_\_ yes      X   no

## **FINANCIAL STATEMENT FINDINGS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Section II – Financial Statement Findings**

**Finding No. 2016-001: Internal Control over Financial Reporting (Significant Deficiency)**

**State Department of Accounting and General Services**

**Condition**

The State's internal control over financial reporting could be improved. During our audit of the fiscal year 2016 financial statements, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the State's 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 2016, 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.

A similar finding was reported in the prior year as Finding No. 2015-001.

**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 issues in accounting for capital assets at the department level, various audit adjustments and reclassifications were necessary to properly report the fiscal year 2016 financial statements.

Various other misstatements were not corrected as they were deemed to be immaterial to the financial statements.

**Cause and View of Responsible Officials**

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of timely information from various departments, and the lack of review at the departments.

**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.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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Furthermore, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper use of source codes, appropriations, and object codes. 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, 2016**

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**Finding No. 2016-002: 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 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, Hawaii Technology Development Corporation (HITDC), 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, 2016 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 – Motor Pool 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, 2016 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 the prior year as Finding No. 2015-002.

**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 PF 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, 2016**

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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 is presented below (amounts expressed in millions):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Assets</u>
<b>Discretely presented component units</b>			
Stadium Authority	\$ 9.7	\$ 10.8	\$ 88.6
Hawaii Strategic Development Corporation	0.3	4.0	13.5
High Technology Development Corporation	3.9	7.5	8.1
Natural Energy Laboratory of Hawaii	6.8	8.1	14.9
Agribusiness Development Corporation	2.8	7.4	40.7
<b>Nonmajor proprietary funds</b>			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 3.9	\$ 3.7	\$ 16.3
Department of Accounting and General Services – State Motor Pool Fund	2.4	3.1	3.6
Department of Public Safety – Correctional Industries Fund	5.6	6.1	0.3
Department of Labor and Industrial Relations – Disability Compensation Fund	15.9	14.8	13.5

**Cause and View of Responsible Officials**

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. 34 and 61.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Finding No. 2016-003: 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, 2016, 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*

- Prior to June 28, 2016, 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 had the ability to authorize access.
- Prior to July 31, 2015, developers and ICSD Systems Support personnel had access to the Payroll online application causing a segregation of duties issue.
- Prior to June 25, 2016, developers had access to the production FAMIS, Payroll, CWWS and Recon applications causing a segregation of duties concern.
- Developers have access to the production UI BPS, UI Tax and QWRS applications causing a segregation of duties issue.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2016

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- Certain password settings have limited security features enabled and do not comply with the ICSD Information System Access Policy.
- An annual user access review to confirm certain user access rights are assigned based on job function and user listings are free of terminated users is not performed.

#### *DoTAX*

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

#### *DAGS*

- Prior to October 5, 2016, developers and DAGS end users had access to the production Statewide Inventory System causing a segregation of duties issue.

#### Change management

#### *ICSD*

- Prior to June 25, 2016, developers had the ability to implement changes directly into the production environment for the DAGS mainframe applications listed above. Prior to February 22, 2016, those responsible for implementing changes into production were not confirming changes were tested and authorized prior to promoting the changes. Developers still have the ability to implement changes directly into the production environment for the UI BPS, UI Tax and QWRS mainframe applications.
- Prior to June 13, 2016, 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 and a shared account is used.

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

A similar finding was reported in the prior year as Finding No. 2015-003.

#### **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, 2016

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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 and View of Responsible Officials**

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 and DoTAX 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.
- Improve system password security parameters.
- Coordinate and perform a user access review with the DAGS Accounting Division on at least an annual basis.

##### *DoTAX*

- Perform a user access review of the ITPS on at least an annual basis.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the ITPS.
- Improve system password security parameters.

#### Change management

##### *ICSD*

- Reevaluate current processes and implement proper segregation of duty internal controls for the UI BPS, UI Tax and QWRS mainframe applications.

##### *DoTAX*

- Remove developers' access to the ITPS production environment.

**FEDERAL AWARD FINDINGS  
AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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

**Finding No. 2016-004: 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.

A similar finding was reported in the prior year as Finding No. 2015-004.

**Criteria**

The Office of Management and Budget (OMB) issued Uniform Guidance, which requires non-federal entities that expend \$750,000 or more in federal awards in a year to have a Single Audit conducted on its federal award programs and SEFA.

The Uniform Guidance 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. The following amounts reported as provided to subrecipients for these programs were not initially reported:

<b>CFDA No.</b>	<b>Program Name</b>	<b>Amount</b>
93.569	Community Services Block Grant	\$3,052,987
93.525	State Planning and Establishment Grants for the ACA’s Exchanges	513,297

**Cause and View of Responsible Officials**

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, 2016, certain departments failed to follow the instructions and process established by DAGS.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**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, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-005:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Land and Natural Resources (DLNR)	
<b>Federal Agency:</b>	Department of Commerce	
<b>CFDA Number and Title:</b>	11.482 – Coral Reef Conservation Program (R&D Cluster)	
<b>Award Number and Award Year:</b>	NA13NOS4820014      2013 and 2015 NA15NOS4820037	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined ten expenditure transactions and identified two instances totaling approximately \$24,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. For these two instances, the time elapsed was 26 and 45 days. While the expenditures were allowable costs under the grant, it does not appear the State 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 25 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 reimbursable basis.

**Cause and View of Responsible Officials**

The delays in processing cash drawdown requests exist due to issues with the timing of cash flow. This occurs when requested federal funds are received but payments are still being processed.

**Recommendation**

We recommend that the State department design and implement internal controls over monitoring of cash to ensure timely disbursement of federal funds. The State department should also work with DAGS and the Department of Budget and Finance (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, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-006:</b>	<b>Procurement (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of Commerce	
<b>CFDA Number and Title:</b>	11.482 – Coral Reef Conservation Program (R&D Cluster)	
<b>Award Number and Award Year:</b>	NA13NOS4820014      2013 and 2015 NA15NOS4820037	
<b>Repeat Finding?</b>	No	

**Condition**

We noted during our procurement testing that there was no record in the contract folder indicating that DLNR verified the contractor was not federally suspended or debarred for all three samples tested for fiscal year 2016. We verified that the vendor was not suspended or debarred in the System for Award Management (SAM) Exclusions maintained at <https://www.sam.gov/portal/public/SAM/>.

**Criteria**

According to 2 CFR Appendix II to Part 200, *Contract Provisions for Non-Federal Entity Contracts Under Federal Awards*, contracts are not allowed to be made with parties that are debarred or suspended by the federal government. Therefore, verification is required that either checks the SAM, collects a certification from the entity, or adds a clause or condition to the contract.

**Effect**

Without performing a verification as noted in the above criteria, there is a possibility the contractor is suspended or debarred from receiving federal funds.

**Cause and View of Responsible Officials**

DLNR program personnel were unaware of the compliance requirement.

**Recommendation**

The State department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for procurement of contracts, including requirements to ensure that vendors for federally funded contracts are checked against the federal SAM website, contracts include a certification, or a contract provision is included to ensure the contractor is not suspended or debarred from receiving federal funds.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-007:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agencies:</b>	Department of Defense (DOD) and B&F	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.401 – National Guard Military Operations and Maintenance Projects	
<b>Award Number and Award Year:</b>	W912J6-14-2-1000      2014 to 2015 W912J6-15-2-1000	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-005	

**Condition**

During our audit, we tested 25 federal cash draws for compliance with federal cash management requirements. We noted there was no Cash Management Improvement Act Agreement between the United States Department of the Treasury and the State of Hawaii (Treasury-State Agreement) for the year ended June 30, 2016.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205, Subpart A, requires that major federal assistance programs be covered by a Treasury-State Agreement.

**Effect**

The lack of a Treasury-State Agreement may result in disbursements of federal funds that are not in accordance with federal cash management requirements.

**Cause and View of Responsible Officials**

B&F is responsible for coordinating and negotiating the Treasury-State Agreement with the U.S. Department of Treasury. However, due to a vacancy in the position that handles the Treasury-State Agreement and a lack of management oversight, an agreement was not executed for the year ended June 30, 2016.

**Recommendation**

We recommend that B&F implement internal controls over cash management to ensure that the Treasury-State Agreement is executed in a timely manner.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-008:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Business, Economic Development & Tourism (DBEDT) – HITDC	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.800 – Air Force Defense Research Sciences Program (R&D Cluster)	
<b>Award Number and Award Year:</b>	FA8650-11-2-5605      2011	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-008	

**Condition**

During our audit, we examined six disbursements of federal advances and identified two instances totaling approximately \$233,000 in which the federal cash draws were received more than 25 days prior to disbursement. For these two instances the time elapsed was 92 and 237 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, for cash management compliance, 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 25 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 and View of Responsible Officials**

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**

We recommend that the State department 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.

**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-009:</b>	<b>Reporting (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>	F13AP00889                      2014 to 2015 F13AP00890 F14AF00877	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-012	

**Condition**

During our audit, we noted the following conditions:

- We examined four performance reports for compliance with reporting requirements and identified two instances in which the reports were filed beyond their respective due dates. The performance reports for awards F13AP00889 and F13AP00890 for the period ended June 30, 2016 were submitted on January 13, 2017, or 16 days beyond the extended due date of December 28, 2016.
- We examined two final financial reports and identified one discrepancy related to the accuracy of non-federal expenditures. The non-federal share of program expenditures reported in the final financial report was \$288,441, whereas the actual non-federal share of program expenditures in the State records totaled \$664,353.

**Criteria**

The federal awards above require performance reports to be submitted within 90 days after the end date of the performance period for each award, unless an extension is granted.

The federal awards above require that financial reports accurately reflect federal and recipient shares of program expenditures.

**Effect**

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

**Cause and View of Responsible Officials**

The untimely submissions of the performance reports was due to changes in program personnel.

The difference between amounts recorded and reported was based on the DLNR personnel's misunderstanding of reporting requirements. Personnel responsible for reporting procedures mistakenly thought that the non-federal share reported was limited to the required amount as stated in the grant award agreements and therefore did not report actual non-federal share expenditures in excess of the required amount.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Recommendation**

We recommend the State department implement adequate review of reports and ensure that individuals responsible for preparing and reviewing reports have adequate knowledge of reporting requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-010:</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>	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
<b>Award Number and Award Year:</b>	F15AF00594                      2016 F15AP00118	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-013	

**Condition**

During our audit, we examined ten cash disbursements and identified two instances totaling approximately \$49,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. For these two instances the time elapsed was 34 and 146 days. While the expenditures were allowable costs under the grant, it does not appear the State 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 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

**Effect**

The delay in disbursing advances from 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 reimbursable basis.

**Cause and View of Responsible Officials**

The lag 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

Additionally, there was a large drawdown for contract expenditures under a grant award with an approaching period end date to avoid the loss of awarded funds.

**Recommendation**

We recommend that the State department design and implement internal controls over monitoring of cash management timeliness requirements and work with DAGS and B&F to ensure timely disbursement of Federal funds and ensure personnel have adequate knowledge of cash management requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-011:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agencies:</b>	Department of Labor and Industrial Relations (DLIR) and B&F	
<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-27972-16-55-A-15    2016	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-018	

**Condition**

During our audit, we tested five Federal cash draws for compliance with federal cash management requirements. We noted there was no Treasury-State Agreement for the year ended June 30, 2016.

**Criteria**

U.S. Department of the Treasury Regulations 31 CFR Section 205, Subpart A, requires that major federal assistance programs be covered by a Treasury-State Agreement.

**Effect**

The lack of a Treasury-State Agreement may result in disbursements of federal funds that are not in accordance with federal cash management requirements.

**Cause and View of Responsible Officials**

B&F is responsible for coordinating and negotiating the Treasury-State Agreement with the U.S. Department of Treasury. However, due to a vacancy in the position that handles the Treasury-State Agreement and a lack of management oversight, an agreement was not executed for the year ended June 30, 2016.

**Recommendation**

We recommend that B&F implement internal controls over cash management to ensure that the Treasury-State Agreement is executed in a timely manner.



**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-012:</b>	<b>Subrecipient Monitoring (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.525 – State Planning and Establishment Grants for the ACA’s Exchanges	
<b>Award Number and Award Year:</b>	HBEIE 160220-01-00    2016	
<b>Repeating Finding?</b>	No	

**Condition**

During our audit, we examined four Marketplace Assister Organizations (MAO) to determine if they were subrecipients or contractors and determined the MAOs are subrecipients. As the State department did not identify the MAOs as subrecipients, it did not evaluate each subrecipient’s risk of noncompliance or verify that the subrecipients were audited.

**Criteria**

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. Furthermore, 2 CFR Section 200.331(f) requires a pass-through entity to verify that each subrecipient is audited as required by Subpart F when the subrecipient’s federal awards expended during the respective fiscal year equal or exceed \$750,000.

**Effect**

The misclassification of subrecipients could potentially result in awarding pass-through funds to noncompliant entities and could also result in the State department losing future federal funding.

**Cause and View of Responsible Officials**

Noncompliance was due to the closure of the Hawaii Health Connector (HHC) administered by the State Department of Human Services (DHS). After the HHC was shut down, the MAOs entered into new contracts with DLIR’s Affordable Care Act (ACA) Program. As (1) HHC had already contracted with the MAOs, (2) HHC indicated that it had complied with all CMS grant requirements, and (3) DHS worked closely with HHC on the MAOs, the State department felt that there was little risk with executing contracts with these organizations and relied on the risk assessment performed by the HHC in partnership with DHS in order to continue to provide this critical service.

**Recommendation**

We recommend that the State department design and implement internal controls over the determination of subrecipients and appropriate monitoring of subrecipients.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-013:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.525 – State Planning and Establishment Grants for the ACA’s Exchanges	
<b>Award Number and Award Year:</b>	HBEIE 160220-01-00    2016	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined three expenditure transactions and identified one instance of approximately \$15,000 in which the time elapsing between the receipt of federal cash draw and the disbursement payment to the vendor was greater than 25 days. The time elapsed was 28 days. While the expenditure was an allowable cost under the grant, it does not appear the State disbursed this federal advance 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 25 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 reimbursable basis.

**Cause and View of Responsible Officials**

The delay in disbursement was due to management’s decision to withhold the payment due to a contract dispute with the vendor on the basis of inadequate and/or incomplete performance of project tasks.

**Recommendation**

We recommend that the State department design and implement internal controls over processing and approval procedures of invoices in conjunction with internal controls over monitoring of cash to ensure timely disbursement of federal funds.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-014:</b>	<b>Reporting (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.525 – State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges	
<b>Award Number and Award Year:</b>	HBEIE 160220-01-00    2016	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined two quarterly reports for the quarters ended March 31, 2016, and June 30, 2016, and noted that the report for the quarter ended June 30, 2016, was submitted five days past the 30-day deadline.

**Criteria**

The federal award requires quarterly financial reports to be submitted within 30 days of the end of each federal fiscal quarter.

**Effect**

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

**Cause and View of Responsible Officials**

The reporting delay was due to the belief that the report had been submitted timely when it had not actually been submitted.

**Recommendation**

We recommend that the State department implement procedures to ensure that financial reports are submitted by the required deadlines, including the consideration of additional checks to ensure that reports were properly submitted through the reporting system.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-015:</b>	<b>Reporting (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.569 – Community Services Block Grant	
<b>Award Number and Award Year:</b>	75-4-1536                      2014 to 2015 75-5-1536	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined two annual reports for the September 30, 2015, federal fiscal year end, and noted that both reports were submitted on May 3, 2016, or 126 days past the 90-day deadline.

**Criteria**

The federal awards above require that annual financial reports be submitted within 90 days of the end of each federal fiscal year.

**Effect**

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

**Cause and View of Responsible Officials**

The reporting delays were caused by a change in staff, which resulted in miscommunication as to who was responsible for the filing of the annual financial reports.

**Recommendation**

We recommend that the State department implement procedures to ensure that financial reports are submitted by the required deadlines, including considering any additional time due to different offices preparing and submitting the reports.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-016:</b>	<b>Activities Allowed or Unallowed (Significant Deficiency)</b>	<b><u>\$ 66,224</u></b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.569 – Community Services Block Grant	
<b>Award Number and Award Year:</b>	75-4-1536                      2014 to 2015 75-5-1536	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined five journal vouchers and noted two items totaling approximately \$66,000 in which there was no evidence to determine whether the transfers were for allowable activities.

**Criteria**

Title 42 Chapter 106 of the United States Code stipulates the activities allowed or unallowed by states receiving Community Services Block Grant Program grant funds.

**Effect**

Failure to maintain adequate supporting documentation may result in expenditures for activities that are unallowed for the program.

**Cause and View of Responsible Officials**

The lack of adequate supporting documentation was due to the support for the journal vouchers not being retained as the journal vouchers were generated in the Administrative Services Office and did not go through the Fiscal Office, which retains support for journal vouchers posted.

**Recommendation**

We recommend that supporting documentation is submitted and retained with all expenditure requests, including transfers.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-017:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.569 – Community Services Block Grant	
<b>Award Number and Award Year:</b>	75-5-1536                      2015 to 2016 75-6-1536	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we tested two subawards for two subrecipients (totaling four subawards) and determined that in all four instances the State department did not comply with subrecipient monitoring requirements:

The State department did not evaluate the subrecipients' risk of noncompliance at the time of the subaward.

The State department did not include the federal award's CFDA number in the subaward contracts.

**Criteria**

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

2 CFR Section 200.331(a) requires subawards to clearly identify information, such as the CFDA Number.

**Effect**

Without evaluating the subrecipient's risk of noncompliance and determining the appropriate subrecipient monitoring procedures necessary, the State department may not be providing the appropriate level of monitoring over its subrecipients.

By not including the CFDA number in the subaward, subrecipients may have trouble identifying the CFDA number of programs to report in the SEFA.

**Cause and View of Responsible Officials**

The failure to evaluate each subrecipient's risk of noncompliance at the time of subaward was due to a change in program personnel at the time of the subrecipient contract's execution. As such, program personnel were unaware of the new risk assessment requirement.

The failure to include the CFDA number in the subaward contracts was due to a lack of knowledge of the subrecipient monitoring requirements. Additionally, program management relies on the review of the Deputy Attorney General to ensure compliance with specific laws and regulations.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Recommendation**

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR 200 which requires the reporting of all necessary federal award information to subrecipients and risk assessments of subrecipients. Management should work with the federal agency to develop procedures that ensure the State department's responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient's risk of noncompliance with each of the respective subaward requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-018:</b>	<b>Cash Management (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DOD	
<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-1664-DR-HI      2006	
<b>Repeat Finding?</b>	Yes, Finding No. 2015-021	

**Condition**

During our audit, we examined seven selections and identified three instances totaling approximately \$313,000 in which the time elapsed between the receipt of federal cash draws and related disbursements was greater than 25 days. We noted that the time elapsed for those three instances ranged from 97 to 178 days.

**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 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 25 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 and View of Responsible Officials**

The delays were caused by a lack of execution between the Disaster Grants Program Office and the DOD Fiscal Office which resulted in a negative payroll balance. When an appropriation has a negative payroll balance, all non-payroll related payments become frozen. The negative payroll balance was not corrected on a timely basis, resulting in the delayed disbursement of these non-payroll expenditures.

**Recommendation**

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



**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2016**

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		<b>Questioned Cost</b>
<b>Finding No. 2016-019:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DOD	
<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-2015-EP-00030 2015	
<b>Repeat Finding?</b>	No	

**Condition**

We examined one subrecipient and noted that program management did not evaluate the subrecipient’s risk of noncompliance at the time of the subaward.

**Criteria**

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

**Effect**

Failure to perform subrecipient risk assessments could result in awarding pass-through funds to noncompliant entities and could result in the State department losing federal funding.

**Cause and View of Responsible Officials**

The lack of subrecipient risk assessments was due to a lack of policies and procedures in place to evaluate the subrecipient’s risk of noncompliance and perform monitoring procedures based upon identified risks.

**Recommendation**

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Section 200. Management should work with the federal agency to develop procedures that ensure the State department’s responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient’s risk of noncompliance with each of the respective subaward’s requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient’s prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

DAVID Y. IGE  
GOVERNOR



RODERICK K. BECKER  
Comptroller  
AUDREY HIDANO  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

March 10, 2017

ACC 17.U013

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, 2016. 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 "Roderick K. Becker".

RODERICK K. BECKER  
Comptroller

Attachments

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

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2015-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2016-001
2015-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2016-002
2015-003	IT General Control Deficiencies	DAGS; ICSD; DoTAX	Material Weakness		X	2016-003
2015-004	Schedule of Expenditures of Federal Awards (SEFA)	DAGS	Significant Deficiency		X	2016-004
2015-005	Cash Management	DOD	Material Weakness		X	2016-007
2015-006	Cash Management	DOD	Significant Deficiency	X		
2015-007	Eligibility	DOD	Material Weakness	X		
2015-008	Cash Management	DBEDT	Material Weakness		X	2016-008
2015-009	Reporting	DLNR	Significant Deficiency	X		
2015-010	Cash Management	DLNR	Significant Deficiency	X		
2015-011	Equipment Management	DLNR	Significant Deficiency		X	
2015-012	Reporting	DLNR	Material Weakness		X	2016-009
2015-013	Cash Management	DLNR	Significant Deficiency		X	2016-010
2015-014	Allowable Costs and Period of Performance	DLNR	Material Weakness	X		
2015-015	Allowable Costs	DLNR	Significant Deficiency	X		

(continued)

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2015-016	Special Tests and Provisions	DLNR	Significant Deficiency	X		
2015-017	Subrecipient Monitoring	DLNR	Significant Deficiency	X		
2015-018	Cash Management	DLIR	Significant Deficiency		X	2016-011
2015-019	Cash Management	DLIR	Significant Deficiency	X		
2015-020	Cash Management	DBEDT	Material Weakness	X		
2015-021	Cash Management	DOD	Material Weakness		X	2016-018
2015-022	Cash Management	DOD	Significant Deficiency	X		
2015-023	Period of Performance	DOD	Significant Deficiency	X		
2015-024	Cash Management	DOD	Significant Deficiency	X		
2015-025	Period of Performance	DOD	Significant Deficiency	X		
2015-026	Subrecipient Monitoring	DOD	Significant Deficiency	X		
2015-027	Period of Performance	DOD	Significant Deficiency	X		
2014-015	Reporting	DLNR	Significant Deficiency	X		
2014-025	Reporting	DOD	Significant Deficiency		X	
2014-030	Reporting	DOD	Significant Deficiency	X		

(continued)

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

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<u>Finding No.</u>	<u>Description</u>	<u>Department</u>	<u>Classification</u>	<u>Status</u>		<u>Current Year Finding No.</u>
				<u>Resolved</u>	<u>Unresolved</u>	
2013-012	Unrecorded Property Acquisitions	DLNR	Significant Deficiency	X		
2013-026	Unrecorded and Untimely Recorded Property Acquisitions	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	
2012-25	Acquisitions Not Recorded in FAIS	DPS	Significant Deficiency		X	
09-01	Improve Controls over Inmate Agency Accounts	Department of Public Safety (DPS)	Material Weakness		X	

(concluded)

# State of Hawaii

## Summary Schedule of Prior Audit Findings

### Year Ended June 30, 2016

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#### Corrective Actions Taken for Unresolved Findings

##### **Finding No. 2015-001: Internal Control Over Financial Reporting**

In fiscal year 2016, 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. 2016-001) is reported, Finding No. 2015-001 will not be carried forward.

##### **Finding No. 2015-002: Accounting for Component Units and Proprietary Funds**

No corrective action was taken in fiscal year 2016. As a current year finding (Finding No. 2016-002) is reported, Finding No. 2015-002 will not be carried forward.

##### **Finding No. 2015-003: IT General Control Deficiencies**

Corrective actions were taken in fiscal year 2016 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2016-003) is reported, Finding No. 2015-003 will not be carried forward.

##### **Finding No. 2015-004: 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, 2016. As a current year finding (Finding No. 2016-004) is reported, Finding No. 2015-004 will not be carried forward.

##### **Finding No. 2015-005: Cash Management**

DOD continues to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2016-007) is reported, Finding No. 2015-005 will not be carried forward.

##### **Finding No. 2015-008: Cash Management**

The program continues to explore options for meeting compliance requirements, prescribed draw procedures of the Air Force Research Labs (AFRL), and good business practice (with vendors). As a current year finding (Finding No. 2016-008) is reported, Finding No. 2015-008 will not be carried forward.

##### **Finding No. 2015-011: Equipment Management**

The program is still in the process of implementing a corrective action plan, including the recording of equipment purchases on time in the State's FAIS. Implementation of the corrective action plan is anticipated to be completed by June 2017.

##### **Finding No. 2015-012: Reporting**

The program has implemented a tracking system and continues to monitor all grant reporting due dates. As a current year finding (Finding No. 2016-009) is reported, Finding No. 2015-012 will not be carried forward.

##### **Finding No. 2015-013: Cash Management**

The program implemented a tracking system to monitor the drawdown to the time the treasury deposit receipt is posted in Data Mart as of July 1, 2014. The division also developed a federal cash flow worksheet to monitor cash balances. The division will attach a transmittal memo for all federal funded invoices being sent down to the Fiscal Office for their immediate processing/payment. As a current year finding (Finding No. 2016-010) is reported, Finding No. 2015-013 will not be carried forward.

# State of Hawaii

## Summary Schedule of Prior Audit Findings

### Year Ended June 30, 2016

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#### **Finding No. 2015-018: Cash Management**

The program will continue to 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, unless other funding techniques are required by the CMIA. There were a number of new hires during the year, which have eased staff shortages in past years. Continued emphasis will be placed on training of new hires on compliance with the CMIA and proper drawdown techniques. As a current year finding (Finding No. 2016-011) is reported, Finding No. 2015-018 will not be carried forward.

#### **Finding No. 2015-021: Cash Management**

The Department is continuing to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2016-018) is reported, Finding No. 2015-021 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. 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 2017.

#### **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 2017.

#### **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 2017.

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

No corrective action was taken in fiscal year 2016. Implementation of the corrective action plan is anticipated to be completed by December 2017.



# **CORRECTIVE ACTION PLAN**

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2016

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### SECTION II – FINANCIAL STATEMENT FINDINGS

#### **2016-001 – 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 proper 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, 2018

#### **2016-002 – 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, 2018

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN

JUNE 30, 2016

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2016-003 – 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:** Prior to June 28, 2016, 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 had the ability to authorize access.  
**Response:** Restricting access rights to other departments and agencies has been implemented.

Person Responsible     Mario Rigor, DAGS Office of Enterprise Technology Services (ETS) IT Specialist

Anticipated Completion Date     Completed

- **Finding:** Prior to July 31, 2015, developers and ICSD Systems Support personnel had access to the Payroll online application causing a segregation of duties issue.  
**Response:** Procedures were implemented so that developers and ICSD Systems Support personnel no longer have access to the Payroll online application.

Person Responsible     Dennis Uyesugi, DAGS ETS IT Manager for developers  
Mario Rigor, DAGS ETS IT Specialist for ICSD Systems Support personnel

Anticipated Completion Date     Completed

- **Finding:** Prior to June 25, 2016, developers had access to the production FAMIS, Payroll, CWWS, and Recon applications causing a segregation of duties issue.  
**Response:** Procedures were implemented so that developers no longer have access to the FAMIS, Payroll, CWWS, and Recon applications.

Person Responsible     Dennis Uyesugi, DAGS ETS IT Manager

Anticipated Completion Date     Completed

- **Finding:** Developers have access to the production UI BPS, UI Tax and QWRS applications causing a segregation of duties issue.  
**Response:** In August 2016, application security measures controlled by Labor UI Administration staff which restricts developer access to these production applications were implemented.



# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2016

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Person Responsible                      Robert Su, DoTAX Chief, Information Technology Service Office

Anticipated Completion Date        August 15, 2019

### *DAGS Systems Accounting*

- **Finding:** Prior to October 5, 2016, developers and DAGS end users had access to the production Statewide Inventory System causing a segregation of duties issue. **Response:** Developers and DAGS end users' access to the Statewide Inventory System production environment was removed on March 31, 2016 and October 5, 2016, respectively.

Person Responsible                      Glenn Segawa, Data Processing Systems Manager

Anticipated Completion Date        October 5, 2016

### Change Management

#### *ICSD*

- **Finding:** Prior to June 25, 2016, developers had the ability to implement changes directly into the production environment for the DAGS mainframe applications listed above. Prior to February 22, 2016, those responsible for implementing changes into production were not confirming changes were tested and authorized prior to promoting the changes.

Developers still have the ability to implement changes directly into the production environment for the UI BPS, UI Tax and QWRS mainframe applications.

#### **Response:**

DAGS mainframe applications (Payroll, FAMIS, CWWS, and Recon): Procedures were implemented to address the segregation of duties issue.

Person Responsible        Dennis Uyesugi, DAGS ETS IT Manager

Anticipated Completion Date:        Completed

DLIR, Unemployment Insurance (UI) BPS, Tax, and QWRS applications: Implementation of procedures which will prevent developers from implementing changes directly into the production environment for these applications is in progress.

Person Responsible                      Roger Thoren, DAGS ETS IT Specialist  
Bennett Yap, DLIR IT Specialist  
Catherine Calio, DAGS ETS IT Specialist

Anticipated Completion Date        May 1, 2017

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN

JUNE 30, 2016

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- **Finding:** Prior to June 13, 2016, 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 to deploy mainframe security patches and software releases has been developed and verified by the auditors.

Person Responsible     Michael Domai, DAGS ETS, IT Manager

Anticipated Completion Date     Completed

### *DoTax*

- **Finding:** Developers have access to the production environment in the ITPS and a shared account is used.  
**Response:** Rollout 2 of the TSM program was completed in August 15, 2016. IT controls for Logical Security and Change Management were established for TSM and are currently being used in production.

Person Responsible                     Robert Su, DoTAX Chief, Information Technology Service Office

Anticipated Completion Date     August 15, 2019

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### 2016-004 – Schedule of Expenditures of Federal Awards (Significant Deficiency)

(Page 25)

#### Corrective Action Plan

Concur. Beginning in fiscal year 2014, the State Department of Budget and Finance (B&F) instructed executive departments to utilize one appropriation account for each federal grant instead of grouping multiple grants within a single appropriation account. This change has facilitated the reporting of federal grants expenditure by those departments that implemented the one appropriation account to one federal grant method. Some departments were not able to convert to the new method and continue to group multiple federal grants in a single appropriation account. DAGS will continue to work with B&F to convert the remaining departments to the new system.

Person Responsible                     Wayne Horie, Administrator  
DAGS Accounting Division

Anticipated Completion Date     June 30, 2018

# STATE OF HAWAII

## CORRECTIVE ACTION PLAN

JUNE 30, 2016

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### **2016-005 – Cash Management (Significant Deficiency)**

(Page 27)

#### **State Department of Land and Natural Resources**

CFDA No. 11.482: Coral Reef Conservation Program (R&D Cluster)  
Direct award from the U.S. Department of Commerce (Awards NA13NOS4820014,  
NA15NOS4820037)

#### Corrective Action Plan

##### Concur.

- Implement a tracking system to monitor the drawdown to the time the treasury deposit receipt is posted in Datamart.
- Develop a Federal Cash Flow worksheet to monitor cash balances.
- Date stamp Invoices with the “Federal Fund Received” to ensure that the invoices are paid within the prescribed period.
- Attach a transmittal memo for all Federal funded invoices being sent down to Fiscal Office for their immediate processing/payment.
- Include projected/anticipated expenditures in the advance cash drawdown to avoid cash shortage and to achieve timely processing and disbursement of funds.
- Do cash drawdowns at least two to three times a month.

Person Responsible                      Fides M. Doles, Accountant

Anticipated Completion Date              June 30, 2017

### **2016-006 – Procurement, Suspension and Debarment (Significant Deficiency)** (Page 28)

#### **State Department of Land and Natural Resources**

CFDA No. 11.482: Coral Reef Conservation Program (R&D Cluster)  
Direct award from the U.S. Department of Commerce (Awards NA13NOS4820014,  
NA15NOS4820037)

#### Corrective Action Plan

Concur. Action immediately taken to ensure compliance; SAM.gov checks initiated as prescribed procedures in all procurement actions.

Person Responsible                      Ray Uchimura, Departmental Contracts Specialist

Anticipated Completion Date              Completed

### **2016-007 – Cash Management (Material Weakness)**

(Page 29)

#### **State Department of Defense and Department of Budget and Finance**







# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2016

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Person Responsible Mark Anderson, OFAM Administrator

Anticipated Completion Date June 30, 2017

### **2016-012 – Subrecipient Monitoring (Material Weakness)** (Page 35) **State Department of Labor and Industrial Relations**

CFDA No. 93.525: State Planning and Establishment Grants for the Affordable Care Act's Exchanges

Direct award from the U.S. Department of Health and Human Services (Award HBEIE 160220-01-00)

#### Corrective Action Plan

The OCS concurs. The situation caused by the abrupt shut down of the Hawaii Health Connector (HHC) in December 2015 resulted in a lot of work undertaken by several State agencies without disrupting the operation of Marketplace Assistance Organizations (MAO) during the critical open enrollment period that had just begun. The State relied on the HHC's compliance with the subgrantee risk assessments requirement as the HHC staff assured the State that it was in compliance with all Federal requirements. OCS will comply with the OMB risk assessment requirements on future contracts and verify compliance when taking over existing federal contracts.

Person Responsible Rona Suzuki, Executive Director  
Offices of Community Services

Anticipated Completion Date June 30, 2017

### **2016-013 – Cash Management (Significant Deficiency)** (Page 36) **State Department of Labor and Industrial Relations**

CFDA No.93.525: State Planning and Establishment Grants for the Affordable Care Act's Exchanges

Direct award from the U.S. Department of Health and Human Services (Award HBEIE 160220-01-00)

#### Corrective Action Plan

The OCS concurs. Vendors in good standing should be paid in a timely manner. However, this was an unusual situation caused by a contract dispute with a non-performing vendor. The payment was delayed until the matters were resolved with the vendor. OCS will continue to pay vendors in good standing in a timely manner.

Person Responsible Rona Suzuki, Executive Director  
Offices of Community Services





# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2016

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Concur. The department will immediately request increases of ten percent or \$5,000 more than the previous payroll cost to prevent cash shortages due to payroll variances. Adjustments will then be made on subsequent payroll draws.

Written procedures will be developed to keep staff informed of their responsibilities at each level to prevent cash shortages. The procedures will include internal controls duties to assist in the flow of cash deposits on a timely basis.

Person Responsible                                      Colonel William Rusty Spray (Ret), Interim Business  
Management Officer

Anticipated Completion Date                      September 30, 2017

### **2016-019 – Subrecipient Monitoring (Significant Deficiency) State Department of Defense**

(Page 43)

CFDA No. 97.042: Emergency Management Performance Grants  
Direct award from the U.S. Department of Homeland Security (Award EMW-2015-EP-00030)

#### Corrective Action Plan

Concur. The department has requested Federal Emergency Management Agency (FEMA), Region 9 for their specific procedures and/or guidance that grantees will be used to determine risk assessment. To date there has been no response.

In lieu of the lack of FEMA guidance, the department has done desk monitoring of subrecipients and if necessary has sent personnel to do on-site confirmations.

Without receipt of Federal guidance, the department will fall back and use the five elements of risk assessment mentioned in the Code of Federal Regulations to develop written procedures.

Person Responsible                                      Colonel William Rusty Spray (Ret), Interim Business  
Management Officer

Anticipated Completion Date                      September 30, 2017