

Auditor's Summary

Single Audit of Federal Financial Assistance Programs of the State of Hawai'i

Financial Statements, Fiscal Year Ended June 30, 2017



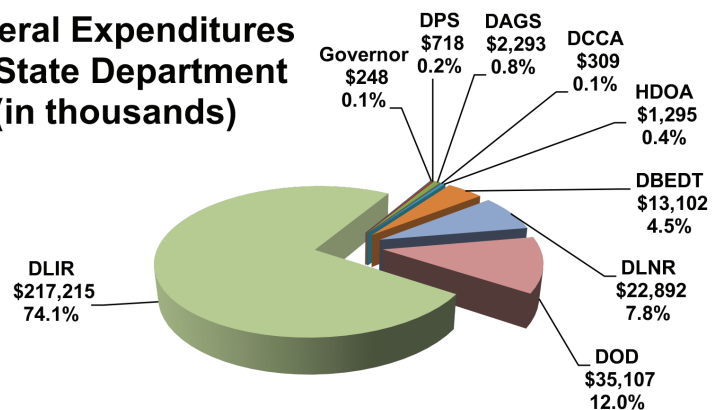
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THE PRIMARY PURPOSE of the audit for the fiscal year ended June 30, 2017, was to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance) which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.

About the Report

THIS REPORT INCLUDES the total federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2017. Federal expenditures totaled approximately \$293.2 million. Other departments' federal expenditures and findings are reported in their individual audit reports.

Federal Expenditures by State Department (in thousands)



Auditors' Report on Internal Controls over Financial Reporting

THE AUDITORS IDENTIFIED three significant deficiencies in internal controls over financial reporting in accordance with *Government Auditing Standards*.

Significant Deficiencies (3)

- Inefficiencies in the financial statement preparation process resulted in the auditors making numerous adjusting and reclassification entries;
- Certain component units and proprietary funds were incorrectly included in the governmental activities and respective governmental funds in the State’s Comprehensive Annual Financial Report; and
- Lack of IT internal controls over systems operated by the Office of Enterprise Technology Services, Department of Accounting and General Services, and the Department of Taxation.

Auditors’ Report on Compliance with Major Federal Programs

The auditors expressed a qualified opinion on certain major programs and identified 5 material weaknesses and 10 significant deficiencies over compliance with major federal programs in accordance with the *Uniform Guidance*.

Material Weaknesses (5)

- Lack of controls and resources delayed disbursement of federal funds (2);
- Failure to execute the Cash Management Improvement Act Agreement between the U.S. Treasury and the State (2); and
- Failure to meet earmarking requirements and inaccurate reporting.

Significant Deficiencies (10)

- Untimely submission of federal reports (4);
- Deficiencies in internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA);
- Deficiencies in internal controls delayed disbursement of federal funds;
- Deficiencies in internal controls delayed payroll changes;
- Deficiencies in internal controls and lack of documentation caused improper payments;
- Deficiencies in internal controls delayed processing of paid and denied claims; and
- Failure to obtain memorandums of understanding to assess the cultural significance of properties nominated to the National Register of Historic Places.

DEPARTMENTS & AGENCIES	FINANCIAL REPORTING		FEDERAL PROGRAM COMPLIANCE		TOTALS
	Material Weakness	Significant Deficiency	Material Weakness	Significant Deficiency	
Defense (DOD)	-	-	1	1	2
Land and Natural Resources (DLNR)	-	-	1	2	3
Accounting and General Services (DAGS)	-	3	-	1	4
Labor & Industrial Relations (DLIR)	-	-	1	4	5
Business, Economic Development and Tourism (DBEDT)	-	-	2	2	4
TOTALS	0	3	5	10	18

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/SOH_SA_FY2017.pdf