



SINGLE AUDIT REPORTS

State of Hawaii
Department of Transportation
Harbors Division
Year Ended June 30, 2009
With Report of Independent Auditors

Ernst & Young LLP

Submitted by
The Auditor
State of Hawaii

 **ERNST & YOUNG**

State of Hawaii
Department of Transportation
Harbors Division

Single Audit Reports

Year Ended June 30, 2009

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Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit
of the Financial Statements Performed in Accordance With
Government Auditing Standards

The Auditor
State of Hawaii

We have audited the financial statements of the business-type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division), as of and for the year ended June 30, 2009, and have issued our report thereon dated March 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered Harbors Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbors Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harbors Division's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Harbor Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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.

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

Ernst & Young LLP

March 31, 2010

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Auditor
State of Hawaii

Compliance

We have audited the compliance of the business – type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. Harbors Division’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Harbors Division’s management. Our responsibility is to express an opinion on Harbors Division’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harbors Division’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. Our audit does not provide a legal determination of Harbors Division’s compliance with those requirements.

As described in items 09-01 and 09-02 in the accompanying schedule of findings and questioned costs, Harbors Division did not comply with requirements regarding cash management that are applicable to its Port Security Grant Program. Compliance with such requirements is necessary, in our opinion, for Harbors Division to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Harbors Division complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal control over compliance

The management of Harbors Division is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harbors Division's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Harbors Division's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-01 and 09-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 09-01 and 09-02 to be material weaknesses.

Harbors Division's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Harbor Division's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of the Harbors Division as of and for the year ended June 30, 2009, and have issued our report thereon dated March 31, 2010. Our audit was performed for the purpose of forming an opinion on the Harbors Division's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of an additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Ernst & Young LLP

May 7, 2010, except for the
schedule of expenditures of
federal awards for which the
date is March 31, 2010

Supplemental Information

State of Hawaii
 Department of Transportation
 Harbors Division

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security			
Port Security Grant Program	97.056		\$ 750,237
Pass-through from the State of Hawaii Department of Defense – Homeland Security Grant Program	97.067	Unknown	<u>176,180</u>
<i>Total Department of Homeland Security</i>			<u>926,417</u>
Total Expenditures of Federal Awards			<u><u>\$ 926,417</u></u>

The accompanying note is an integral part of this schedule.

State of Hawaii
Department of Transportation
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Note to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harbors Division and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

State of Hawaii
 Department of Transportation
 Harbors Division

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part I – Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued (unqualified, qualified, adverse, or disclaimer):

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____yes	_____X___no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____yes	_____X___none reported
Noncompliance material to financial statements noted?	_____yes	_____X___no

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified?	_____X___yes	_____no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____yes	_____X___none reported

Type of auditor’s report on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

Qualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) Circular A-133?

_____X___yes	_____no
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State of Hawaii
Department of Transportation
Harbors Division

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part I – Summary of Auditor’s Results (continued)

Federal Awards Section (continued)

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
97.056	Port Security Grant Program

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____yes

_____X_____no

State of Hawaii
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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part II - Financial Statement Findings Section

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None noted.

State of Hawaii
Department of Transportation
Harbors Division

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a), as well as any abuse findings involving federal awards that are material to a major program.

09-01

Federal program information:

CFDA No. 97.056 – U.S. Department of Homeland Security – Port Security Grant Program

Criteria or specific requirement
(including statutory, regulatory or other citation):

CFR 31 section 205.12(5) states that, “reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for federal assistance program purposes.”

Condition:

During the 2009 fiscal year, the Harbors Division requested reimbursement for expenditures related to the Port Security Grant Program. The amount requested did not agree to the actual expenditures of the major program per the Harbors Division’s accounting records. The amount requested and received was \$41,917.37 more than the actual expenditures of \$750,237 that were incurred in the fiscal year.

Questioned costs:

\$41,917.37

State of Hawaii
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Harbors Division

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

09-01 (continued)

Context:

The reimbursement request was not prepared based on the actual expenditures for the major program. The amount requested and received could not be agreed to any supporting documentation. In comparing the amount requested to the actual expenditures of the major program as provided in the general ledger of the Harbors Division, it was noted that the amount requested and received exceeded the actual expenditures by \$41,917.37. The additional amount received, excluding interest of \$609.66, has not been remitted to the granting agency.

Effect:

The Harbors Division is not in compliance with the cash management requirements that funds be expended before requested for reimbursement and that the request be based on actual expenditures.

Cause:

The preparation of the request for reimbursement was not based on actual expenditures and not reviewed by Fiscal office personnel for supporting documentation and comparison to the amounts in the general ledger prior to submission of the request as there was no formally documented process or procedure for the Fiscal Office personnel to review the request(s) prior to submission.

Recommendation:

The requests for reimbursements submitted to the granting agency should be based on actual expenditures. A review of the request by Fiscal Office personnel should be conducted prior to submission to make sure there is supporting documentation for the request and that the request is based on actual expenditures as reflected in the general ledger.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

09-01 (continued)

Views of responsible officials and
corrective actions:

The Harbors Division is working to establish clear procedures to guide staff in the preparation of the reimbursement requests to ensure that appropriate expenditure amounts are reported. One key element of these procedures will require the Grants Manager to forward the reimbursement request to the Harbors Fiscal Officer to ascertain that the amounts requested for reimbursement are for allowable costs, allowable activity and for actual expenditures made. The Grants Manager will process the reimbursement request following receipt of the Fiscal Officer's review.

These findings also emphasize the need to improve coordination of various functions relating to the management of federal grants among the various staff offices of the Harbors Division. The establishment of a Federal Grants Coordinator to oversee the program is presently under discussion.

Harbors staff will be working with the USDHS to resolve the status of the \$41,917.37.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

09-02

Federal program information:

CFDA No. 97.067 – U.S. Department of Homeland Security – Homeland Security Grant Program

Criteria or specific requirement
(including statutory, regulatory or other citation):

OMB Circular A-133, Section_.300(d) states that an entity expending Federal awards shall, “Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with Section_.310.”

Condition:

The Schedule of Expenditures of Federal Awards (SEFA) is required to accurately include the total Federal awards expended during the fiscal year. In preparing the SEFA, the Harbors Division did not appropriately identify all of the federal expenditures incurred during the fiscal year and all of the federal programs required to be included on the SEFA. In addition, the Harbors Division identified a program that was not appropriately included in the prior year’s SEFA.

Questioned costs:

There are no questioned costs as the SEFA was corrected for the expenditures incurred.

Context:

The federal expenditures reported in the SEFA provided for audit in the current year were revised to appropriately reflect the amounts expended during the fiscal year. Specifically, a second program was added to the SEFA, CFDA No. 97.067 for which federal funds were received as a pass through from the State of Hawaii Department of Defense. The addition of the second program did not impact the determination of the major program to be audited. The program that was not reported in the prior year related to a FEMA grant for which the

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

09-02 (continued)

expenditures were made in fiscal year 2008 as part of an emergency disaster relief program and then were reimbursed with federal funds that were received in fiscal year 2009. The funds expended for this relief were not material to the 2009 and 2008 financial statements and did not affect the determination of the major program that was audited in fiscal year 2009 or 2008.

Effect:

The fiscal year 2009 SEFA originally provided was revised based on further analysis by Harbors Division. The revisions to the SEFA did not impact the determination of the major program in fiscal year 2009 or 2008.

Cause:

The fiscal year 2009 SEFA originally provided did not agree to the actual expenditures reflected in the general ledger and did not include all federal programs as there is currently no formally documented process or procedure for the Fiscal Office personnel to reconcile the SEFA to the general ledger or for the various departments to notify the Fiscal Office of any new federal grant awards received.

Recommendation:

Management should provide the appropriate training to staff assisting with the preparation of the SEFA and to the related departments that perform work on federally funded projects to ensure that the appropriate programs and expenditures are reported. Management should also ensure that the appropriate review of the SEFA is conducted including a reconciliation of the SEFA to the financial records.

Views of responsible officials and corrective actions:

The Harbors Division will include in all future SEFA documents all federal funds received, irrespective of our status as the primary grant recipient or sub-grantee. We are working to establish clear procedures to guide staff in the preparation of the SEFA and to ensure that the appropriate programs and expenditures are reported. The Fiscal Office will also establish procedures to reconcile the SEFA to the financial records.

State of Hawaii
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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

09-02 (continued)

These findings also emphasize the need to improve coordination of various functions relating to the management of federal grants among the various staff offices of the Harbors Division. The establishment of a Federal Grants Coordinator to oversee the program is presently under discussion.

State of Hawaii
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Harbors Division

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

Part II - Financial Statement Findings Section

08-01

Criteria or specific requirement:

Management should have a financial statement close process that produces financial statements that present, in all material respects, the financial position, changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles.

Condition:

Subsequent to the closing of the accounting records, a number of adjustments to the financial statements were identified by management as well as by the auditors.

Context:

The adjustments identified by management were the result of the accounting personnel updating the account balances and activity in preparation for the audit subsequent to the close of the fiscal year records. The adjustments identified by the auditors were the result of the audit procedures performed.

Updated status:

The Harbors Division has adopted practices and procedures for the financial statement close process. There were few, if any, entries to record corrections of errors or omissions subsequent to the commencement of the financial audit for FY 2009.

This finding has been resolved as appropriate actions have been taken to establish practices and procedures to limit or prevent the recording of correction entries subsequent to the commencement of the financial audit.

State of Hawaii
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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section

08-02

Federal program information:

97.056 – Department of Homeland Security – Port Security Grant Program

DTSA20-3-G-01153 and HSTS04-04-G-GPS506/07

Criteria or specific requirement (including statutory, regulatory or other citation):

Sections 300(b) and (c) of OMB Circular A-133 requires that the auditee shall:

- (1) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its programs;
- (2) Comply with laws, regulations and the provisions of contracts or grant agreements related to each of its federal programs

Condition:

The Grants Manager has the knowledge of the grant program and is responsible for reviewing and approving expenditures to ensure that the expenditures are allowable and in accordance with the program requirements. The Grants Manager also prepares the required reports to the granting agency including the requests for reimbursement.

Although the disbursements were reviewed through Harbors' routine approval process, the Grants Manager did not review the grant expenditures prior to disbursement and did not maintain support for the information included in the reports to the granting agency. The requests for reimbursement were also not reviewed prior to submission to make sure the disbursements were allowable and for an allowable activity.

Questioned costs:

\$5,054.37

State of Hawaii
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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

Part III—Federal Award Findings and Questioned Costs Section (continued)

08-02 (continued)

Context:

The four expenditures tested, which totaled \$652,290, were reviewed and approved before the expenditure was made as part of the Harbors Division's normal cash disbursement process; however, the Grants Manager did not review the expenditures prior to the amount being paid. There were only eight expenditures of federal funds, which totaled \$741,206, as the remaining expenditures were paid for with state funds.

The Grants Manager reviewed the expenditures when gathering the information to prepare the periodic reports and requests for reimbursement. Three reimbursement requests were submitted by the Harbors Division during fiscal year 2008. The information to support the amounts in the reports (mainly the contractor invoices) was not maintained to show how the amounts in the requests were determined and the reports were not reviewed by someone other than the Grants Manager who prepared the reports.

Updated status:

The Harbors Division has clarified to its Grants Managers that contract retainage amounts must be excluded from reimbursement requests submitted to federal agencies until paid. The Grants Manager will forward the reimbursement request to the Harbors Fiscal Officer so that a proper review can be conducted to ascertain that the amounts requested for reimbursement are for allowable costs, allowable activity and for actual expenditures made. The Grants Manager will process the reimbursement request following receipt of the Fiscal Officer's approval.

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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

08-03

Federal program information:

97.056 – Department of Homeland Security - Port Security Grant Program

DTSA20-3-G-01153 and HSTS04-04-G-GPS506/07

Criteria or specific requirement (including statutory, regulatory or other citation):

OMB Circular A-102 section _32 requires that equipment be used in the program for which it was acquired, that equipment records be maintained and that a physical inventory be taken at least once every two years and reconciled to the equipment records unless state laws and procedures note otherwise.

Condition:

The grant program includes the acquisition of crash barrier gates and surveillance systems for enhanced harbors security. Proper tracking of the equipment purchased was not maintained on an individual equipment basis. The equipment purchased with federal funds was identified but as a total amount.

Questioned costs:

None

Context:

Equipment was purchased using a combination of federal and state funds, which made it difficult to identify exactly which items were purchased with federal or state funds. As a result, the purchased equipment was not tracked individually to include the quantity acquired, acquisition date, acquisition cost, useful life or date placed in service, if applicable. Specific invoices, which were paid for using federal funds, were capitalized and identified (in total by project) in the Harbors Division's records as assets acquired using federal funds.

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Department of Transportation
Harbors Division

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

08-03 (continued)

Updated status:

The Harbors Division has addressed this finding. Detailed equipment listings were completed to identify individual equipment with the related costs and the location of such equipment. Additionally, copies of project “As-Built” schematic drawings reflecting the location of equipment installations have been provided to the Harbors Fiscal section for those projects utilizing federal grant funds.

The Harbors Division has established a practice to require all future contractors to provide the detailed cost of any equipment to be installed. In situations for which the contract requires the installation of equipment at multiple locations, the costs of the equipment and the related installation at each location will be provided. Copies of project “As-Built” schematic drawings reflecting the location of equipment installation will also be provided to the Harbors Fiscal section for completed equipment installations for projects utilizing federal grant funds.

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