



**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Single Audit Reports

Year ended June 30, 2011

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

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**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Auditor
State of Hawaii:

We have audited the financial statements of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Airports Division is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Airports Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airports 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 over financial reporting 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 the Airports 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, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, 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 of the Airports Division, the Auditor, State of Hawaii, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 6, 2012



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Independent Auditors' Report on Compliance with Requirements That Could Have
a Direct and Material Effect on 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 Airports Division's, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Airports Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Airports Division's management. Our responsibility is to express an opinion on the Airports Division's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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 the Airports 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 on the Airports Division's compliance with those requirements.

In our opinion, the Airports Division complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, 2011-03, and 2011-04.

Internal Control over Compliance

Management of the Airports 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 the Airports Division's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on



compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control over compliance.

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.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Airports Division as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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.

The Airports Division's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Airports Division's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management of the Airports Division, the Auditor, State of Hawaii, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 6, 2012

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Transportation:		
Federal Aviation Administration – Airport Improvement Program:	20.106	
3-15-0000-02		\$ 140,054
3-15-0000-03		229,723
3-15-0000-04		28,500
3-15-0002-06		172,454
3-15-0004-26		38,003
3-15-0004-30		213
3-15-0004-31		1,391,447
3-15-0004-32		14,743
3-15-0004-33		14,743
3-15-0004-34		265,160
3-15-0004-35		174,576
3-15-0004-36		1,425
3-15-0004-37		49,969
3-15-0004-38		4,248
3-15-0005-86		654
3-15-0005-90		83,100
3-15-0005-91		378,305
3-15-0005-92		73,988
3-15-0005-93		215,902
3-15-0005-94		68,852
3-15-0005-96		77,700
3-15-0005-97		47,622
3-15-0005-98		5,360,193
3-15-0005-99		2,332,658
3-15-0005-100		1,694,923
3-15-0006-44		632,528
3-15-0006-45		50,719
3-15-0006-46 (ARRA)		2,511,156
3-15-0006-47		1,419
3-15-0006-48		183,518
3-15-0008-29		79,314
3-15-0008-30		124,242
3-15-0008-31		1,149,832
3-15-0008-32		2,794
3-15-0011-14		5,525
3-15-0011-15		1,056,109
3-15-0012-12		324
3-15-0013-36		274,194
3-15-0013-38		1,024,636
3-15-0013-39		502,076
3-15-0013-40		502,076

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Year ended June 30, 2011

Federal grantor/program title	CFDA number	Federal expenditures
3-15-0013-41		\$ 192,561
3-15-0014-10		17,908
DTFA08-06-C-50533		282,850
DTFA08-08-C-50606		471,527
Total CFDA 20.106		<u>\$ 21,924,463</u>
U.S. Department of Homeland Security:		
Law Enforcement Officer Reimbursement Agreement Program:		
	97.090	
HSTS0208HSLR078		\$ 1,028,572
HSTS0208HSLR321		255,223
HSTS0208HSLR087		144,045
HSTS0208HSLR079		150,894
HSTS0208HSLR082		179,208
HSTS0208HSLR320		108,974
HSTS0208HSLR327		128,401
HSTS0208HSLR093		94,249
Total CFDA 97.090		<u>2,089,566</u>
Transportation Security Administration – Airport Checked Baggage Inspection System Program:		
	97.117	
HSTS04-09-H-REC157 (ARRA)		8,689,599
HSTS04-09-H-REC158 (ARRA)		586,422
Total CFDA 97.117		<u>9,276,021</u>
National Explosives Detection Canine Team Program:		
	97.072	
DTSA20-03-H-01000		328,978
Federal Emergency Management Agency – Tsunami Relief Tsunami Relief Activity:		
	N/A	
FEMA 1967-DR-HI		17,435
Transportation Security Administration – Installation and Maintenance of Closed Circuit Televisions:		
	N/A	
HSTS02-06-A-AOP248		58,008
Total federal expenditures		<u>\$ 33,694,471</u>

See accompanying independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 and notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(1) General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airports Division, Department of Transportation, State of Hawaii. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

(2) Basis of Accounting

The accompanying schedule is prepared on the accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree in all material respects with the amounts reported in the related federal financial reports.

DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs
Year ended June 30, 2011

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**

Material weaknesses: **None noted**

- (c) Noncompliance that is material to the financial statements: **None noted**
- (d) Significant deficiencies in internal control over major program: **None reported**

Material weaknesses: **None noted**

- (e) The type of report issued on compliance for major program: **Unqualified opinion**
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, see items 2011-01, 2011-02, 2011-03, and 2011-04**
- (g) Major programs:

CFDA No. 20.106 – U.S. Department of Transportation – Federal Aviation Administration – Airport Improvement Program

CFDA No. 97.117 – U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program

CFDA No. 97.090 – U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,010,834.**
- (i) Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

None noted

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Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(3) Findings and Questioned Costs Relating to Federal Awards

2011-01 – Cash Management – Requests for Reimbursement

Information on Federal Programs

U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program – CFDA No. 97.090

Federal Awards Nos.:

HSTS0208HSLR078
HSTS0208HSLR321
HSTS0208HSLR087
HSTS0208HSLR079
HSTS0208HSLR082
HSTS0208HSLR320
HSTS0208HSLR327
HSTS0208HSLR093

Award Years: October 1, 2007 to September 30, 2012

Specific Requirements/Criteria

The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3 C, *Cash Management* states that “*When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.*”

Condition

Out of a sample of 25 reimbursement requests, we identified 4 instances where, although the Airports Division had submitted the request for payment of the invoices to the State of Hawaii (the State), the reimbursement requests were submitted prior to the invoice being paid by the State. However, in all 4 instances, the reimbursement was received subsequent to the invoice payment.

Cause

The above condition was primarily caused by insufficient coordination with the fiscal office and the program manager and the internal controls were not effectively designed to ensure the reimbursement request was submitted subsequent to the invoice payment date not the request for invoice payment date.

Effect

By submitting the reimbursement requests prior to the program costs being paid, the Law Enforcement Officer Reimbursement Agreement Program is not in compliance with OMB Circular A-133 and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

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Year ended June 30, 2011

Questioned Costs

None.

Systemic or Isolated

Systemic

Recommendation

We recommend that the Airports Division management implement internal controls over the cash reimbursement process to ensure that the invoices are paid prior to submitting the reimbursement request.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport personnel.

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Year ended June 30, 2011

2011-02 – Reporting – Requests for Reimbursement

Information on Federal Programs

U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program – CFDA No. 97.090

Federal Awards Nos.:

HSTS0208HSLR078
HSTS0208HSLR321
HSTS0208HSLR087
HSTS0208HSLR079
HSTS0208HSLR082
HSTS0208HSLR320
HSTS0208HSLR327
HSTS0208HSLR093

Award Years: October 1, 2007 to September 30, 2012

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Law Enforcement Officer Reimbursement Agreement Program Award, the Request for Reimbursement (SF 270) forms should be submitted by the 30th day of the month following the period of performance. In order for the SF 270 to be submitted, the invoice must have been properly approved for payment and the related Award Modification must be signed by a contracting Transportation Security Administration officer. The SF 270 submission deadline is then 30 days from the latter of the date of invoice approval or the date of the signed Award Modification.

Condition

Out of a sample of 25 SF 270 forms, we identified 14 instances where the Law Enforcement Officer Reimbursement Agreement Program did not submit the forms timely. However, the forms were ultimately submitted and contained the appropriate information.

Cause

The above condition was primarily caused by a lack of management oversight and the internal controls over the reimbursement request process were not implemented effectively.

Effect

By failing to submit the required SF 270 forms on a timely basis, the Law Enforcement Officer Reimbursement Agreement Program is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

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Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that Airports Division management implement internal controls over the reimbursement request process to ensure that the request reports are submitted timely. Additionally, the Airports Division could request a deadline extension from the respective cognizant agency.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport personnel.

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Year ended June 30, 2011

2011-03 – Reporting – Monthly Project Status Reports and Quarterly Reports

Information on the Federal Program

U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program – CFDA No. 97.117

Federal Award No.: HSTS04-09-H-REC 157

Award Years: August 7, 2009 to May 31, 2011

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Transportation Security Administration – Airport Checked Baggage Inspection System Program Award, the monthly milestone/progress status report is due every month within 10 days after month-end.

Condition

Out of a sample of 12 monthly milestone/progress status reports, we identified 6 instances where the Transportation Security Administration – Airport Checked Baggage Inspection System Program at the Honolulu International Airport did not submit the reports within the prescribed deadlines. However, the reports were ultimately submitted and contained the appropriate information.

Cause

The above condition was primarily caused by a lack of management oversight and the internal controls over the reporting process were not implemented effectively.

Effect

By failing to submit the required monthly milestone/progress status reports on a timely basis, the Airports Division’s Transportation Security Administration – Airport Checked Baggage Inspection System is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security, and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

Questioned Costs

None

Systemic or Isolated

Systemic

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Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Recommendation

We recommend that the Airports Division's Transportation Security Administration – Airport Checked Baggage Inspection System Program ensures that all required federal financial reports are submitted to the respective federal granting agency within the prescribed deadlines and the program managers monitor the submission of those reports. Additionally, the Airports Division could request a deadline extension from the respective cognizant agency.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport personnel.

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Year ended June 30, 2011

2011-04 – Reporting – Requests for Reimbursement

Information on the Federal Program

U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program – CFDA No. 97.117

Federal Award No.: HSTS04-09-H-REC 157

Award Years: August 7, 2009 to May 31, 2011

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Law Enforcement Officer Reimbursement Agreement Program Award, the Request for Reimbursement (SF 270) forms should be submitted by the 30th day from the date that the Airports Division is invoiced from a subcontractor, supplier or provider of services.

Condition

Out of a sample of 9 SF 270 forms, we identified 5 instances where the Transportation Security Administration – Airport Checked Baggage Inspection System Program at the Honolulu International Airport did not submit the forms timely. However, the forms were ultimately submitted and contained the appropriate information.

Cause

The above condition was primarily caused by a lack of management oversight and the internal controls over the reimbursement request process were not implemented effectively.

Effect

By failing to submit the required SF 270 forms on a timely basis, the Airports Division's Transportation Security Administration – Airport Checked Baggage Inspection System is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

Questioned Costs

None

Systemic or Isolated

Systemic

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Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Recommendation

We recommend that Airports Division management implement internal controls over the reimbursement request process to ensure that the request reports are submitted timely. Additionally, the Airports Division could request a deadline extension from the respective cognizant agency.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport personnel.