



**Highways Division
Department of Transportation
State of Hawaii**

Single Audit Reports
(With Independent Auditors' Reports Thereon)

June 30, 2015

Submitted by
**THE AUDITOR
STATE OF HAWAII**

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Single Audit Reports

Year Ended June 30, 2015

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Section I

Introduction

January 29, 2016

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), as of and for the year ended June 30, 2015. We have also audited the Highways Division's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports pertaining to our audit of the Highways Division's financial statements and federal financial assistance programs.

The audit objectives and scope of our audit were as follows.

AUDIT OBJECTIVES

1. To provide opinions on the fair presentation of the Highways Division's financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America. Our independent auditors' report, which expressed unmodified opinions on the Highways Division's financial statements, is issued under separate cover.
2. To consider the Highways Division's internal control over financing reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the Highways Division's compliance with certain provisions, laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Highways Division's internal control over compliance with requirements that could have a direct and material effect on each of its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance.
5. To provide an opinion on the Highways Division's compliance with applicable laws, regulations, contracts and grants that could have a direct and material effect on each of its major federal programs.

SCOPE OF AUDIT

We performed an audit of the Highways Division's financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ORGANIZATION OF REPORT

Our report is organized into three sections as follows:

Section I, entitled "Introduction," describes the objectives and scope of our audit and the organization and contents of this report.

Section II, entitled "Internal Control Over Financial Reporting and Compliance and Other Matters," contains our report on the Highways Division's internal control over financial reporting and on compliance and other matters based upon our audit of the Highways Division's financial statements.

Section III, entitled "Compliance and Internal Control Over Federal Awards," contains our report on the Highways Division's compliance and internal control over federal awards in accordance with OMB Circular A-133, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the Highways Division for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our findings and recommendations.

Sincerely,

KKDLY LLC

Section II

Internal Control Over Financial Reporting and Compliance and Other Matters

Independent Auditors' 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, 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 and each major fund of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise the Highways Division's basic financial statements, and have issued our report thereon dated January 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Highways Division'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 Highways Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Highways Division's internal control.

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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Highways Division'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*.

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.

KKDL Y LLC

Honolulu, Hawaii
January 29, 2016

Section III

Compliance and Internal Control Over Federal Awards

**Independent Auditors' Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133**

The Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

We have audited the Highways Division, Department of Transportation, State of Hawaii's (the Highways Division), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Highways Division's major federal programs for the year ended June 30, 2015. The Highways Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Highways Division's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 the Highways 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Highways Division's compliance.

Opinion on Each Major Federal Program

In our opinion, the Highways Division 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 major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

The Highways Division's responses to the noncompliance findings identified in our audit are described in Appendix 1 to the accompanying schedule of findings and questioned costs. The Highways Division's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Highways Division 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 Highways Division's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Highways 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. *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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2015-001 and 2015-002 that we consider to be significant deficiencies.

The Highways Division's responses to the internal control over compliance findings identified in our audit are described in Appendix 1 to the accompanying schedule of findings and questioned costs. The Highways Division's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities and each major fund of the Highways Division as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise the Highways Division's basic financial statements. We issued our report thereon dated January 29, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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 basic 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.

KKDL Y LLC

Honolulu, Hawaii
January 29, 2016

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<u>Federal/Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation		
Highway Planning and Construction	20.205	\$ 197,566,863
ARRA - Highway Planning and Construction	20.205	13,601,909
State and Community Highway Safety Program:		
NHTSA Grant	20.600	5,275,383
Fatal Accident Reporting System Grant	20.600	51,408
Commercial Driver's License Program Improvement	20.232	167,780
National Motor Carrier Safety Program - Assistance program grant	20.218	<u>490,068</u>
Total U.S. Department of Transportation		217,153,411
U.S. Department of Homeland Security		
Driver's License Security Grant Program	97.089	<u>286,111</u>
Total Federal Expenditures		<u><u>\$ 217,439,522</u></u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program;
Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133 and Notes to Schedule of Expenditures of Federal Awards.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the Highways Division, it is not intended to, and does not present the financial position and changes in financial position of the Highways Division.

2. Summary of Significant Accounting Policies

Expenditures reported on this schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Subrecipients

Of the federal expenditures included in the accompanying schedule of expenditures of federal awards, the Highways Division provided federal awards to subrecipients as follows:

<u>Federal/Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Subrecipient Expenditures</u>
Highway Planning and Construction	20.205	\$ 35,726,215
ARRA - Highway Planning and Construction	20.205	189,967
NHTSA Grant	20.600	3,733,480
Commercial Driver's License Program Improvement	20.232	167,780
Driver's License Security Grant Program	97.089	286,111
Total Subrecipient Expenditures		<u>\$ 40,103,553</u>

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes No

Significant deficiencies identified? Yes None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	U.S. Department of Transportation – Highway Planning and Construction
20.600	U.S. Department of Transportation - State and Community Highway Safety Program – NHTSA and Fatal Accident Reporting System Grants

Dollar threshold used to distinguish between type A and type B programs? \$3,000,000

Auditee qualified as low-risk auditee? Yes No

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

(2) Financial Statement Findings

None noted.

(3) Federal Award Findings and Questioned Costs

Refer to Appendix 1.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Single Audit Findings

June 30, 2015

**Finding 2015-001
Davis-Bacon Act**

U.S. Federal Highways Administration
Highway Planning and Construction
CFDA No. 20.205

Condition

Certain Highways Division construction projects are subject to the provisions of the Davis-Bacon Act (the Act). In order to monitor compliance with these provisions, the Highways Division has developed policies and procedures requiring contractors and subcontractors to submit weekly certified payroll reports within 7 calendar days after the pay checks are disbursed. Upon receipt of the certified payroll reports, the Highways Division would then date and time stamp the reports, and forward the reports to the respective project engineer for his or her review to determine compliance with the Act.

During our audit, we selected and tested a sample of 50 certified payroll reports. We noted that 22 of the certified payroll reports were received after the 7-day deadline or did not contain a date stamp. Additionally, we identified 10 instances where the certified payroll reports did not contain any evidence (e.g., signature, initial, check marks, etc.) documenting the review by the Highways Division project engineer.

Criteria

The Highways Division must ensure that contractors and subcontractors working on construction projects funded with Federal financial assistance comply with the provisions of the Act and the U.S. Department of Labor regulations (29 CFR part 5). Specifically, contractors and subcontractors must submit weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payroll reports), evidencing that their employees were paid wages not less than those established for locality of the project (i.e., prevailing wage rates).

Cause

The Highways Division did not adhere to its internal policies and procedures requiring project engineers to obtain and review certified payroll reports on a timely basis to determine that the contractor or subcontractor is complying with the prevailing wage rates. We also noted that each district office has different procedures in place to document compliance with provisions of the Act.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Single Audit Findings

June 30, 2015

Effect

The Highways Division was not in compliance with the provisions of the Act requiring the timely receipt and review of certified payroll reports submitted by contractors and subcontractors to determine that their employees are paid prevailing wage rates.

Recommendation

We again recommend that the Highways Division adhere to its internal policy requiring project engineers to obtain and review certified payroll reports on a timely basis (i.e., within 7 days after the pay checks are disbursed) to determine that the contractor or subcontractor is complying with the prevailing wage rate requirement. We also recommend that the Highways Division develop standardized procedures to document the date and time of receipt of the certified payroll reports, as well as the review and approval of those certified payroll reports by the project engineers.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division's existing policies on certified payroll submission, specifically Procedure No. 10-02-08 of the Highways Construction Manual and the 2005 Standard Plans and Specifications, are strictly being enforced by constantly following up with the District Engineers that certified payroll need to be date stamped and submitted in a timely basis. This finding is being reviewed in detail by the Construction and Maintenance Branch to find solutions to this non-compliance.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Single Audit Findings

June 30, 2015

**Finding 2015-002
Cash Management**

National Highway Traffic Safety Administration
NHTSA and Fatal Accident Reporting System Grants
CFDA No. 20.600

Condition

During our audit, we noted that the Highways Division requested federal reimbursements from the National Highway Traffic Safety Administration (NHTSA) for subrecipient expenditures prior to remitting payments to subrecipients.

We noted that for 10 of the 24 requests for reimbursement during the year ended June 30, 2015, payments to subrecipients were made more than 8 days after reimbursements were received from NHTSA (ranging from 9 days to 37 days). These payments to subrecipients aggregated \$1.7 million during the year ended June 30, 2015.

Criteria

In accordance with the *Cash Management Improvement Act Agreement between The State of Hawaii and The Secretary of the Treasury, United States Department of the Treasury* (the Treasury State Agreement), the time period from the date Federal funds are received and credited to the State's account and the date those funds are expended from the State's account shall be no more than 8 days.

Cause

Upon receipt of federal reimbursement from NHTSA for subrecipient expenditures, the fiscal office prepares a TDR to transfer funds to the Highways Division cash in State Treasury account in FAMIS. This process usually takes two to three days to post. Once the funds are posted in FAMIS, the Pre-Audit Clerk is notified to begin processing subrecipient payments. This process is sometimes further delayed due to the lack of adequate support or documentation, including original invoices and signatures authorizing payment.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Single Audit Findings

June 30, 2015

Effect

The Highways Division did not comply with the cash management requirements to minimize the time elapsing between the receipt of funds from NHTSA and their disbursement to subrecipients. Repeated failure to request funds in accordance with the Treasury State Agreement could result in the denial of requested federal reimbursements from NHTSA prior to remitting payments to subrecipients.

Recommendation

Although we noted significant improvement in the timeliness of subrecipient reimbursements, we again recommend that the Highways Division continue their efforts to adhere to established formal procedures to ensure compliance with NHTSA's cash management. Specifically, the time period from the date federal funds are received and credited to the Highways Division's account and the date those funds are expended from the Highways Division's account should not exceed 8 days as stipulated in the Treasury State Agreement.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division understands the importance of complying with the terms of the Treasury State Agreement. During the year, the Highways Division has stressed the importance of existing policies on timely payments to subrecipients, and has focused on enforcing these policies. The Highways Division is in the process of reviewing the procedures/steps being followed on NHTSA grant reimbursement and finding solutions to the non-compliance. Fiscal year 2015 shows improvement in the subrecipient payment timeline as compared to fiscal year 2014, and such improvement is expected to continue in future fiscal years. The Highways Division is also in the process of recruiting an individual to fill the newly created Accountant position whose main duty will be to maintain financial records and transactions of MVSO federal grants.