

Auditor's Summary

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

Financial Statements, Fiscal Year Ended June 30, 2016



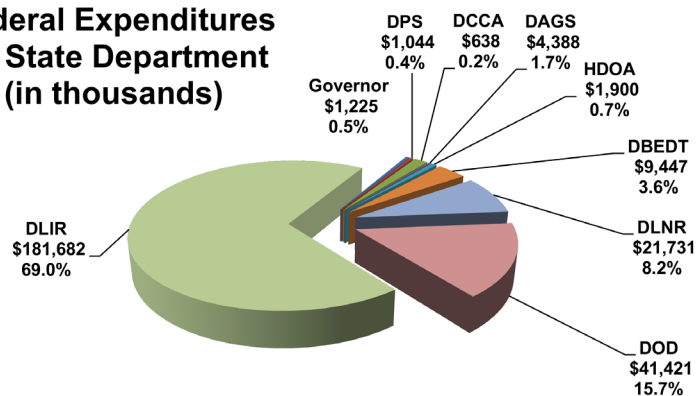
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THE PRIMARY PURPOSE of our audit was to comply with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) for the fiscal year ended June 30, 2016, 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, 2016. Federal expenditures totaled approximately \$263.5 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 one material weakness and two significant deficiencies in internal controls over financial reporting in accordance with *Government Auditing Standards*.

Material Weakness (1)

- Lack of IT internal controls over systems operated by the Information and Communication Services Division, Department of Accounting and General Services and the Department of Taxation.

Significant Deficiencies (2)

- Inefficiencies in the financial statement preparation process resulted in the auditors making numerous adjusting and reclassification entries; and
- Certain component units and proprietary funds were incorrectly included in the governmental activities and respective governmental funds in the State's CAFR.

Auditors' Report on Compliance with Major Federal Programs

The auditors expressed a qualified opinion on certain major programs and identified 6 material weaknesses and 10 significant deficiencies over compliance with major federal programs in accordance with the *Uniform Guidance*.

Material Weaknesses (6)

- 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);
- Delayed and failed reporting to federal agency; and
- Failure to evaluate subrecipient's risk of noncompliance and perform appropriate monitoring of subrecipients.

Significant Deficiencies (10)

- Deficiencies in internal controls and lack of resources delayed disbursement of federal funds (3);
- Failure to evaluate subrecipient's risk of noncompliance at time of subaward (2);
- Deficiencies in internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA);
- Untimely submission of federal reports (2);
- Lack of documentation for journal voucher transfers supporting allowable activities; and
- Failure to verify contractor's federal suspension or debarment.

DEPARTMENTS	FINANCIAL STATEMENT FINDINGS		FEDERAL AWARD FINDINGS		TOTALS
	Material Weakness	Significant Deficiency	Material Weakness	Significant Deficiency	
Defense (DOD)	-	-	2	1	3
Land and Natural Resources (DLNR)	-	-	-	4	4
Accounting and General Services (DAGS)	1	2	-	1	4
Labor & Industrial Relations (DLIR)	-	-	3	4	7
Business, Economic Development and Tourism (DBEDT)	-	-	1	-	1
TOTALS	1	2	6	10	19

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/SOH_SA_FY2016.pdf