



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

Single Audit Reports
(With Independent Auditors' Reports Thereon)

June 30, 2019

Submitted by
**THE AUDITOR
STATE OF HAWAII**

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

Single Audit Reports

Year Ended June 30, 2019

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Section I

Introduction

July 6, 2020

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, 2019. We have also audited the Highways Division's compliance with requirements applicable to its major federal program for the year ended June 30, 2019. We submit herein our reports pertaining to our audit of the Highways Division's financial statements and federal financial assistance programs.

AUDIT OBJECTIVES

The objectives of the audit were as follows:

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, 2019, 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 its major federal program 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 its major federal program.

SCOPE OF AUDIT

Our audit of the Highways Division's financial statements, the schedule of expenditures of federal awards, and the Highways Division's compliance with the requirements applicable to its major federal program was performed in accordance with auditing standards generally accepted in the United States of America, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

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 independent auditors' 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 independent auditors' report on the Highways Division's compliance and internal control over its major federal program in accordance with the Uniform Guidance, a schedule of expenditures of federal awards and related notes, 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, 2019, and the related notes to financial statements, which collectively comprise the Highways Division's basic financial statements, and have issued our report thereon dated July 6, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, as described in Appendix 1 to the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a material weakness.

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*.

Highways Division's Response to Finding

The Highways Division's response to the finding identified in our audit is described in Appendix 1 to the accompanying schedule of findings and questioned costs. The Highways Division's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
July 6, 2020

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 the Uniform Guidance**

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 the Highways Division's major federal program for the year ended June 30, 2019. The Highways Division's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Highways Division's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in Appendix 2 to the accompanying schedule of findings and questioned costs as Finding 2019-002. Our opinion on the major federal program is not modified with respect to this matter.

The Highways Division's response to the noncompliance finding identified in our audit is described in Appendix 2 to the accompanying schedule of findings and questioned costs. The Highways Division's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in Appendix 2 to the accompanying schedule of findings and questioned costs as Finding 2019-002, that we consider to be a significant deficiency.

The Highways Division's response to the internal control over compliance finding identified in our audit is described in Appendix 2 to the accompanying schedule of findings and questioned costs. The Highways Division's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2019, and the related notes to financial statements, which collectively comprise the Highways Division's basic financial statements. We issued our report thereon dated July 6, 2020, 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 the Uniform Guidance 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
July 6, 2020

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	\$ 33,100,398	\$ 250,730,975
National Motor Carrier Safety Program			
Assistance Program Grant	20.218	-	386,218
Highway Safety Cluster:			
State and Community Highways Safety	20.600	1,492,377	1,818,984
State Traffic Safety Improvement Grant	20.610	319,509	913,249
National Priority Safety Program	20.616	838,290	1,477,809
Total Highway Safety Cluster		<u>2,650,176</u>	<u>4,210,042</u>
Alcohol Open Container Requirements	20.607	106,455	209,458
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	979,619	1,341,131
Total Federal Expenditures		<u><u>\$ 36,836,648</u></u>	<u><u>\$ 256,877,824</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 the Uniform Guidance and the 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, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the 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 the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Highways Division has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditors’ report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?

Yes No

Identification of major federal program:

CFDA Number

Name of Federal Program or Cluster

20.205

U.S. Department of Transportation –
Highway Planning and Construction Cluster

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

\$3,000,000

Auditee qualified as low-risk auditee?

Yes No

(Continued)

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Refer to Appendix 1.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Refer to Appendix 2.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2019

Material Weakness

**Finding 2019-001
Financial Reporting**

Criteria

Management of the Highways Division is responsible for the timely preparation and fair presentation of its financial statements in accordance with accounting principles general accepted in the United State of America (GAAP). Management is also responsible for the design, implementation, and maintenance of internal control over financial reporting to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Further, the Highways Division's financial reporting system should provide complete and accurate financial information on a timely basis to meet the financial reporting requirements of management, the State of Hawaii (the State), and the federal government.

Condition

HWYAC is the Highways Division's proprietary accounting system used to capture financial and project cost information, and serves as the Highways Division's general ledger for financial reporting purposes. FAMIS is the accounting system used by the State to accumulate and report financial fund information of the State, which includes the Highways Division.

The Highways Division does not reconcile amounts recorded in HWYAC to amounts recorded in FAMIS on a timely basis to ensure the integrity of the Highways Division's financial reporting process. Instead, the Highways Division reconciles cash in State Treasury, revenues, expenditures, and transfers recorded in HWYAC to those amounts recorded in FAMIS as part of the annual year-end closing process. This is an extremely time consuming exercise requiring extensive reconciliations, analysis, and adjusting journal entries to be prepared.

The Highways Division did not complete this reconciliation process until June 16, 2020, more than eleven months after the fiscal year-end. During our audit, we identified the following errors due to the untimely reconciliation of amounts recorded in HWYAC to amounts reported in FAMIS:

1. The Highways Division was unable to properly balance the State Highway Fund's trial balances as of and for the year ended June 30, 2019 until June 16, 2020. The trial balances were out of balance by \$2.6 million.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2019

2. The Highways Division was unable to properly reconcile the State Highway Fund's and the Capital Projects Fund's cash balances as of June 30, 2019 until May 8, 2020. The cash balances recorded in HWYAC were less than the cash balances reported in FAMIS for the State Highway Fund and the Capital Projects Fund by \$3.7 million and \$3.4 million, respectively.
3. The Highways Division was unable to reconcile interfund transfers between the State Highway Fund and Capital Projects Fund for the year ended June 30, 2019 until June 6, 2020. The difference in interfund transfers reported between the State Highway Fund and Capital Projects Fund was \$1.6 million.

Audit adjustments were recorded to correct the Highways Division's financial statements for the errors identified above.

During our audit, we also identified other errors in the audit schedules provided by the Highways Division, which led to the recording of additional audit adjustments.

1. We found 13 projects reported as construction in progress (CIP) at June 30, 2019 that should have been transferred to capital assets since those projects were already placed in service. As a result, capital assets were understated and CIP was overstated by \$25.9 million as of June 30, 2019. Additionally, related depreciation expense and accumulated depreciation were understated by \$0.3 million.
2. We also identified other audit adjustments to accrue \$2.6 million of unrecorded expenditures, to record a \$3.1 million repayment to the Airports Division for a prior year land acquisition, and to record a \$1.5 million adjustment to reconcile the capital lease escrow account.

Further, we found that the existing financial reporting system negatively affects the Highways Division's ability to provide complete, accurate, and timely financial information to meet the financial reporting requirements of management, the State, and the federal government. The Highways Division continues to use the aging HWYAC for financial reporting, project costing and for federal reimbursement purposes. HWYAC has not had any significant updates since its implementation in 1982 and requires continuous maintenance and support by the information technology department.

During our audit, we noted that the Highways Division's ongoing technical issues with HWYAC have contributed to the significant delays in reconciling and correcting the financial information noted above. HWYAC's most recent technical issue resulted in the system being completely inoperable from early December 2019 through February 2020. During that time, the Highways Division was unable to retrieve information required to reconcile the 2019 financial information described above and post financial transactions for the 2020 fiscal year. Additionally, the Highways Division has had to manually compile federal expenditure reports to prepare federal reimbursement requests for this period, which was a very tedious and time consuming process.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2019

Cause

The Highways Division did not adhere to its established policy requiring the reconciliation of amounts recorded in HWYAC to amounts recorded in FAMIS each month to ensure the integrity of the Highways Division's financial reporting process. We were informed that this was due in part to staff turnover and vacancies noted below.

In addition, the Highways Division's fiscal office did not sufficiently accumulate and review information regarding the status of certain CIP projects. Coordination between the fiscal office and district engineers is required to assess the status of ongoing construction projects (i.e., to determine whether projects have been materially completed and placed into service) in order to properly account for CIP and capital assets at year-end. The assessments were not completed and reviewed in a timely manner and, as a result, a number of CIP projects that were completed and placed in service during the year were not properly transferred to capital assets at year-end.

Staffing issues have hampered the Highways Division fiscal office's ability to effectively complete the year-end closing and reporting process, as well as to manage its day-to-day operations. Staffing issues include the departure of the fiscal officer during the critical portion of the year-end closing and reporting process, and extended leaves of absences, retirements, staff turnover, and vacancies within the fiscal office. In response to these changes, the fiscal office has had to shift responsibilities of day-to-day accounting tasks within an understaffed office. This situation contributed to the matters described in the *Condition* section above and was further complicated by the fact that there were insufficient formalized procedures for the year-end closing and reporting process.

Although the Highways Division has long recognized the need for a more efficient financial reporting and project costing system to replace the aging HWYAC, the Highways Division has yet to successfully implement a new system. We were informed that the Highways Division is actively pursuing software vendors in an effort to replace HWYAC with a more efficient financial reporting and project costing system.

Effect

The Highways Division was unable to prepare its financial statements in accordance with GAAP in a timely manner. Deficiencies in internal control over financial reporting and other factors noted above have resulted in misstatements of financial statements amounts and operating inefficiencies.

The failure to perform timely reconciliations between the amounts reported in HWYAC and amounts recorded in FAMIS could result in material errors going undetected and inaccurate financial information provided to management, the State, and the federal government.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2019

Identification as a Repeat Finding, if applicable

See finding 2018-001 included in the Status of Prior Audit Findings.

Recommendation

We recommend that the Highways Division reconcile amounts recorded in HWYAC to amounts recorded in FAMIS on a monthly basis. This should improve the accuracy and completeness of financial information used by management and those outside the Highways Division, including the State and the federal government. This should also allow the Highways Division to identify, investigate, and correct cash receipt and cash disbursement errors in a timely manner, as well as expedite the year-end closing and reporting process.

We also recommend that the Highways Division assess the current fiscal office staffing situation and take appropriate steps to ensure that sufficient resources are available to meet its day-to-day and year-end financial reporting requirements. The Highways Division should consider providing increased training and cross-training opportunities for fiscal office staff.

In addition, we recommend that the Highways Division establish formal, written policies and procedures to enhance its year-end closing and financial reporting process, including (1) detailed procedures for the year-end closing reporting process, (2) identification of financial information required to support financial statement amounts and disclosures, (3) identification of individuals responsible for the preparation and review of such financial information, and (4) establishment of related timelines. In doing so, the loss of knowledge due to staff turnover will be minimized and should allow the Highways Division to continue operations uninterrupted.

Further, we recommend that the Highways Division exercise greater care in the accounting for capital assets for financial reporting purposes. The Highways Division should improve the coordination between the fiscal office and district engineers in assessing the status of ongoing construction projects to properly account for CIP and capital assets at year-end, as well as perform timely supervisory reviews of this information.

Finally, we recommend that the Highways Division continue its efforts to implement a new financial system to replace HWYAC with a more efficient financial reporting and project costing system that fully meets the accounting and reporting requirements of the Highways Division, the State, and the federal government.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2019

Views of Responsible Official(s) and Planned Corrective Action

The Highways Division is developing written policies and procedures to reconcile HWYAC entries to FAMIS monthly. Increased training and cross training opportunities will be implemented.

The Fiscal staff will be accounting for capital assets in collaboration with project and district engineers to ensure proper status of construction projects to account for CIP and capital assets at year-end.

The Highways Division has solicited a request for proposals to develop and implement a new financial management system, replacing HWYAC anticipated to go live in 2022.

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

Single Audit Findings

June 30, 2019

Significant Deficiency

**Finding 2019-002
Davis-Bacon Act**

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

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 Davis-Bacon Act (the Act) and the U.S. Department of Labor regulations. 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).

Condition

Certain Highways Division construction projects are subject to the provisions of 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 will 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 40 certified payroll reports. We noted that 28 of the certified payroll reports were received after the 7-day deadline. We also noted that although the Highways Division's certified payroll reports contained evidence of review, there was no consistent method followed to document who the reviewer was and/or the date that the review was performed.

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 contractors and subcontractors are paying their employees 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, 2019

Effect

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

Recommendation

We 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. Additionally, we 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 project engineers.

Views of Responsible Officials and Planned Corrective Action

The Highways Division's Procedure 10-2-08 underlines the requirement for timely submission and review of certified payrolls and outlines specific documentation reviews. The Highways Division will have follow-up discussions with the General Contractors Association in reviewing the Davis-Bacon Act and Section 109.10 of the 2005 Standard Specifications for Road and Bridge Construction reporting requirements. Discussions will include the electronic submission of weekly certified payroll reports to ensure timely review. The Highways Division will address reporting requirements with construction personnel and emphasize that section 109.10 of the 2005 Standard Specifications for Road and Bridge Construction allows the withholding of any or all of the monthly progress payments that are due or become due.

Section IV

Status of Prior Audit Findings

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

Status of Prior Audit Findings

Year Ended June 30, 2019

This section contains the current status of the prior year’s audit findings by the auditors performing the 2018 financial and single audit of the Highways Division (referred to as the other auditors). The recommendations are referenced to the previous single audit reports for the fiscal year ended June 30, 2018, dated March 4, 2019.

<u>Findings and Recommendations</u>	<u>Status</u>
<p>2018-001 Financial Reporting</p> <p>During the 2018 audit, the other auditors identified a number of errors in supporting documentation, which led to proposed audit adjustments recorded by management and proposed audit adjustments not recorded by management. The other auditors proposed several audit adjustments that, when considered in the aggregate, could be indicative of a larger internal control issue.</p> <p>The other auditors recommended that the Highways Division review CIP projects at least quarterly to determine the status of projects as in progress, completed, or discontinued, and that capital assets data be reconciled as necessary for financial reporting purposes.</p> <p>The other auditors also recommended that the Highways Division strengthen its review process of key spreadsheets in order to identify and eliminate errors. Additionally, they recommended that the Highways Division continue pursuing implementation of a financial management system that will allow for financial information to be tracked both on a cash and accrual basis within the system.</p>	<p>Not accomplished. Refer to Finding 2019-001.</p>

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

Status of Prior Audit Findings

Year Ended June 30, 2019

Findings and Recommendations	Status
<p>2018-002 Schedule of Expenditures of Federal Awards (SEFA) Preparation</p> <p>During the 2018 audit, the other auditors noted that Highway Safety Cluster federal expenditures were misclassified in the preparation of the SEFA.</p> <p>The other auditors recommended that the Motor Vehicle Safety Office (MVSO) provide the Fiscal Office expenditures by CFDA number prior to the preparation of the SEFA. The Fiscal Office should reconcile total federal expenditures recorded in the general ledger to the information provided by the MVSO, which uses a grant tracking software to track costs by funding source and CFDA number. Furthermore, the individuals responsible for grant administration should review the SEFA prior to the issuance.</p>	<p>This matter has been resolved. The Highways Division was able to provide federal expenditures by the appropriate CFDA number in the preparation of the 2019 SEFA.</p>
<p>2018-003 Subrecipient Cash Management</p> <p>During the 2018 audit, the other auditors noted that certain subrecipient expenditures of the Highway Planning and Construction Cluster were not paid by the Highways Division until after funds were received from the federal awarding agency. The other auditors recommended that the Highways Division work with the federal award agency, other state agencies, and the subrecipients in order to devise a workable solution.</p>	<p>This matter has been resolved. The Hawaii Federal-Aid Division of the Federal Highway Administration (FHWA), U.S. Department of Transportation, issued the management decision letter dated April 17, 2019, which indicated that the FHWA disagreed with the finding of noncompliance with cash management requirements.</p>