



Highways Division Department of Transportation State of Hawaii

Single Audit Reports
Year Ended June 30, 2023

Submitted by
The Auditor
State of Hawaii



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Department of Transportation
State of Hawaii
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Compliance and Internal Control



**Report of Independent Auditors 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, 2023, and the related notes to the financial statements, which collectively comprise the Highways Division's basic financial statements and have issued our report thereon dated January 29, 2024.

Report on 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") as a basis for designing 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001, that we consider to be a significant deficiency.

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Report on 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 financial statements. 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

Government Auditing Standards require the auditors to perform limited procedures on the Highways Division’s response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Highways Division’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Highways Division’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 Highways Division’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
January 29, 2024



Report of Independent Auditors 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

Opinion on Each Major Federal Program

We have audited the Highways Division, Department of Transportation, State of Hawaii (the “Highways Division”)’s compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, the Highways Division complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

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* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors’ Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Highways Division and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Highways Division’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Highways Division’s federal programs.

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Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Highways Division's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Highways Division's compliance with the requirements of each major federal program as a whole.


In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Highways Division's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Highways Division's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Highways Division's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023, and the related notes to the financial statements, which collectively comprise the Highways Division's basic financial statements. We issued our report thereon dated January 29, 2024, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming an opinion 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. As described in Note 2 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 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.

Accuity LLP

Honolulu, Hawaii
February 16, 2024

Schedule of Expenditures of Federal Awards

Highways Division
Department of Transportation
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal AL Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
U.S. Department of Transportation				
Highway Planning and Construction	20.205	—	\$ 235,117,900	\$ 28,670,759
FMCSA Cluster				
Motor Carrier Safety Assistance Program	20.218	—	<u>819,918</u>	<u>-</u>
Total FMCSA Cluster			<u>819,918</u>	<u>-</u>
Highway Safety Cluster				
State and Community Highways Safety	20.600	—	1,967,031	1,430,668
National Priority Safety Programs	20.616	—	<u>1,247,768</u>	<u>635,639</u>
Total Highway Safety Cluster			<u>3,214,799</u>	<u>2,066,307</u>
Fatal Accident Reporting System Grant	20.214	—	81,958	-
Alcohol Open Container Requirements	20.607	—	1,186,203	961,232
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	—	<u>1,082,427</u>	<u>563,838</u>
Total U.S. Department of Transportation			<u>241,503,205</u>	<u>32,262,136</u>
U.S. Department of the Treasury				
Pass-through from the Executive Office of the State of Hawaii				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	S-23-524-D	<u>2,261,606</u>	<u>-</u>
Total U.S. Department of the Treasury			<u>2,261,606</u>	<u>-</u>
Total expenditures of federal awards			<u>\$ 243,764,811</u>	<u>\$ 32,262,136</u>

See accompanying notes to the 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, 2023

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, 2023. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. 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 net 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% de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying independent auditors' report.

Schedule of Findings and Questioned Costs

Highways Division
Department of Transportation
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified	
Internal control over financial reporting		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Type of auditors’ report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	Yes	<input checked="" type="checkbox"/> No

Identification of major programs

AL

Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$3,000,000	
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Highways Division
Department of Transportation
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section II – Financial Statement Finding

Finding No. 2023-001: Information Technology General Control Deficiencies (Significant Deficiency)

Condition

Information technology (“IT”) is a strategic element of the Highways Division, Department of Transportation, State of Hawaii’s (the “Highways Division”) operations. Because of the high volume of transactions in the Highways Division, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our audit of the Highways Division’s basic financial statements as of and for the year ended June 30, 2023, we performed an IT general controls review of the following systems operated by the Department:

- HWYAC
- AS400

Our review identified IT control deficiencies in the areas of logical security and change management as follows:

Logical security

Prior to November 20, 2023, procedures did not exist to maintain the effectiveness of authentication.

Change Management

No monitoring requirements in place for AS400 to detect unauthorized or untested changes that may impact data integrity or cause calculation errors as developers promote their own changes to production causing a segregation of duties concern.

Collectively, the number and nature of the IT control deficiencies resulted in an overall significant deficiency.

A similar finding was reported as a significant deficiency in the prior year as Finding No. 2022-002.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Internal controls in the areas of logical security and change management address the following risks:

Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Highways Division
Department of Transportation
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Causes

The Highways Division's IT policies and procedures do not include internal control procedures addressing the risks discussed above or are not being consistently followed.

Recommendation

We recommend that the Highways Division implement proper segregation of duties amongst those who perform development work and those who promote changes to production.

Highways Division
Department of Transportation
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section III – Federal Award Findings and Questioned Costs

None noted.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAII
DEPARTMENT OF TRANSPORTATION | KA 'OIHANA ALAKAU
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EDWIN H. SNIFFEN
DIRECTOR
KA LUNA HO'OKELE

Deputy Directors
Nā Hope Luna Ho'okele
DREANALEE K. KALILI
TAMMY L. LEE
ROBIN K. SHISHIDO

IN REPLY REFER TO:

HWY-SF 24-2.45064

February 16, 2024

Accuity LLP
First Hawaiian Center
999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813

Dear Colleagues:

Subject: Response to the Financial Audit of Department of Transportation, Highways
for the fiscal year ended June 30, 2023

Attached are the Highways' corrective action plan of the audit finding for the above-mentioned audit. We have also attached our comments on the status of prior audit finding.

We appreciate the opportunity to comment on the report.

Should you have any questions, please contact Vanessa Y. Lau, Highways Fiscal Management Officer at (808) 587-2251 or email at vanessa.y.lau@hawaii.gov.

Sincerely,


SERGIO GEORGE G. ABCEDE
Highways Administrator

Attachments

Summary Schedule of Prior Audit Findings

Highways Division
Department of Transportation
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Finding	Description	Classification	Status		Current Year Finding
			Resolved	Unresolved	
2022-001	Financial Reporting	Material Weakness	X		
2022-002	IT General Control Deficiencies	Significant Deficiency		X	2023-001
2022-003	Reporting	Significant Deficiency	X		
2022-004	Subrecipient Monitoring	Significant Deficiency	X		

Corrective Actions Taken for Unresolved Findings

Refer to fiscal year 2023 Corrective Action Plan for Finding 2023-001.

CORRECTIVE ACTION PLAN

STATE OF HAWAII
Department of Transportation-Highways
CORRECTIVE ACTION PLAN
June 30, 2023

FINANCIAL STATEMENT FINDINGS

2023-001 – Information Technology General Control Deficiencies (Significant Deficiency)

Corrective Action Plan

Concur. Stricter authentication requirements were implemented and completed for AS400 effective November 9, 2023.

A written procedure for change management for both HWYAC and AS400 was implemented and completed at the beginning of fiscal year 2023. We have updated the policy to incorporate the implementation of proper segregation of duties by including oversight for AS400 when the developer promotes changes to production.

These updated procedures require the Fiscal Management Officer's written approval of the change management request. The developer acknowledges the scope and nature of the work through an email. The following e-sign approval of the changes:

1. Business Services Supervisor or Systems Accounting Manager
2. The individual who promotes changes to production
 - a. The e-sign approval includes documentation of the change date, and
3. For AS400 system changes, the person who oversaw the promotion to production.

Person Responsible

Destiny Brighter, System Accountant, Staff Services
Ashley Acedo, Information Technology Specialist, Highway-E
Vanessa Lau, Fiscal Management Officer, Staff Services
Galen Wong, Acting Administrative Services Officer, Staff Services

Anticipated Completion Date:

March 1, 2024