

Financial and Compliance Audit of the  
Department of Transportation - Administration  
July 1, 2002 to June 30, 2003

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**PART I**  
**TRANSMITTAL**

January 16, 2004

To the Director of Transportation  
Department of Transportation - Administration  
Honolulu, Hawaii

We have completed our financial audit of Department of Transportation - Administration (Division) as of and for the year ended June 30, 2003. The audit was performed in accordance with our agreement with the Division dated January 9, 2001, and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Division's financial statements as of and for the fiscal year ended June 30, 2003, and to comply with the requirements of OMB Circular A-133. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the Division.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Division is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the Division the proper information to plan, evaluate, control and correct program activities.
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting, operational and internal controls, and to recommend improvements to such systems and procedures.
5. To satisfy the audit requirements of the Federal grantor agency.

## SCOPE OF THE AUDIT

Our audit was performed in accordance with U.S. generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Division for the fiscal year ended June 30, 2003.

## ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

PART III - presents the financial section which includes the Division's financial statements and the auditors' report on such statements and supplementary financial information.

PART IV - contains the reports on compliance and internal controls.

PART V - presents the schedule of findings and questioned costs.

PART VI - contains the corrective action plan.

At this time, we wish to thank the Division's personnel for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

Michael Y. Ichikawa  
Principal

**PART II**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents an analysis of the Division's financial performance during the fiscal year ending June 30, 2003. Please read it in conjunction with the financial statements which follow this section.

### FINANCIAL HIGHLIGHTS

- The Division's net assets decreased by \$775,000.
- During the fiscal year, the Division's revenues increased by \$1,522,000, and expenses increased by \$1,052,000.

### OVERVIEW OF ANNUAL REPORT

This annual report consists of six parts: Transmittal letter; management's discussion and analysis; financial statements, notes to the financial statements and supplementary information that explain in more detail some of the information in the financial statements; the reports on compliance and internal controls; schedules of findings and questioned costs; and the Division's corrective action plan.

### REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 – 10) provide information about the activities of the Division as a whole and present a longer-term view of the Division's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Division's operations in more detail than the government-wide statements by providing information about the Division's most significant funds. The remaining statements provide financial information about activities for which the Division acts solely as a trustee or agent for the benefit of those outside of the Division.

#### Reporting the Division as a Whole

The Statement of Net Assets includes all of the Division's asset and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The Statement of Activities reports the Division's activities and the changes in its net assets as a result of its activities. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Reporting the Division as a Whole (Continued)

Increases or decreases in the Division's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors to assess the overall health of the Division.

The Statements of Net Assets and Activities consist of governmental activities of the Division which is generally financed through budgetary appropriations through the State of Hawaii and federal granting agencies.

### Reporting the Division's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds, not the Division as a whole. The Division's fund financial statements consist of Governmental Funds which are Special Revenue Funds provided to the Division through budgetary appropriations and contracts with federal agencies. The governmental fund statements provide a short-term view of the Division's general operations and basic service it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Division's programs. The differences between governmental activities and governmental funds are presented on pages 12 and 14.

### The Division as an Agent

The Division is an Agent or fiduciary for other divisions of the Department of Transportation. It is responsible for other assets that can only be used or applied if certain requirements are met. All of the Division's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 15. These activities are excluded from the Division's other financial statements because the Division cannot use these assets to finance its operations. The Division is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### THE DIVISION AS A WHOLE

Tables 1 and 2 presents a comparative view of net assets and changes in net assets from 2002 to 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**TABLE 1**  
**NET ASSETS**  
(Rounded to nearest \$1,000)

	<u>2003</u>	<u>2002</u>
ASSETS:		
Current	\$ 4,246,000	\$ 4,451,000
Capital assets net of depreciation	<u>1,326,000</u>	<u>1,404,000</u>
Total assets	<u>5,572,000</u>	<u>5,855,000</u>
LIABILITIES:		
Current	3,411,000	3,063,000
Long-term	<u>1,059,000</u>	<u>915,000</u>
Total liabilities	<u>4,470,000</u>	<u>3,978,000</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,325,000	1,404,000
Restricted	2,974,000	2,404,000
Unrestricted	<u>(3,197,000)</u>	<u>(1,931,000)</u>
Total net assets	<u>\$ 1,102,000</u>	<u>\$ 1,877,000</u>

Net assets of the Division in 2003 decreased by 41.29% (\$1,102,000 as compared to \$1,877,000). Unrestricted net assets, the part of net assets that can be used to finance day to day operations changed by 65.56% (deficit of \$3,197,000 as compared to \$1,931,000) in 2003.

**TABLE 2**  
**CHANGES IN NET ASSETS**  
(Rounded to nearest \$1,000)

	<u>2003</u>	<u>2002</u>
Expenses:		
Personal services	\$ 5,971,000	\$ 4,904,000
Other	5,985,000	6,006,000
Depreciation	<u>348,000</u>	<u>342,000</u>
Total expenses	<u>12,304,000</u>	<u>11,252,000</u>
Revenues:		
Allocated appropriations	12,292,000	10,794,000
Federal grant revenues	2,155,000	2,074,000
Other	<u>318,000</u>	<u>375,000</u>
Total revenues	<u>14,765,000</u>	<u>13,243,000</u>
Transfers	<u>(3,236,000)</u>	<u>(2,255,000)</u>
(Decrease) increase in net assets	<u>\$ (775,000)</u>	<u>\$ (264,000)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Division's total revenues increased by 11.49% in 2003. Total expenses increased by 9.35%. The significant changes in revenue and expenses during 2003 were attributed primarily to increased personal services.

### Special Fund Budgetary Highlights

The annual budget for the Division is based on allotted appropriation of Special Funds from the State of Hawaii as detailed in the Notes to the Financial Statements. The significant differences between budgeted and actual revenues and expenditures in the Special funds were primarily attributed to federal grant programs. Total revenues differed by \$10,659,000 or 42.25% below budget, and total expenditures were \$14,583,000 or 57.80% below budget.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

As of June 30, 2003, the Division had \$1,325,000 in capital assets, net of accumulated depreciation. This amount represents a net decrease of approximately \$79,000 from 2002. There was \$424,000 in additions, which consisted primarily of computer hardware and software. Disposition and transfers of capital assets totaled \$192,000 for the current year.

#### Debt

The Division did not have any debt financing for 2003. Balances as of June 30, 2003 and 2002 were \$0.

## INDEPENDENT AUDITORS' REPORT

To the Director of Transportation  
Department of Transportation - Administration  
Honolulu, Hawaii

We have audited the accompanying financial statements of the governmental activities of the Department of Transportation - Administration (Division) as of and for the year ended June 30, 2003, which collectively comprise the Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements of the Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Division as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 16, 2004, on our consideration of Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 – 6 and 26 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Division. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Division. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii  
January 16, 2004

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
STATEMENT OF NET ASSETS  
JUNE 30, 2003

ASSETS	<u>Governmental Activities</u>
Cash and deposits	\$ 4,232,533
Accounts receivable	14,160
Net capital assets	<u>1,325,511</u>
Total Assets	<u>5,572,204</u>
LIABILITIES	
Accrued liabilities	434,270
Due to other divisions	2,976,935
Deferred revenue	8
Accrued vacation pay	<u>1,058,659</u>
Total Liabilities	<u>4,469,872</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,325,511
Restricted for:	
Transportation projects	2,974,385
Unrestricted	<u>(3,197,564)</u>
Total Net Assets	<u>1,102,332</u>
Total liabilities and net assets	<u>\$ 5,572,204</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003

<u>Functions/Programs</u>	<u>Total</u>	<u>Administration</u>	<u>Operating Grants</u>
Primary government			
Expenses			
Personal services	\$ 5,970,973	\$ 5,789,118	\$ 181,855
Other	5,985,095	4,012,343	1,972,752
Depreciation	347,836	347,836	-
Total expenses	<u>12,303,904</u>	<u>10,149,297</u>	<u>2,154,607</u>
Revenues			
Allotted appropriations	12,292,438	12,292,438	-
Federal grant revenue	2,154,607	-	2,154,607
Other	318,401	318,401	-
Total revenue	<u>14,765,446</u>	<u>12,610,839</u>	<u>2,154,607</u>
Total primary government	<u>2,461,542</u>	<u>\$ 2,461,542</u>	<u>\$ -</u>
Transfers	<u>(3,236,109)</u>		
Change in Net Assets	(774,567)		
Net Assets - Beginning	<u>1,876,899</u>		
Net Assets - Ending	<u>\$ 1,102,332</u>		

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2003

ASSETS	<u>Administration</u>	S-256 <u>Restricted</u>	S-257 <u>Restricted</u>	S-258 <u>Restricted</u>	<u>Other Funds</u>	<u>Total</u>
Cash and deposits	\$ 3,616,297	\$ 392,325	\$ 6,325	\$ 215,640	\$ 1,946	\$ 4,232,533
Accounts Receivable	<u>14,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,160</u>
Total Assets	<u>\$ 3,630,457</u>	<u>\$ 392,325</u>	<u>\$ 6,325</u>	<u>\$ 215,640</u>	<u>\$ 1,946</u>	<u>\$ 4,246,693</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Accrued liabilities	\$ 434,270	\$ -	\$ -	\$ -	\$ -	\$ 434,270
Due to other divisions	2,976,935	-	-	-	-	2,976,935
Deferred revenue	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>
Total Liabilities	<u>3,411,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,411,213</u>
<b>FUND BALANCES</b>						
Reserved for encumbrances	1,051,237	150,899	-	-	-	1,202,136
Unreserved - undesignated	<u>(831,993)</u>	<u>241,426</u>	<u>6,325</u>	<u>215,640</u>	<u>1,946</u>	<u>(366,656)</u>
Total fund balances	<u>219,244</u>	<u>392,325</u>	<u>6,325</u>	<u>215,640</u>	<u>1,946</u>	<u>835,480</u>
Total liabilities and fund balances	<u>\$ 3,630,457</u>	<u>\$ 392,325</u>	<u>\$ 6,325</u>	<u>\$ 215,640</u>	<u>\$ 1,946</u>	<u>\$ 4,246,693</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003

Total fund balances - governmental funds	\$	835,480
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

These consist of:

Furniture and equipment	\$	4,024,106	
Accumulated depreciation		<u>(2,698,595)</u>	
Total capital assets			1,325,511

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Those liabilities consist of:

Accrued vacation pay		<u>(1,058,659)</u>
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Net assets of governmental activities	\$	<u><u>1,102,332</u></u>
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The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2003

	Administration	S-256 Restricted	S-257 Restricted	S-258 Restricted	Other Funds	Total
<b>REVENUES</b>						
Allotted appropriations	\$ 12,292,438	\$ -	\$ -	\$ -	\$ -	\$ 12,292,438
Federal grant revenue	-	240,335	604,193	1,310,079	-	2,154,607
Other	315,130	-	-	-	7,259	322,389
Total revenues	<u>12,607,568</u>	<u>240,335</u>	<u>604,193</u>	<u>1,310,079</u>	<u>7,259</u>	<u>14,769,434</u>
<b>EXPENDITURES</b>						
Personal services	5,645,818	181,855	-	-	-	5,827,673
Other	3,860,742	58,480	604,193	1,310,079	151,602	5,985,096
Total expenditures	<u>9,506,560</u>	<u>240,335</u>	<u>604,193</u>	<u>1,310,079</u>	<u>151,602</u>	<u>11,812,769</u>
Excess of revenues over expenditures	<u>3,101,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(144,343)</u>	<u>2,956,665</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	343,428	6,325	145,391	-	495,144
Transfers out	(3,234,037)	(343,428)	(6,325)	(145,391)	(2,072)	(3,731,253)
Other	(339,879)	307	-	70,249	(3,988)	(273,311)
Total other financing sources and uses	<u>(3,573,916)</u>	<u>307</u>	<u>-</u>	<u>70,249</u>	<u>(6,060)</u>	<u>(3,509,420)</u>
Net change in fund balances	<u>(472,908)</u>	<u>307</u>	<u>-</u>	<u>70,249</u>	<u>(150,403)</u>	<u>(552,755)</u>
Fund balances - beginning	692,152	392,018	6,325	145,391	152,349	1,388,235
Fund balances - ending	<u>\$ 219,244</u>	<u>\$ 392,325</u>	<u>\$ 6,325</u>	<u>\$ 215,640</u>	<u>\$ 1,946</u>	<u>\$ 835,480</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003

Net change fund balances - total governmental funds \$ (552,755)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	423,935
Net disposition of capital	(154,612)
Depreciation expense	(347,835)

Some expenses reported in the statement of activity do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Change in accrued vacation payable	<u>(143,300)</u>
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Change in net assets of governmental activities \$ (774,567)

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2003

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>13,197,384</u>
Total Assets	<u>13,197,384</u>
 <b>LIABILITIES</b>	
Bid bonds and AMTRAK Funds payable	<u>13,197,384</u>
	<u>13,197,384</u>
 <b>NET ASSETS</b>	 \$ <u><u>          -</u></u>

The accompanying notes are an integral part of the financial statements.

**PART III**  
**FINANCIAL SECTION**

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of Hawaii Department of Transportation - Administration (Division) consists of the Office of the Director of Transportation, Departmental Staff Services Offices, and the Statewide Transportation Planning Office. Collectively, these offices provide the overall administrative support of the Department of Transportation.

The Statewide Transportation Planning Office is responsible for the administration of certain Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) Federal grants awarded to the Department of Transportation.

The Division's financial statements are prepared in accordance with U.S. generally accepted accounting principals (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Division is discussed below.

Reporting entity

The financial statements reflect only the Division's financial activities. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State of Hawaii (State) annually, which includes the Division's financial activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Division. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds and Fiduciary Funds. However, the Fiduciary Funds are not included in the government-wide financial statements. Major Governmental Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide – financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund – financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the fiscal year.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The Division records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund – financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Fund Accounting

The financial statements of the Division are recorded in individual funds, each of which is deemed to be a separate accounting entity. The division uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Division that are reported in the accompanying fund financial statements have been classified into the following major Governmental Fund. In addition, a description of the Fiduciary Fund follows.

Governmental Fund Type

The Division reports the following major Governmental Fund:

Special Revenue Fund – is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds were established to account for the contracts that the State entered into for the Division with the U.S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA) and those between the Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

Fiduciary Fund Type

Agency Fund – is used to account for assets held by the Division in an agency capacity.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – It is the State’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State’s deferred compensation plan are not reported in the accompanying statements of net assets

Risk Management

The Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers’ compensation. The State generally retains the first \$250,000 per occurrence of property losses and the first \$2 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$25 million (\$10 million for earthquake and flood) and the annual aggregate for general liability losses per occurrence is \$15 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$30 million per occurrence with no annual aggregate limit. The State is generally self-insured for workers’ compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimate of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Capital assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported in the applicable financial statements, at cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in statement of activities. Repairs and maintenance is expensed as incurred. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Building	5 - 100 years
Furniture and equipment	1 - 25 years
Land improvements	5 - 100 years

Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted assets represent net assets restricted by parties outside of the State (such as creditors, grantors, and contributors), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Portions of fund balances are reserved in the fund financial statements for continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrance represents outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

2. Budgeting and Budgetary Control

The Division follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Budget - Not less than 20 days before the legislature convenes in every odd-numbered year, the Governor submits to the legislature, and to each member thereof, a budget which contains the program and budget recommendations of the Governor for the succeeding two fiscal years. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next two fiscal years to carry out the recommended programs; a summary of State receipts and revenue in the last completed fiscal year; a revised estimate for the fiscal year in progress, and an estimate for the succeeding biennium.
- Legislative Review - The legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as well as assist in determining the State's program and financial plan and budget.
- Program Execution - Except as limited by policy decisions of the Governor, appropriations by the legislature, and other provisions of law, the several agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the legislature.

The budgets are prepared on a basis other than U.S. generally accepted accounting principles (GAAP). The actual results of operations are presented on the budgetary basis in the budgetary comparison statement (non-GAAP budgetary basis) to provide a meaningful comparison of actual results to the budget.

The major differences between the budgetary and GAAP basis are: encumbrances are recorded as the equivalent of expenditures as opposed to a reservation of fund balance; federal grant revenue is recognized when received; and expenditures relating to accrued liabilities are recognized when paid.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

2. Budgeting and Budgetary Control (Continued)

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2003 from the GAAP basis to the budget basis are as follows:

Excess of expenditures over revenues and transfers, GAAP basis	\$ <u>(552,755)</u>
Increase (decrease) in revenues:	
Current year receivables	(14,160)
Prior year deferred revenue	(8)
Current year deferred revenue	8
	<u>(14,160)</u>
Increase (decrease) in expenditures:	
Prior year accrued liabilities	658,978
Current year accrued liabilities	(436,820)
Prior year encumbrances, net of adjustments	(2,679,066)
Current year encumbrances	1,202,137
	<u>(1,254,771)</u>
Excess of revenues over expenditures and transfers, budgetary basis	\$ <u><u>687,856</u></u>

3. CASH AND DEPOSITS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State which in the Director's judgment are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Division based on its equity in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. The Director of Finance invests State Treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances are not reduced for these investments. Total cash and deposits of the Division at June 30, 2003 was \$4,232,533.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

4. CAPITAL ASSETS

Capital asset activity of the governmental-wide financial statements fund for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Deletions</u>	<u>Balance</u>
<u>Capital assets:</u>				
Furniture & Equipment	\$3,781,776	\$ 423,935	\$ 192,369	\$4,013,342
Vehicle	<u>10,764</u>	<u>-</u>	<u>-</u>	<u>10,764</u>
Total capital assets	<u>3,792,540</u>	<u>423,935</u>	<u>192,369</u>	<u>4,024,106</u>
Less accumulated depreciation	<u>2,388,517</u>	<u>347,835</u>	<u>(37,757)</u>	<u>2,698,595</u>
Capital assets, net of depreciation	<u>\$1,404,023</u>	<u>\$ 76,100</u>	<u>\$ 154,612</u>	<u>\$1,325,511</u>

5. RETIREMENT BENEFITS

Plan Description

Substantially all eligible employees of the Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii, 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service for the contributory and noncontributory options, respectively.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

5. RETIREMENT BENEFITS (Continued)

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the highest paid three years of service, excluding the vacation payment.

Funding Policy

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirements as of June 30, 2002 and 2001, the most recent information available were approximately \$113,984,000, and \$7,690,000, respectively. The State contributed 100% of its required contribution for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 and 2001 required contributions. Covered payroll for the fiscal year ended June 30, 2002 was approximately \$1,733,613,000. Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the Division. Contributions by the Division for the fiscal years ended June 30, 2002 was \$0, at the rates of 0.00% of annual covered payroll.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring 10 years or more credited service and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2003

6. COMMITMENTS AND CONTINGENCIES

There are currently approximately 22,500 state retirants receiving such benefits. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are financed on a pay-as-you-go basis. The Division's share of the post-retirement health care and life insurance benefits expense for the fiscal year ended June 30, 2003, was approximately \$594,000.

Accumulated Sick Leave Pay

Sick leave credits accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee of the Division who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2003, amounted to approximately \$3,538,000.

7. DUE TO OTHER DIVISIONS/TRANSFERS

At the beginning of each fiscal year, the divisions of the Department of Transportation (Airports, Harbors and Highways) transfer a percentage of their budgetary appropriations to cover their share of operating expenses incurred by the Division. Unencumbered balances at the end of each year are transferred back to the respective divisions.

SUPPLEMENTARY FINANCIAL  
INFORMATION

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
BUDGETARY COMPARISON STATEMENT (NON-GAAP BUDGETARY BASIS) -  
SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Allotted appropriations	\$ 12,292,438	\$ 12,292,438	\$ -
Federal grant revenue	12,815,345	1,954,443	(10,860,902)
Other	<u>120,860</u>	<u>322,389</u>	<u>201,529</u>
Total revenues	<u>25,228,643</u>	<u>14,569,270</u>	<u>(10,659,373)</u>
Expenditures			
Personal services	6,358,332	5,802,510	555,822
Other	<u>18,870,311</u>	<u>4,842,795</u>	<u>14,027,516</u>
Total expenditures	<u>25,228,643</u>	<u>10,645,305</u>	<u>14,583,338</u>
Excess of revenues over expenditures	-	3,923,965	3,923,965
Transfers To Other DOT Divisions	<u>-</u>	<u>(3,236,109)</u>	<u>(3,236,109)</u>
Excess of revenues over expenditures and transfers	<u>\$ -</u>	<u>\$ 687,856</u>	<u>\$ 687,856</u>

DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<b>FEDERAL TRANSIT ADMINISTRATION:</b>				
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas:	20.509			
10/1/91 - 9/30/92		HI-18-X009	\$ 267,819	\$ 5,265
10/1/94 - 9/30/95		HI-18-X012	2,950,903	13,228
10/1/95 - 9/30/96		HI-18-X013	1,555,297	1,570
10/1/96 - 9/30/97		HI-18-X014	490,991	1,682
10/1/97 - 9/30/00		HI-18-X015	3,010,000	671,986
10/1/97 - 9/30/00		HI-18-X016	513,066	67,139
3/30/99 - 12/31/03		HI-18-X017	588,653	56,723
9/1/99-12/31/00		HI-18-X019	770,187	27,461
9/29/00 - 10/31/01		HI-18-X020	710,639	216,107
9/30/02 - 10/31/05		HI-18-X021	1,493,939	247,997
			<u>12,351,494</u>	<u>1,309,158</u> *
Capital assistance grants to assist in providing transportation services for the elderly and the handicapped:	20.513			
10/1/98 - 9/30/99		HI-16-0025	335,013	24,881
10/1/99 - 9/30/00		HI-16-0026	353,839	341,892
9/30/00 - 10/30/01		HI-16-0027	376,045	237,420
			<u>1,064,897</u>	<u>604,193</u> *
Grant to assist in financing the acquisition, construction, reconstruction and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas:	20.500			
10/1/95-9/30/96		HI-03-0018	<u>240,000</u>	<u>921</u>
<b>FEDERAL HIGHWAY ADMINISTRATION:</b>				
Grant to assist in the development of an integrated, interconnected transportation system:	20.205			
10/1/93 - 9/30/94		CM-1500(8)	2,804,438	9,035
10/1/01 - 9/30/02		SPR-0010(24)	2,661,639	109,125
10/1/02 - 9/30/03		SPR-0010(25)	2,379,738	122,175
			<u>7,845,815</u>	<u>240,335</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 21,502,206</u>	<u>\$ 2,154,607</u>

\* Denotes major program expenditures

**PART IV**

**COMPLIANCE AND INTERNAL CONTROL SECTION**

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Director of Transportation  
Department of Transportation - Administration  
Honolulu, Hawaii

We have audited the financial statements of Department of Transportation - Administration (Division) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 16, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of the Division, in a separate letter dated January 16, 2004.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii  
January 16, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Director of Transportation  
Department of Transportation - Administration  
Honolulu, Hawaii

**Compliance**

We have audited the compliance of the State of Hawaii Department of Transportation - Administration (Division) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Division's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Division's management. Our responsibility is to express an opinion on the Division's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Division's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Division's compliance with those requirements.

In our opinion, the Division complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

## Internal Control Over Compliance

The management of the Division is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Division's internal control over compliance with requirements that could have a direct and material effect on a 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii  
January 16, 2004

**PART V**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003

**Status of Prior Year Comments**

There were no audit findings and questioned costs reported for the year ended June 30, 2002.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS:**

- |  |                      |
|--|----------------------|
| Type of auditors' report issued:   | <u>Unqualified</u>   |
| 1. Internal control over financial reporting:                                  |                      |
| 2. Material weaknesses identified?   | <u>No</u>            |
| Reportable condition identified that is not considered to be material weakness | <u>None reported</u> |
| 3. Noncompliance material to financial statements noted?                       | <u>No</u>            |

**FEDERAL AWARDS:**

- |  |                                       |
|--|---------------------------------------|
| 1. Internal control over major program:<br>Material weaknesses identified?<br>Reportable condition identified that is not considered to be material weakness   | <u>No</u><br><br><u>None reported</u> |
| 2. Type of auditors' report issued on compliance for major program:  | <u>Unqualified</u>                    |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  | <u>No</u>                             |
| 4. Identification of major program:  |                                       |
| a. 20.509 - Federal Transit Administration: Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas; 20.513 – Federal Transit Administration: Capital assistance grants to assist in providing transportation services for the elderly and the handicapped; 20.500 – Federal Transit Administration: Financial, operating, and technical assistance in providing mass transportation service in urban areas. |                                       |
| b. Dollar threshold used to distinguish between type A and type B programs:  | <u>\$300,000</u>                      |
| c. Auditee qualified as low-risk auditee?  | <u>Yes</u>                            |

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
YEAR ENDED JUNE 30, 2003

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**PART VI**  
**CORRECTIVE ACTION PLAN**

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION - ADMINISTRATION  
CORRECTIVE ACTION PLAN  
JUNE 30, 2003

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2003.