



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

Single Audit Reports
(With Independent Auditors' Reports Thereon)

June 30, 2014

Submitted by
**THE AUDITOR
STATE OF HAWAII**

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

Single Audit Reports

Year Ended June 30, 2014

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Section I

Introduction

March 27, 2015

The Auditor
State of Hawaii:

We have completed our audit of the basic financial statements of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), as of and for the year ended June 30, 2014. We have also audited the Highways Division's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports pertaining to our audit of the Highways Division's basic financial statements and federal financial assistance programs.

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

AUDIT OBJECTIVES

1. To provide opinions on the fair presentation of the Highways Division's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2014, 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 basic 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 basic financial statements.
3. To perform tests of the Highways Division's compliance with certain provisions, laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Highways Division's internal control over compliance with requirements that could have a direct and material effect on each of its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance.
5. To provide an opinion on the Highways Division's compliance with applicable laws, regulations, contracts and grants that could have a direct and material effect on each of its major federal programs.

SCOPE OF AUDIT

We performed an audit of the Highways Division's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ORGANIZATION OF REPORT

Our report is organized into three sections as follows:

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

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

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

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

Sincerely,

KKDLY LLC

Section II

Internal Control Over Financial Reporting and Compliance and Other Matters

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the Highways Division's basic financial statements, and have issued our report thereon dated March 27, 2015.

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 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2014-001 and 2014-002, that we consider to be significant deficiencies.

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 Responses to Findings

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

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
March 27, 2015

Section III

Compliance and Internal Control Over Federal Awards

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

The Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

We have audited the Highways Division, Department of Transportation, State of Hawaii's (the Highways Division), compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. The Highways Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Highways Division's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Highways Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Highways Division's compliance.

Opinion on Each Major Federal Program

In our opinion, the Highways Division complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings 2014-003 through 2014-005. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings 2014-003 through 2014-005, that we consider to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities and each major fund of the Highways Division as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the Highways Division's basic financial statements. We issued our report thereon dated March 27, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KKDL Y LLC

Honolulu, Hawaii
March 27, 2015

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal/Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Transportation		
Highway Planning and Construction	20.205	\$ 184,505,678
ARRA - Highway Planning and Construction	20.205	18,384,556
State and Community Highway Safety Program:		
NHTSA Grant	20.600	3,844,110
Fatal Accident Reporting System Grant	20.600	39,913
Commercial Driver's License Program Improvement	20.232	127,115
National Motor Carrier Safety Program - Assistance program grant	20.218	<u>284,103</u>
Total U.S. Department of Transportation		207,185,475
U.S. Department of Homeland Security		
Driver's License Security Grant Program	97.089	<u>122,229</u>
Total Federal Expenditures		<u><u>\$ 207,307,704</u></u>

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

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Highways Division and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Relationship to Financial Statements

Federal financial assistance revenues are reported in the Highways Division's financial statements. Actual expenditures related to the major programs have been reconciled to the accounting records underlying the Highways Division's financial statements.

3. Relationship to Federal Financial Reports

The amounts reported in the accompanying schedule of expenditures of federal awards have been reconciled to the amounts reported in the related financial reports of the respective programs.

4. Subrecipients

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

<u>Federal/Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Subrecipient Expenditures</u>
Highway Planning and Construction	20.205	\$ 39,943,968
ARRA - Highway Planning and Construction	20.205	3,245,183
NHTSA Grant	20.600	2,720,454
Commercial Driver's License Program Improvement	20.232	127,115
Driver's License Security Grant Program	97.089	<u>122,229</u>
Total Subrecipient Expenditures		<u><u>\$ 46,158,949</u></u>

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weaknesses identified? yes no

Significant deficiencies identified yes no

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? yes no

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(2) Financial Statement Findings

Refer to Appendix 1.

(3) Federal Award Findings and Questioned Costs

Refer to Appendix 2.

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

Significant Deficiencies

June 30, 2014

Finding 2014-001 Timely Reconciliation of HWYAC Accounts

Condition

FAMIS is the accounting system used by the State of Hawaii (the State) to accumulate and report financial fund data to reflect total sources and expenditures of the State, which includes the Highways Division. 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.

Cash receipts and cash disbursements transactions are processed and recorded in FAMIS. This information is then manually reentered into HWYAC by Highways Division personnel to provide more detailed information for each of its federal and state projects, which is used by management of the Highways Division for financial reporting, project costing, and federal reimbursement purposes.

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

We noted that cash in State Treasury, revenues, expenditures, and transfers as of and for the year ended June 30, 2014 were not properly reconciled until February 2015.

Criteria

Financial information related to cash in State Treasury, revenues, expenditures, and transfers reported in the HWYAC system should be complete and accurate to ensure the integrity of financial information used by management and those outside the Highways Division, including the State and the Federal government.

Cause

The Highways Division did not adhere to its policy requiring the performance of monthly reconciliations of its cash in State Treasury. This was due in part to the fact that the Highways Division did not have an individual in the Fiscal Officer position, which was filled in January 2014. Additionally, the Chief Accountant position became vacant in February 2014. As a result, the fiscal office's efforts were redirected toward the maintenance of daily operations and the periodic reconciliations were not done during the year in accordance with the Highways Division's established policy.

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

Significant Deficiencies

June 30, 2014

Effect

Although the Highways Division was able to expedite the current year's closing process by four months, we noted that HWYAC and FAMIS were not reconciled until February 2015. Due to the difficulty and time commitment required to reconcile the numerous transactions which occurred during the year, the reconciliation of the State Treasury, transfers, revenue, and expenditure accounts delayed the year-end closing process.

The failure to perform reconciliations in a timely manner could result in erroneous cash transactions going undetected. These undetected errors could lead to inaccurate financial information provided to management, the State, and the Federal government.

Recommendation

We again recommend that the Highways Division reconcile amounts recorded in FAMIS to amounts recorded in HWYAC on a monthly basis. This should improve the accuracy and completeness of the 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 potential cash receipts and cash disbursement errors in a timely manner.

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division's reconciliation of FAMIS and HWYAC for the fiscal year ended June 30, 2014 was completed in February 2015. The Fiscal Office intends to reconcile HWYAC and FAMIS on a regular basis. The Highways Division hired a permanent person to the Fiscal Officer position in January 2014 and the Federal Aid Accountant position in September 2014. As of this date, the Highways Division also completed the selection process to fill the Chief Accountant position.

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

Significant Deficiencies

June 30, 2014

Finding 2014-002 Timely Reporting of Financial Information

Condition

The Highways Division issued its financial statements as of and for the year ended June 30, 2014 in March 2015. We noted that the Highways Division was able to expedite their year-end closing process by four months as compared to last year and did meet the single audit and revenue bond reporting deadlines of March 31, 2015. However, the Highways Division's annual financial statements were not available until nine months after year-end. Although personnel from the Highways Division worked diligently to accomplish the many tasks necessary to account for and report on the Highways Division's activities, they encountered difficulties and delays in reconciling account balances and transactions; completing the required fund and government wide closing entries; and preparing audit schedules, analyses, and reports necessary to generate annual financial statements.

Criteria

The Highways Division should have a financial reporting process capable of providing complete and accurate financial information on a timely basis to meet the financial reporting requirements of the State, the Federal government, and bondholders, as well as the management of the Highways Division.

Cause

The Highways Division experienced a high degree of management and staff turnover during the year. We again noted that the Highways Division's year-end closing process, as further described in Finding 2014-001, was time consuming and lengthy, and hindered the Highways Division's ability to provide timely financial statements to the State, the Federal government, and bondholders, as well as the management of the Highways Division.

The aforementioned staff turnover was further complicated by the fact that there were insufficient formalized procedures for the year-end closing and reporting process.

Effect

Although the Highways Division made significant improvements in the year-end closing process, financial statements were not available until nine months after the end of the fiscal year.

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

Significant Deficiencies

June 30, 2014

Recommendation

We again recommend that the Highways Division continue its efforts to establish formal, written policies and procedures to ensure that it meets the financial reporting requirements of the State, the Federal government, and bondholders, as well as the management of the Highways Division, including (1) procedures for the year-end closing and reporting process, (2) identification of work papers and templates required to support certain financial statement amounts and disclosures, (3) related time lines and staff assignments. In doing so, the loss of knowledge due to staff turnovers will be minimized and allow the Highways Division to continue operations uninterrupted.

As further described in Finding 2014-001, we recommend that the Highways Division reconcile amounts recorded in FAMIS to amounts recorded in HWYAC on a monthly basis to expedite the year-end closing process and to allow the Highways Division to identify, investigate, and correct potential cash receipts and cash disbursement errors in a timely manner.

We also recommend that the Highways Division consider providing cross-training opportunities to fiscal office staff and consider filling vacant positions as deemed necessary to enhance the Highways Division's ability to meet its daily and year-end financial reporting requirements.

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division filled the Fiscal Officer position in January 2014. This individual now manages and oversees the year-end closing, including reconciliation and preparation of audit schedules and reports. As of the date of this report, the Highways Division also completed the selection process to fill the Chief Accountant position. With these changes and updates, the Highways Division expects to improve the year-end closing process, resulting in an earlier issuance of the Highways Division's financial statements.

HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

Single Audit Findings

June 30, 2014

Finding 2014-003
Cash Management

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

Condition

During our audit, we noted that the Highways Division requested federal reimbursements from the FHWA for subrecipient expenditures prior to remitting payments to subrecipients.

We noted that for 8 of the 15 requests for reimbursement during the year ended June 30, 2014, payments to subrecipients were made more than 7 days after reimbursements were received from the Federal Highways Administration (FHWA) (ranging from 8 days to 89 days). These payments to subrecipients aggregated \$29.1 million, out of a total of \$43.2 million paid during the year ended June 30, 2014.

Criteria

In accordance with the *Cash Management Improvement Act Agreement between The State of Hawaii and The Secretary of the Treasury, United States Department of the Treasury* (the Treasury State Agreement), the time period from the date federal funds are received and credited to the State's account and the date those funds are expended from the State's account shall be no more than 7 days.

Cause

Upon receipt of federal reimbursement from the FHWA for subrecipient expenditures, the Federal Aid Accountant will compare and reconcile the reimbursement amounts approved by the FHWA to the reimbursement requests submitted by the subrecipients. Upon completion of this reconciliation process, she will advise the Pre-Audit Clerk to make the appropriate payments to the subrecipients. As there was significant turnover in the Federal Aid Accountant position during the year, payments to subrecipients were not made on a timely basis.

Effect

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

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

Single Audit Findings

June 30, 2014

Recommendation

We again recommend that the Highways Division adhere to established formal procedures to ensure compliance with the FHWA's cash management requirements pertaining to reimbursements for subrecipient expenditures. Specifically, the time period from the date federal funds are received and credited to the Highways Division's account and the date those funds are expended from the Highways Division's account should not exceed 7 days as stipulated in the Treasury State Agreement.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division is implementing stricter policies to ensure that subrecipients are paid in a timely manner. Payment requests and supporting documents submitted by subrecipients are now being reviewed in a more timely fashion. Additionally, revised policies have been implemented to ensure that cash received from the FHWA are quickly posted into FAMIS for disbursement. Fiscal year 2014 shows an improvement in the subrecipient payment timeline as compared to fiscal year 2013. This progress is expected to continue into future fiscal years. The Federal Aid Accountant position was also filled in September 2014. As this position is in charge of making sure that current processes and procedures are followed, she has been tasked with ensuring that the Highways Division adheres to the cash management requirements as they pertain to the reimbursement for subrecipient expenditures.

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

Single Audit Findings

June 30, 2014

**Finding 2014-004
Davis-Bacon Act**

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

Condition

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

During our audit, we selected and tested a sample of 25 certified payroll reports. We noted that 9 of the certified payroll reports were received after the 7-day deadline. Additionally, we identified 6 instances where the certified payroll reports did not contain any evidence (e.g., signature, initial, check marks, etc.) documenting the review by the Highways Division project engineer. During our compliance work, we noted that all employees tested were paid the required prevailing wage rate.

Criteria

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

Cause

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

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

Single Audit Findings

June 30, 2014

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division's existing policies pertaining to the receipt and review of certified payroll reports from contractors and subcontractors, specifically Procedure No. 10-02-08 of the Highways Construction Manual and the 2005 Standard Plans and Specifications, are currently being strictly enforced. The Highways Division is constantly following up with the District Engineers to ensure that certified payroll reports are received, date stamped, and reviewed in a timely manner. This finding is being reviewed in detail by the Construction and Maintenance Branch to develop appropriate solutions.

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

Single Audit Findings

June 30, 2014

**Finding 2014-005
Cash Management**

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

Condition

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

We noted that for 13 of the 24 requests for reimbursement during the year ended June 30, 2014, payments to subrecipients were made more than 7 days after reimbursements were received from NHTSA (ranging from 8 days to 28 days). These payments to subrecipients aggregated \$2.3 million during the year ended June 30, 2014.

Criteria

In accordance with the *Cash Management Improvement Act Agreement between The State of Hawaii and The Secretary of the Treasury, United States Department of the Treasury* (the Treasury State Agreement), the time period from the date Federal funds are received and credited to the State's account and the date those funds are expended from the State's account shall be no more than 7 days.

Cause

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

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

Single Audit Findings

June 30, 2014

Effect

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

Recommendation

We again recommend that the Highways Division adhere to established formal procedures to ensure compliance with NHTSA's cash management requirements pertaining to reimbursements for subrecipient expenditures. Specifically, the time period from the date federal funds are received and credited to the Highways Division's account and the date those funds are expended from the Highways Division's account should not exceed 7 days as stipulated in the Treasury State Agreement.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Highways Division understands the importance of complying with the terms of the State Treasury Agreement. Existing policies on timely payment of subrecipients are being followed more strictly than in the past year. The Highways Division is in the process of reviewing existing procedures pertaining to the NHTSA grant reimbursement process in order to develop solutions to ensure compliance with the State Treasury Agreement. The Highways Division is also in the process of establishing an Accountant position in the Fiscal Office to maintain financial records and transactions of MVSO federal grants.