

***State of Hawaii
Department of
Transportation -
Airports Division***

*Single Audit Report
for the Fiscal Year Ended June 30, 2002*

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION - AIRPORTS DIVISION**

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

The Director
Department of Transportation
State of Hawaii:

We have audited the financial statements of the Airports Division, Department of Transportation, State of Hawaii ("Airports Division") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002 (November 8, 2002 as to the "Asserted Claim" section of Note 14). We conducted our audit in accordance with 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.

Compliance

As part of obtaining reasonable assurance about whether the Airports Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Airports 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Airports Division's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management of the Airports Division and the Federal Aviation Administration, U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 11, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO A MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Director
Department of Transportation
State of Hawaii:

Compliance

We have audited the compliance of the Airports Division, Department of Transportation, State of Hawaii ("Airports 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, 2002. The Airports 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 Airports Division's management. Our responsibility is to express an opinion on the Airports Division's compliance based on our audit.

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 Airports 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 on the Airports Division's compliance with those requirements.

In our opinion, the Airports 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, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 02-02.

Internal Control over Compliance

The management of the Airports Division is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Airports Division's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Airports Division as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002 (November 8, 2002 as to the "Asserted Claim" section of Note 14). Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the Airports Division. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered 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 Airports Division and the Federal Aviation Administration, U. S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 11, 2002

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION - AIRPORTS DIVISION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures |
|---|---------------------------|-----------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION: | | |
| Federal Aviation Administration - Airport Improvement | | |
| Program: | 20.106 | |
| 3-15-0000-S5 | | \$ 36,058 |
| 3-15-0000-S6 | | 857,051 |
| 3-15-0004-05 | | 79,765 |
| 3-15-0004-06 | | 248,287 |
| 3-15-0004-11 | | 324,194 |
| 3-15-0005-23 | | 49,462 |
| 3-15-0005-35 | | 405,287 |
| 3-15-0005-36 | | 306,912 |
| 3-15-0005-38 | | 1,744,818 |
| 3-15-0005-40 | | 402,292 |
| 3-15-0005-41 | | 2,240,924 |
| 3-15-0005-42 | | 26,243 |
| 3-15-0005-44 | | 1,878,943 |
| 3-15-0005-45 | | 113,756 |
| 3-15-0005-46 | | 1,781,250 |
| 3-15-0005-48 | | 162,296 |
| 3-15-0005-51 | | 50,550 |
| 3-15-0005-52 | | 2,002,106 |
| 3-15-0006-21 | | 279,043 |
| 3-15-0006-23 | | 220,974 |
| 3-15-0006-25 | | 16,582 |
| 3-15-0006-27 | | 460,487 |
| 3-15-0008-11 | | 172,207 |
| 3-15-0008-12 | | 375,242 |
| 3-15-0008-16 | | 5,014,719 |
| 3-15-0008-18 | | 201,164 |
| 3-15-0009-02 | | 27 |
| 3-15-0011-03 | | 96,100 |
| 3-15-0011-04 | | 337,906 |
| 3-15-0011-06 | | 14,526 |
| 3-15-0012-05 | | 10,249 |
| 3-15-0013-18 | | 574,304 |
| 3-15-0013-23 | | 155,063 |
| TOTAL EXPENDITURES | | <u><u>\$20,638,787</u></u> |

See note to schedule of expenditures of federal awards.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION - AIRPORTS DIVISION**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airports Division and is presented on the basis of cash disbursements. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of financial statements.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION - AIRPORTS DIVISION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2002**

Part I - Summary of Auditors' Results

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. A reportable condition in internal control over financial reporting was identified, which was considered to be a material weakness.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the major federal awards program were identified.
5. The independent auditors' report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Airports Division's major program was CFDA 20.106, Federal Aviation Administration – Airport Improvement Program.
8. A threshold of \$532,200 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The Airports Division did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

02-01 INTERNAL CONTROLS OVER SMALL PURCHASES

Finding: Deficiencies existed in the design and operation of internal controls over small purchases.

Background: A review conducted by the Airports Division's Audit Unit of the small purchases made by the maintenance section of the Honolulu International Airport uncovered significant deficiencies in the design and operation of the internal controls over small purchases.

Among the weaknesses identified were the following: Lack of segregation of duties pertaining to the Contract Maintenance Services Unit inspectors; possible parceling of projects, wherein projects with estimated costs in excess of \$25,000 might have been parceled into smaller projects under \$25,000; possible collusion between Airports Division personnel and contractors; lack of proper documentation of the work performed; and a lack of scrutiny of the projects by supervisors.

The information gathered by the Audit Unit was turned over to the Department of the Attorney General, which is currently conducting a criminal investigation of the matter.

As a result of the internal control weaknesses noted, the Airports Division implemented certain procedures which are designated to mitigate such weaknesses. We were engaged to review the procedures and to make recommendations for improvement.

Recommendation: Document all of the revisions to the internal control procedures that have been implemented to mitigate the identified weaknesses over small purchases. In addition, test the adherence to the revisions by randomly selecting completed projects and projects in progress throughout the year.

Part III - Federal Award Findings and Questioned Cost Section

02-02 FEDERAL GRANTS PROCEDURE MANUAL

Finding: Portions of the Federal Grant Procedures Manual are outdated.

Background: The Federal Grant Procedures Manual outlines the procedures that should be followed in administering federal grants. Due to the numerous requirements that must be adhered to, it is important for the staff to be aware of all of the requirements. The Manual was partially updated when the Airports Division implemented the letter of credit method of drawing down reimbursements from the FAA beginning in fiscal year 2001. However, not all the relevant sections have since been updated. Accordingly, there appears to be some confusion as to the applicability of certain sections of the Manual.

This finding was reported in a previous year.

Recommendation: Update all sections of the Manual and disseminate information as to the major revisions.

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