

State of Hawaii
Department of
Transportation -
Highways Division

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

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

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

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

Grant/CFDA Grantor's Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:		
Highway planning and construction	20.205	\$ 138,722,715
State and community highway safety program:		
NHTSA grant		1,377,555
Fatal accident reporting system grant		<u>1,040</u>
Total state and community highway safety program	20.600	1,378,595
National motor carrier safety program - Assistance program grant	20.218	<u>517,011</u>
TOTAL EXPENDITURES		<u><u>\$ 140,618,321</u></u>

Notes:

1. The Schedule of Expenditures of Federal Awards includes the federal grant activity of the State of Hawaii, Department of Transportation, Highways Division (the "Highways Division") and is presented on the basis of cash disbursements made by the Highways Division. 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 the financial statements.
2. Additional details are included for the expenditures for CFDA Number 20.205, Highway planning and construction (see Pages 2-4).
3. The Schedule of Expenditures of Federal Awards does not include the amount of the Highways Division's matching funds that were expended during the year ended June 30, 2002.
4. Of the total federal expenditures, \$38,339,232 was provided to subrecipients.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--CFDA NUMBER 20.205, HIGHWAY PLANNING AND CONSTRUCTION
YEAR ENDED JUNE 30, 2002**

Code	Description	Unobligated Balance			Federal Agreement Balance		
		Balance July 1, 2001	Balance June 30, 2002	Balance July 1, 2001	Federal Additions and Modifications	Federal Expenditures	Balance June 30, 2002
A06/010	Consolidated Primary	\$ 6,960,628	\$ 4,920,309	\$ 6,959,355	\$ (131,280)	\$ (2,040,320)	\$ 4,787,755
Q01	Safety Incentives	263,924	1,717,582	263,924	1,625,000	(171,342)	1,717,582
Q02	Its-StdsRsch		60,000		60,000		60,000
Q02	Innovative Bridge Research	691,947	626,238	691,947		(65,709)	626,238
Q01	Interstate Main	16,674,434	14,691,266	16,674,433	1,076,242	(3,059,409)	14,691,266
Q03	Redistribution of Authority	2,081,557	3,777,601	2,081,557	1,963,212	(267,168)	3,777,601
Q05	NHS (HHS) Section 1006	37,915,036	67,732,777	37,915,037	42,100,533	(12,282,792)	67,732,778
Q06	Bridge Discretionary	2,982,025	595,298	2,982,025		(2,386,727)	595,298
Q08	Safety Incentives	7,096	7,236	7,096		140	7,236
Q10	Bridge Replace-65% On Sys	19,331,468	45,312,349	19,331,468	32,154,361	(6,173,480)	45,312,349
Q11	Bridge Replace-15% Off Sys	2,589,886	3,192,632	2,589,886	2,789,850	(2,187,104)	3,192,632
Q21	STP, Safety	4,494,489	3,353,698	4,494,489	1,304,955	(2,445,746)	3,353,698
Q22	STP, Enhancement	1,877,600	4,510,589	1,877,600	2,632,989		4,510,589
Q24	STP, Any Area	66,553,763	63,244,275	66,553,763	18,390,279	(21,699,767)	63,244,275
Q28	STP, Hazard Elimination	1,970,625	1,465,810	1,970,625	(231,288)	(273,527)	1,465,810
Q36	STP, 100% for Safety	613,241	613,241	613,241			613,241
Q40	Congestion Miti & Air Quality	1,729,289	10,332,691	1,729,289	9,216,257	(612,855)	10,332,691
Q42	CMAQ, 1002 Fed Safety	626,730	626,730	626,730			626,730
Q44	Interstate Maintenance	190,000	190,000	190,000			190,000
Q45	1% Metro Planning	2,300,519	643,090	2,057,159	(1,153,620)	(331,763)	571,776
Q48	Disadvantaged Business Enter	197,112	128,487	197,112		(68,625)	128,487
Q50	Funding Restoration	236,341	236,341	236,341			236,341
Q55	2% HWY Ping & Resch	5,922,302	8,057,504	5,678,943	3,144,607	(837,360)	7,986,190
Q56	Mand 25% Studies	1,457,481	1,530,009	1,244,004	553,840	(638,549)	1,159,295
Q76	Minimum Guarantee-Special Lim	4,314,565	18,778,476	4,314,565	14,467,838	(3,927)	18,778,476
Q77	Minimum Guarantee-TEA 21		6,792,558		6,800,000	(7,442)	6,792,558
Q78	Minimum Guarantee-Sub to Lim	1,726,117	1,726,117	1,726,117			1,726,117
Q89	Loc Tech Asst Pgm	164,145	152,262	164,145		(151,883)	152,262
Q90	Sec 1003-1008 Demos	309,202	309,202	309,202			309,202
Q92	Demo Highway Projects	5,259,073	8,086,591	5,259,074	996,280	1,831,237	8,086,591
Q94	Nat'l Rec Trails	733,573	875,798			(391,076)	
Q95	Ferry Boat & Ferry Term Const	4,306,500	4,256,000	4,306,500	(50,500)		4,256,000
	Subtotal (forwarded)	194,480,668	278,542,757	193,045,627	137,849,555	(53,874,118)	277,021,064

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--CFDA NUMBER 20.205, HIGHWAY PLANNING AND CONSTRUCTION (Continued)
YEAR ENDED JUNE 30, 2002**

Code	Description	Unobligated Balance			Federal Agreement Balance				
		Balance July 1, 2001	Net Obligations and Lapses	Federal Expenditures	Balance June 30, 2002	Balance July 1, 2001	Additions and Modifications	Federal Expenditures	Balance June 30, 2002
SUBTOTAL (Forwarded)		\$ 194,480,668	\$ 138,686,412	\$ (54,624,323)	\$ 278,542,757	\$ 193,045,627	\$ 137,849,555	\$ (53,874,118)	\$ 277,021,064
W32/W33	Urban System	754,918		(2,563)	752,355	748,136	(69,228)	(2,563)	676,345
W36/W37	Urbanized Area	2,513,325			2,513,325	2,513,325			2,513,325
X44/044	Interstate System 4R	10,870,994	60,933	15,680	10,947,607	10,572,357	(5,440,884)	15,678	5,147,151
032	Urban	1			1	1			1
04M	Interstate Maintenance	13,356,848	(791,748)	(3,997,555)	8,567,545	13,356,848	(1,556,517)	(3,997,555)	7,802,776
042	Interstate	22,258,111	(2,305,367)	520,391	20,473,135	22,256,431	(2,304,844)	520,391	20,471,978
054	Interstate Discretionary	52,874,117		(5,711,062)	47,163,055	52,941,891		(5,778,835)	47,163,056
073	Rural Primary	55,727			55,727	55,727			55,727
075/076	Rural Secondary	5,841,563	(111,802)	(2,106,025)	3,623,736	5,623,685	(84,515)	(2,106,025)	3,433,145
080	Highway Planning & Research	1,020,455			1,020,455	1,012,274	(81,832)		930,442
081/086	Highway Planning & Research	4,787,840		(735,256)	4,052,584	4,542,777		(695,314)	3,847,463
082	Metropolitan Planning	7,300	(1)		7,299	7,299			7,299
085	Metropolitan Planning	1,361,608	(72,806)	(930,136)	358,666	1,361,609	(72,806)	(930,136)	358,667
09V	Emergency Relief	14,437,278	11,217,303	(14,970,193)	10,684,388	14,437,278	11,217,303	(14,970,193)	10,684,388
09X	Emergency Relief	1,889,225	2,763,800	(3,069,535)	1,583,490	1,889,224	2,763,800	(3,069,535)	1,583,489
098/09L	Emergency Relief	2,924,834	435,107	(536,575)	2,823,366	2,924,836	399,311	(536,575)	2,787,572
106	Economic Growth	49		(48)	1	49		(48)	1
114	Bridge Replacement-On/Off system	14,113,942	87,173	(6,923,164)	7,277,951	14,107,738	93,375	(6,923,164)	7,277,949
115	Bridge Replacement	4,806		(4,638)	168	4,806		(4,638)	168
117	Bridge Replacement-On System	12,829,141	(6,904)	(1,286,759)	11,535,478	12,829,141	(6,904)	(1,286,759)	11,535,478
118	Bridge Replacement-On System	22,737,948	318,015	(8,070,742)	14,985,221	22,737,859	138,970	(8,070,742)	14,806,087
119	Bridge Replacement-Discretionary	1			1	1			1
141	Hazard Elimination	851,266		(237)	851,029	733,535	(1,570)	(237)	731,728
18E	Public Lands	375,582		(186,962)	188,620	375,581		(186,962)	188,619
183	Public Lands Highway	200,370		(108,403)	91,967	183,915		(108,403)	75,512
212	Motor Carrier Safety Grant	651,429	370,895	(517,011)	505,313				
308	Demonstration Project	2,315,824		(660,989)	1,654,835	2,315,824	(34,010)	(660,989)	1,620,825
309	Demonstration Project	1,389,494		(396,593)	992,901	1,389,494	(20,406)	(396,593)	972,495
31J	Congestion Pricing	36,352		(12,806)	23,546	36,352		(12,806)	23,546
315	National Highway System	31,204,931	4,579,702	(10,338,553)	25,446,080	30,789,130	4,283,998	(10,338,553)	24,734,575
317	Fund Restoration Allo Form	286,507		(63,130)	223,377	286,507		(63,130)	223,377
	Subtotal (forwarded)	416,432,454	155,230,712	(114,717,187)	456,945,979	413,079,257	147,072,796	(113,477,804)	446,674,249

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--CFDA NUMBER 20.205, HIGHWAY PLANNING AND CONSTRUCTION (Continued)
YEAR ENDED JUNE 30, 2002**

Code	Description	Unobligated Balance			Federal Agreement Balance			
		Balance July 1, 2001	Net Obligations and Lapses	Federal Expenditures	Balance June 30, 2002	Federal Additions and Modifications	Federal Expenditures	Balance June 30, 2002
SUBTOTAL (Forwarded)		\$ 416,432,454	\$ 155,230,712	\$ (114,717,187)	\$ 456,945,979	\$ 147,072,796	\$ (113,477,804)	\$ 446,674,249
32A	Congestion, Mitigation & Air Quality	2,528,523		(97,844)	2,430,679	(585,859)	(97,844)	1,844,820
32C	Scenic Byways	183,816			183,816			183,816
33A/33B/	Surface Transportation Program	92,848,682	(1,337,075)	(21,207,870)	70,303,737	(7,299,870)	(21,203,757)	61,612,296
320	Air Quality	3,225,893	3,719	(1,763,039)	1,466,573	3,719	(1,763,039)	1,466,574
326	Highways Systems Activities	3,940	(3,940)		3,940	(3,940)		
341	Highways Demo Projects	2,169,204		(91,025)	2,078,179		(91,025)	2,078,180
37A/37B/	Transportation Assistance Program	62,269			62,269			62,269
37T	Strategic Highway Research Program	2,900			2,900			2,900
38B/38C/	National Recreational Trail	5,734			5,734			
413	Public Lands Highways	3,975,598	1,005,500	(232,273)	4,748,825	1,005,500	(232,273)	4,748,825
45A	HWY Demo Project	4,545,100	8,925,200	(73,377)	13,396,923	8,925,200	(73,377)	13,396,923
541	Highway Studies	39,887			39,887			39,887
75T	Military Const	251,138	80,000	(73,013)	258,125		(73,013)	258,125
75Z	Military Construction		370,000		370,000			370,000
77B	FTA HWY Proj Transfer	1,770,000		(1,710,583)	59,417		(1,710,583)	59,417
9AH/96S	Disadvantaged Business Enterprise	252			252			252
92B	TRANS & COM SYS PRS	300,000		(91,172)	208,828			
Total		\$ 528,345,390	\$ 164,274,116	\$ (140,057,383)	\$ 552,562,123	\$ 149,567,546	\$ (138,722,715)	\$ 532,798,533



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

To the Director
Department of Transportation
State of Hawaii:

We have audited the financial statements of the Highways Division, Department of Transportation, State of Hawaii (the "Highways Division") as of and for the year ended June 30, 2002, and have issued our report thereon dated March 12, 2003. 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 Highways 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 Highways 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 Highways Division's 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 operation of the Highways Division's internal control over financial reporting that, in our judgment, could adversely affect the Highways Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition that we noted 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 caused by error or fraud 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 not a material weakness.

This report is intended solely for the information and use of the Highways Division's management, Department of Transportation, 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.

Deloitte & Touche LLP

March 12, 2003



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

To the Director
Department of Transportation
State of Hawaii:

Compliance

We have audited the compliance of the Highways Division, Department of Transportation, State of Hawaii (the "Highways 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 Highways 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 Highways Division's management. Our responsibility is to express an opinion on the Highways 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 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. Our audit does not provide a legal determination on the Highways Division's compliance with those requirements.

In our opinion, the Highways 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 is 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 02-2.

Internal Control over Compliance

The management of the Highways 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 Highways Division's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance 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 operation of the internal control over compliance that, in our judgment, could adversely affect the Highways Division's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. 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 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. Our consideration of the internal control over compliance 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 not considered to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Highways Division as of and for the year ended June 30, 2002, and have issued our report thereon dated March 12, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards--CFDA Number 20.205, Highway Planning and Construction for the year ended June 30, 2002 is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of management of the Highways Division. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Highways Division's management, Department of Transportation, 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.

Deloitte & Touche LLP

March 12, 2003

STATE OF HAWAII

DEPARTMENT OF TRANSPORTATION - HIGHWAYS 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 not considered to be a material weakness.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. A reportable condition in internal control over compliance with requirements applicable to its major federal awards program was identified, which was not considered to be a material weakness.
5. The independent auditors' report on compliance with requirements applicable to its major federal awards program expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Highways Division's major program was Highway Planning and Construction, CFDA Number 20.205.
8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The Highways 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

Current Year's Findings:

02-1 Accounting and Internal Reporting Procedures

Observation: The Highways Division did not reconcile its accounting records with those of the State of Hawaii on a timely basis. This comment was noted in the prior year.

Background: The Highways Division maintains its own accounting system called "HWYAC," which is independent of the State of Hawaii's accounting system, called "FAMIS." Since FAMIS is the official accounting system of the State, the Highways Division's accounting records must be reconciled to the State's records. State law requires that this reconciliation take place at least on an annual basis.

Throughout fiscal year 2002, the Highways Division did not reconcile its records with those of the State on a timely basis. For example, the HWYAC "Status of Allotment by Appropriation" report was not agreed to the FAMIS "Status of Appropriation Account Balances" report to ensure that the contract agreement allotments reported on the State's Form A-15, "Allotment Advice," and the Highways Division's Form DOT 4-116, "Job Authorization Form," were properly inputted into the accounting systems.

Failure to reconcile the accounting records on a timely basis may result in errors or irregularities going undetected.

Recommendation: Develop procedures to ensure that the Highways Division's accounting records are reconciled with those of the State of Hawaii on a timely basis.

Part III - Federal Award Findings and Questioned Cost Section

Current Year's Findings:

02-1 Accounting and Internal Reporting Procedures

The reportable condition in internal control over financial reporting relating to the Highways Division's failure to reconcile its accounting records with those of the State of Hawaii on a timely basis also applies to the Highways Division's major federal awards program. See Item 02-1 in Part II for details.

02-2 Real Property Acquisition and Relocation Assistance

Program: U.S. Department of Transportation, Highway Planning and Construction, CFDA No. 20.205.

Observation: The Highways Division does not have a Rights-of-Way Operations Manual that is approved by the Federal Highways Administration ("FHWA").

Background: 23CFR 710.201(c) requires each State receiving funding from the FHWA Highway Trust Fund to maintain a manual describing its rights-of-way organization, policies and procedures. The manual is to describe the functions and procedures for all phases of the real estate program, including appraisal, negotiation and eminent domain, property management, and relocation assistance. The manual should also specify procedures to prevent conflicts of interest and to avoid fraud, waste, and abuse. Such a manual should have been submitted to the FHWA by January 1, 2001.

While the Highways Division has policies and procedures relating to some of the aforementioned subject matter, they have not been approved by the FHWA.

Recommendation: Comply with the federal regulations and prepare a Rights-of-Way Operations Manual for submission to the FHWA for approval.

Status of Prior Year's Findings:

02-1 Accounting and Internal Reporting Procedures

Observation: The Highways Division did not reconcile its accounting records with those of the State of Hawaii. This comment was noted in the prior year.

Background: The Highways Division maintains its own accounting system called "HWYAC," which is independent of the State of Hawaii's accounting system, called "FAMIS." Since the FAMIS system is the official accounting record of the State, the Highways Division's accounting records must be reconciled to the State's records. State law requires that this reconciliation take place at least on an annual basis.

Throughout fiscal year 2001, the Highways Division did not reconcile its records with those of the State. For example, the HWYAC "Status of Allotment by Appropriation" report was not agreed to the FAMIS "Status of Appropriation Account Balances" report to ensure that the contract agreement allotments reported on the State's Form A-15, "Allotment Advice," and the Highways Division's Form DOT 4-116, "Job Authorization Form," were properly inputted into the accounting systems.

Failure to reconcile the accounting records on a timely basis may result in errors or irregularities going undetected.

Recommendation: Develop procedures to ensure that the Highways Division's accounting records are reconciled with those of the State of Hawaii on a timely basis.

Status: The recommendation has not been implemented. See current year Schedule of Findings and Questioned Costs Item 02-1.

01-2 Davis-Bacon Act

Program: U.S. Department of Transportation, Highway Planning and Construction, CFDA No. 20.205.

Observation: There was an instance of noncompliance with the payroll submission requirement.

Background: The Davis-Bacon Act requires contractors to pay prevailing wage rates and to file a "Statement of Compliance" with each payroll report within seven days from the payroll payment date.

For the 25 payroll transactions we tested, we noted that for project number IM-HI-I (234), the "Statement of Compliance" was submitted 10 days after the payroll payment date of June 24, 2002.

Failure to file the "Statement of Compliance" on a timely basis may result in a delay in detecting any underpayments of prevailing wage rates.

Recommendation: Take steps to ensure that the payroll submission requirements are adhered to.

Status: Project engineer and staff have been instructed to review subcontractor payroll to ensure required documentation is received timely. We did not observe any instance of noncompliance during our fiscal year 2002 testing.

01-3 Subrecipient Monitoring

Program: U.S. Department of Transportation, Highway Planning and Construction, CFDA No. 20.205.

Observation: The Highways Division's monitoring of subrecipients could be improved.

Background: The counties of the City and County of Honolulu, Hawaii, Kauai, and Maui are the primary subrecipients of federal awards received by the Highways Division. As a pass-through entity, the Highways Division's responsibilities include:

- Identifying to the subrecipient the federal award information and applicable compliance requirements,
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements,
- Ensuring required audits are performed and proper corrective action is taken on audit findings, and
- Evaluating the impact of subrecipient activities on the Highways Division's ability to comply with applicable federal regulations.

The Highways Division's monitoring activities take place at a high level. There is no specific individual who is assigned the responsibility to closely monitor the activities of the subrecipients. The monitoring takes place mainly through the review of the Single Audit reports that are supposed to be filed with the Highways Division. However, at the time of our final fieldwork in December 2001, the Highways Division had not received the fiscal year 2000 Single Audit reports from three of the four counties. And, the Highways Division did not request the counties to submit their Corrective Action Plans.

Failure to adequately monitor the activities of subrecipients may result in a delay in discovering that federal funds that the Highways Division is responsible for are not being expended in accordance with their intended purposes.

Recommendation: Take a more active role in monitoring the subrecipients' compliance with federal requirements. Such activities may include holding discussions with the subrecipients throughout the year, or reviewing their Corrective Action Plans for acceptability.

Status: The Highways Division's Chief Accountant has been assigned the responsibility to review the subrecipients' single audit reports and to ensure that proper corrective action is taken on any findings.

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