

**Highways Division
Department of Transportation
State of Hawai'i**

Single Audit Reports
Year Ended June 30, 2018

**Highways Division
Department of Transportation
State of Hawai'i
June 30, 2018**

Contents

Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards.....	2
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditor’s 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 the Uniform Guidance	5
Schedule of Findings and Questioned Costs.....	8
Status of Prior Audit Findings	17

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	<u>\$ 23,725,814</u>	<u>\$ 157,072,610</u>
Total Highway Safety Cluster		<u>23,725,814</u>	<u>157,072,610</u>
National Motor Carrier Safety Program Assistance program grant	20.218	<u>-</u>	<u>260,522</u>
Highway Safety Cluster			
State and Community Highways Safety	20.600	2,641,188	2,805,228
State Traffic Safety Improvement Grants	20.610	36,884	145,639
National Priority Safety Programs	20.616	<u>880,390</u>	<u>1,129,439</u>
Total Highway Safety Cluster		<u>3,558,462</u>	<u>4,080,306</u>
Alcohol Open Container Requirements	20.607	-	682,169
Minimum Penalties for Repeat Offenders for Driving while Intoxicated	20.608	-	1,055,753
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614	<u>-</u>	<u>66,585</u>
Total Federal Awards		<u>\$ 27,284,276</u>	<u>\$ 163,217,945</u>

**Highways Division
Department of Transportation
State of Hawai'i**

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Highways Division, Department of Transportation, State of Hawai'i (the Highways Division), for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Highways Division, it is not intended to and does not present the financial position and changes in financial position of the Highways Division.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The Highways Division has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Independent Auditor's 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 Hawai'i
Oahu, Hawai'i

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, each major fund, and the other aggregate remaining fund information of the Highways Division, Department of Transportation, State of Hawai'i (the Highways Division), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Highways Division's basic financial statements and have issued our report thereon dated March 4, 2019, which contained "Emphasis of Matters" paragraphs for the identification of the financial statements as individual fund statements not representing the State of Hawai'i as a whole and for the adoption of new accounting guidance.

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 Highways Division's internal control. Accordingly, we do not express an opinion on the effectiveness of Highways Division's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2018-001 to be a material weakness.

The Auditor
State of Hawai'i

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Response to Findings

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

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

BKD, LLP

Denver, Colorado
March 4, 2019

Independent Auditor's 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 the Uniform Guidance

The Auditor
State of Hawai'i
Oahu, Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the Highways Division's, Department of Transportation, State of Hawai'i (the Highways Division) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Highways Division's major federal programs for the year ended June 30, 2018. The Highways Division's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

The Auditor
State of Hawai'i

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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-003. Our opinion on each major federal program is not modified with respect to this matter.

The Highways Division's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Highways Division's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Auditor
State of Hawai'i

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003, that we consider to be a significant deficiency.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities and each major fund of the Highways Division, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Highways Division's basic financial statements. We issued our report thereon dated March 4, 2019, which contained an unmodified opinion on those financial statements, which contained "Emphasis of Matters" paragraphs for the identification of the financial statements as individual fund statements not representing the State of Hawai'i as a whole and for the adoption of new accounting guidance. 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 the Uniform Guidance 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 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.

BKD, LLP

Denver, Colorado
March 4, 2019

**Highways Division
Department of Transportation
State of Hawai'i**
**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):

Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

3. Noncompliance considered material to the financial statements noted? Yes No

Federal Awards

4. Internal control over compliance for major federal awards programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

5. Type of auditor’s report issued on compliance for major federal award programs:

Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

7. Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
20.205	U.S. Department of Transportation - Highway Planning and Construction Cluster
20.600, 20.610, 20.616	U.S. Department of Transportation - Highway Safety Cluster

8. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000.

9. Auditee qualified as a low-risk auditee? Yes No

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Section II – Financial Statement Findings

Reference Number	Findings
2018-001	<p>Finding: Financial Reporting</p> <p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting that will prevent or detect potential material misstatements of the financial statements.</p> <p>Furthermore, under accounting principles generally accepted in the United States of America (US GAAP), capital assets should be accounted for at their historical cost and in the period in which the asset is acquired and placed in service. Accounting guidance that addresses the proper recognition and accounting of capital assets includes Governmental Accounting Standards Board (GASB) Statement No. 34, <i>Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments</i> and various implementation guidance issued by the GASB.</p> <p>Condition: A number of errors in supporting documentation were identified which led to proposed audit adjustments recorded by management and proposed audit adjustments not recorded by management. During our testing of capital assets, including construction in progress (CIP), for government-wide activity, we selected 25 projects in progress where little or no activity had occurred for the prior two fiscal years. Of the sample selected, 20 were deemed to either have been placed in service or were canceled. These projects should not be included in CIP. After further investigation of the projects in progress and other projects transferred to depreciable capital assets, the balance of construction in progress at June 30, 2018, was misstated as reflected in the following:</p> <p>Recorded proposed audit adjustments:</p> <ul style="list-style-type: none">• \$33.0 million of costs were transferred from CIP to infrastructure for projects placed in service• \$26.6 million of CIP costs were expensed for discontinued projects• \$35.2 million of costs were improperly transferred from construction in progress to depreciable capital assets <p>Proposed audit adjustments not recorded:</p> <ul style="list-style-type: none">• \$7.7 million of prior years’ costs that should not have been capitalized and were expensed in 2018• \$3.0 million of depreciation expense on projects that should have been placed in service in prior years• \$1.8 million of depreciation expense associated with improper transfers of projects into depreciable capital assets

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Reference Number	Findings
	<p>In addition to capital assets adjustments identified above, we proposed several audit adjustments that when considered in the aggregate, could be indicative of a larger internal control issue. An audit adjustment of \$13.0 million was recorded to reduce accounts payable for amounts recorded twice. Another adjustment of \$3.1 million was recorded to increase accounts payable for the land purchase agreement entered into during February 2018 but not recorded as of June 30, 2018. \$2.2 million of other various proposed adjustments were recorded by management. Various adjustments for approximately \$0.7 million were proposed during the audit, which were not recorded by management due to the overall immateriality of the adjustments.</p> <p>Context: The Highways Division's Fiscal Office is primarily responsible for the financial reporting process. Financial records are maintained on a cash basis throughout the year, and the year-end close process requires financial information to be captured that is only compiled and analyzed annually within spreadsheets maintained outside of the financial reporting system. During the year-end close process for CIP, the Fiscal Office requests district engineers review all projects to determine if projects are complete, on-going or discontinued. The status of the project dictates the year-end accounting treatment. Also, during the year-end close process, the Fiscal Office converts the cash basis financial records to the accrual basis of accounting for reporting requirements in the audited financial statements.</p> <p>Effect: Potentially material misstatements of the financial statements.</p> <p>Cause: Overall, Fiscal Office personnel and contract accountants, who were previously responsible for the year-end close process or preparation of the financial statements, were assigned account reconciliations and financial analyses to complete. As mentioned above, Highways Division has hundreds of projects which require coordination and detailed review by the district engineers and Fiscal Office in a timely manner. Also, with expedited reporting deadlines, these analyses were not able to be completed in a timely manner. As a result, significant projects which were completed during the fiscal year were not placed in service timely. During the current year, Highways Division was required to provide this information five weeks sooner than in 2017. The Highways Division has hundreds of projects in progress which must be reviewed annually.</p> <p>The Highways Division experienced turnover in the fiscal office in addition to the Administrative Services Officer position. Duties, including review and supervision of the preparation of the supporting documentation of the conversion to the accrual basis of accounting, were handled by the Fiscal Management Officer and fewer personnel than in previous years. These issues were exacerbated by an overall lack of personnel resources caused by retirements and the difficulty of filling vacancies, and an aged Highways Accounting System (HWYAC).</p> <p>The conversion to accrual basis is performed completely outside of the financial accounting system in spreadsheets. As a result, errors were made in compiling information for financial reporting purposes.</p>

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Reference Number	Findings
	<p>Recommendation: We recommend Highways Division review CIP projects at least quarterly to determine the status of projects as in progress, completed or discontinued. Capital assets data should be reconciled as necessary for financial reporting purposes.</p> <p>We recommend the Highways Division strengthen its review process of key spreadsheets in order to identify and eliminate errors. Additionally, we recommend the Highways Division continue pursuing implementation of a financial management system that will allow for financial information to be tracked both on a cash and accrual basis within the system.</p> <p>Views of Responsible Officials and Planned Corrective Action: Highways Division agrees with the finding. See separate report for planned corrective action.</p>

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Reference Number	Findings
2018-002	<p>Finding: Schedule of Expenditures of Federal Awards Preparation</p> <p>Criteria or Specific Requirement: In accordance with Title 2 <i>U.S. Code of Federal Regulations</i> Part 200.510, auditees receiving federal funds must prepare an annual Schedule of Expenditure of Federal Awards (SEFA) detailing the value and type of federal assistance received each year. The Federal Office of Management and Budget (OMB) issues instructions on how to prepare this schedule. Key information to be reported includes the catalog of federal domestic assistance (CFDA) number provided in the federal awards/subaward agreements and associated expenditures incurred in the fiscal year. At the Highways Division, the SEFA is prepared by the Fiscal Office based on information from the accounting system.</p> <p>Condition: Highway Safety Cluster federal expenditures were misclassified in the preparation of the current year SEFA.</p> <p>Context: Total Highway Safety Cluster expenditures as originally reported on the Highways Division's SEFA under CFDA number 20.600 were \$5.9 million. Of the total amount reported under this CFDA number, \$1.3 million of Highway Safety Cluster expenditures were properly shown within the cluster but should have been reported under CFDA numbers 20.610 and 20.616. Furthermore, an additional \$1.7 million of the total expenditures should have been shown under CFDA numbers 20.607, 20.608 and 20.614, which are not classified by the OMB as included in the Highway Safety Cluster.</p> <p>Effect: As the federal government relies on the SEFA information to be reported accurately, this error misrepresents the amount of program expenditures within the Highway Safety Cluster and within the individual programs within that cluster. Furthermore, as major program determination is based on program expenditures, this error potentially could have effected which programs were tested under Uniform Guidance.</p> <p>Cause: Grant management for this program at Highways Division is decentralized and thus the Motor Vehicle Safety Office (MVSO) is responsible for providing the required information to the Fiscal Office to facilitate the preparation of the SEFA. The Fiscal Office was relying on information sent by the MVSO to record transactions in the general ledger. Detailed CFDA information was not provided by the MVSO, and the Fiscal Office was reporting all federal expenditures of the Section under CFDA number 20.600. However, the MVSO was aware of the different programs and should have identified this error if given the opportunity to review the SEFA prior to issuance.</p> <p>Recommendation: Prior to the preparation of the SEFA, we recommend that the MVSO provide the Fiscal Office expenditures by CFDA number. The Fiscal Office should reconcile total federal expenditures recorded in the general ledger to the information provided by the MVSO, which uses a grant tracking software to track costs by funding source and CFDA number. Furthermore, the individuals responsible for grant administration should review the SEFA prior to the issuance. This currently would include individuals responsible for both the Highway Safety Grant and Highway Planning and Construction Grant, but would also include any individuals whose programs are included on the SEFA, regardless of whether that program is a major program requiring audit in a given year.</p>

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Reference Number	Findings
	<p>Views of Responsible Officials: Highways Division agrees with the finding. See separate report for planned corrective actions.</p>

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Section III – Federal Award Findings and Questioned Costs

Reference Number	Findings
2018-003	<p>Finding: Subrecipient Cash Management</p> <p>CFDA No. 20.205 Highway Planning and Construction Cluster CFDA No. 20.600 State and Community Highways Safety CFDA No. 20.610 State Traffic Safety Information System Improvement Grants CFDA No. 20.616 National Priority Safety Programs</p> <p>U.S. Federal Highways Administration</p> <p>National Highway Traffic Safety Administration</p> <p>Criteria: In accordance with 31 CFR section 205.12(b)(5) reimbursable funding means that a federal awarding agency transfers federal funds to a state after that state has already paid out the funds for federal assistance program purposes. While there is no legal requirement for a state to “front” the payments to subrecipients with state monies, the timing of the federal payments must be in accordance with the agreed-upon Cash Management Improvement Act. This guidance applies to all payments made directly by the state under a federal program.</p> <p>Furthermore, the Highways Division must monitor cash drawdowns by their subrecipients to ensure that the time elapsing between the transfer of federal funds to the subrecipient and their disbursement for program purposes is minimized as required by the applicable cash management requirements.</p> <p>Condition: Highway Planning and Construction Cluster – Of the \$8,972,808 in cash reimbursement requests selected for testing, \$3,652,649 of actual expenditures were not paid by the Highways Division until after the funds were received from the federal awarding agency.</p> <p>Highway Safety Cluster – Of the \$1,391,985 in cash reimbursement requests selected for testing, all of the actual expenditures were not paid by the Highways Division until after the funds were received from the federal awarding agency.</p> <p>Questioned Costs: None. Funds received by the Highways Division were deposited into the State Treasury Pool and were ultimately for allowable expenditures.</p> <p>Context: Highway Planning and Construction Cluster – Of the \$157 million of costs incurred in this program for 2018, approximately \$24 million was passed through to subrecipients. We tested three cash reimbursement requests made during the year and noted the issues described above in two of the requests tested. The tested sample covered expenditures of \$8,972,808. The total population included 24 reimbursement requests totaling \$159.8 million. A non-statistical sampling methodology was used to select the sample.</p>

**Highways Division
Department of Transportation
State of Hawai'i**

**Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018**

Reference Number	Findings
	<p>Highway Safety Cluster – Of the \$4.1 million of costs incurred in this program for 2018, approximately \$3.6 million was passed through to subrecipients. We tested five cash reimbursement requests made during the year and noted the issues described above in all of the requests tested. The tested sample covered expenditures of \$1,391,985. The total population included 33 reimbursement requests totaling \$5.8 million. A non-statistical sampling methodology was used to select the sample.</p> <p>Effect: The Highways Division is not in compliance with cash management compliance requirements relating to funds passed through to subrecipients as funds were being drawn down from the federal awarding agency prior to payment to the subrecipient.</p> <p>Cause: Differences in interpretation of the guidance provided by the federal awarding agency led to the Division utilizing an advance basis methodology of cash draw downs in relation to payments to be made by the Highways Division to subrecipients. The Division interpreted the subrecipients' requests for reimbursements for its funds already paid to its vendors as the trigger for the Division to draw down funds from the federal awarding agency.</p> <p>Identification as a Repeat Finding: Not applicable.</p> <p>Recommendation: We recommend the Highways Division works with the federal awarding agency, other state agencies and the subrecipients in order to devise a workable solution.</p> <p>Views of Responsible Officials: The Highways Division agrees with the finding. See separate report for planned corrective actions.</p>

**Highways Division
Department of Transportation
State of Hawai'i
Status of Prior Audit Findings
Year Ended June 30, 2018**

Reference Number	Summary of Findings	Status
2017-001	During the 2017 audit by other auditors, they selected and tested a sample of 25 certified payrolls. They noted 13 of the certified payrolls were received after the 7-day deadline. They furthermore noted that although the Highways Division's certified payroll reports contained evidence of review, there was no consistent method followed to document who the reviewer was and/or the date that the review occurred.	Implemented