



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

Single Audit Reports
(With Independent Auditors' Reports Thereon)

June 30, 2020

Submitted by
**THE AUDITOR
STATE OF HAWAII**

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

Single Audit Reports

Year Ended June 30, 2020

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Section I

Introduction

March 17, 2021

The Auditor
State of Hawaii:

We have completed our audit of 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, 2020. We have also audited the Highways Division's compliance with requirements applicable to its major federal program for the year ended June 30, 2020. We submit herein our reports pertaining to our audit of the Highways Division's financial statements and federal financial assistance programs.

AUDIT OBJECTIVES

The objectives of the audit were as follows:

1. To provide opinions on the fair presentation of the Highways Division's financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2020, 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 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 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 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.
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 its major federal program.

SCOPE OF AUDIT

Our audit of the Highways Division's financial statements, the schedule of expenditures of federal awards, and the Highways Division's compliance with the requirements applicable to its major federal program was performed in accordance with auditing standards generally accepted in the United States of America, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

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 independent auditors' 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 financial statements.

Section III, entitled "Compliance and Internal Control Over Federal Awards," contains our independent auditors' report on the Highways Division's compliance and internal control over its major federal program in accordance with the Uniform Guidance, a schedule of expenditures of federal awards and related notes, 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, 2020, and the related notes to financial statements, which collectively comprise the Highways Division's basic financial statements, and have issued our report thereon dated March 17, 2021.

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) as a basis for designing 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described in Appendix 1 to the accompanying schedule of findings and questioned costs as Finding No. 2020-001, that we consider to be a significant deficiency.

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 financial statements. 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 Finding

The Highways Division's response to the finding identified in our audit is described in Appendix 1 to 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 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 17, 2021

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 the Uniform Guidance**

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 Compliance Supplement* that could have a direct and material effect on the Highways Division's major federal program for the year ended June 30, 2020. 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.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Highways Division's major federal program 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* (the 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 the 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 its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings No. 2020-002 through 2020-004. Our opinion on the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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 identified certain deficiencies in internal control over compliance, as described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings No. 2020-002 through 2020-004 that we consider to be a 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 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, 2020, and the related notes to financial statements, which collectively comprise the Highways Division's basic financial statements. We issued our report thereon dated March 17, 2021, 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 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 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 17, 2021

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	\$ 39,874,933	\$ 198,657,572
Federal Motor Carrier Safety Assistance Cluster:			
National Motor Carrier Safety Program Assistance Program Grant	20.218	-	488,547
Highway Safety Cluster:			
State and Community Highways Safety	20.600	1,077,865	1,410,907
National Priority Safety Program	20.616	1,056,366	1,407,736
Total Highway Safety Cluster		<u>2,134,231</u>	<u>2,818,643</u>
Alcohol Open Container Requirements	20.607	885,013	945,036
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>445,005</u>	<u>838,825</u>
Total Federal Expenditures		<u><u>\$ 43,339,182</u></u>	<u><u>\$ 203,748,623</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 the Uniform Guidance and the 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, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), for the year ended June 30, 2020. 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 elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes √ No
- Significant deficiency(ies) identified? √ Yes ___ None reported

Noncompliance material to financial statements noted? ___ Yes √ No

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? ___ Yes √ No
- Significant deficiency(ies) identified? √ Yes ___ None reported

Type of auditors’ report issued on compliance for major federal program:

Unmodified

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

Identification of major federal program:

CFDA Number

Name of Federal Program or Cluster

20.205

U.S. Department of Transportation –
Highway Planning and Construction Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee? ___ Yes √ No

(Continued)

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

Refer to Appendix 1.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Refer to Appendix 2.

Section IV

Status of Prior Audit Findings

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2020

Significant Deficiency

**Finding No. 2020-001
Financial Reporting**

Criteria

Management of the Highways Division is responsible for the timely preparation and fair presentation of its financial statements in accordance with accounting principles general accepted in the United State of America (GAAP). Management is also responsible for the design, implementation, and maintenance of internal control over financial reporting to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Further, the Highways Division's financial reporting system should provide complete and accurate financial information on a timely basis to meet the financial reporting requirements of management, the State of Hawaii (the State), and the federal government.

Condition

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. FAMIS is the accounting system used by the State to accumulate and report financial fund information of the State, which includes the Highways Division.

The Highways Division did not reconcile amounts recorded in HWYAC to amounts recorded in FAMIS on a timely basis to ensure the integrity of the Highways Division's financial reporting process. The Highways Division reconciled cash in State Treasury, revenues, expenditures, and transfers recorded in HWYAC to those amounts recorded in FAMIS as part of the annual year-end closing process. This is an extremely time consuming exercise requiring extensive reconciliations, analysis, and adjusting journal entries to be prepared. Subsequent to June 30, 2020, the Highways Division performed such reconciliations periodically throughout the year.

During our audit, we also identified other audit adjustments, including an adjustment to accrue \$16.4 million of additional revenue from the federal government for the year ended June 30, 2020, and an adjustment to correct an overstatement of contracts payable of \$4.7 million at June 30, 2020.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2020

Further, we found that the existing financial reporting system negatively affects the Highways Division's ability to provide complete, accurate, and timely financial information to meet the financial reporting requirements of management, the State, and the federal government. The Highways Division continues to use the aging HWYAC for financial reporting, project costing and for federal reimbursement purposes. HWYAC has not had any significant updates since its implementation in 1982 and requires continuous maintenance and support by the information technology department.

During our audit, we noted that the Highways Division's ongoing technical issues with HWYAC have contributed to the significant delays in reconciling and correcting the financial information noted above. HWYAC's most recent technical issue resulted in the system being completely inoperable from early December 2019 through February 2020, and June 2020. During that time, the Highways Division was unable to retrieve information and post financial transactions for the 2020 fiscal year on a timely basis. Additionally, the Highways Division had to manually compile federal expenditure reports to prepare federal reimbursement requests for this period, which was a very tedious and time consuming process.

Cause

The Highways Division did not adhere to its established policy requiring the reconciliation of amounts recorded in HWYAC to amounts recorded in FAMIS each month to ensure the integrity of the Highways Division's financial reporting process. We were informed that this was due in part to staff turnover and vacancies noted below.

Staffing issues have hampered the Highways Division fiscal office's ability to effectively manage its financial reporting and day-to-day operations. Staffing issues include the extended leaves of absences, retirements, staff turnover, and vacancies within the fiscal office. In response to these changes, the fiscal office has had to shift responsibilities of day-to-day accounting tasks within an understaffed office. This situation contributed to the matters described in the *Condition* section above.

Although the Highways Division has long recognized the need for a more efficient financial reporting and project costing system to replace the aging HWYAC, the Highways Division has yet to successfully implement a new system. We were informed that the Highways Division is actively pursuing software vendors in an effort to replace HWYAC with a more efficient financial reporting and project costing system.

Effect

Deficiencies in internal control over financial reporting and other factors noted above have resulted in misstatements of financial statements amounts and operating inefficiencies.

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2020

The inability to perform timely reconciliations between the amounts reported in HWYAC and amounts recorded in FAMIS could result in material errors going undetected and inaccurate financial information provided to management, the State, and the federal government. In addition, reimbursements from the federal government were not received in a timely manner.

Identification as a Repeat Finding, if applicable

See finding 2019-001 included in the Status of Prior Audit Findings.

Recommendation

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

We also recommend that the Highways Division assess the current fiscal office staffing situation and take appropriate steps to ensure that sufficient resources are available to meet its day-to-day and year-end financial reporting requirements. The Highways Division should consider providing increased training and cross-training opportunities for fiscal office staff.

In addition, we recommend that the Highways Division continue its efforts to implement a new financial system to replace HWYAC with a more efficient financial reporting and project costing system that fully meets the accounting and reporting requirements of the Highways Division, the State, and the federal government.

Views of Responsible Official(s) and Planned Corrective Action

The Highways Division has developed and implemented written policies and procedures to reconcile HWYAC entries to FAMIS monthly.

The Highways Division awarded a contractor and issued the Notice to Proceed on March 10, 2021 to develop and implement a new financial management system to replace HWYAC, which is anticipated to go live in 2022.

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

Single Audit Findings

June 30, 2020

Significant Deficiency

Finding No. 2020-002

Reimbursement of Unallowable Costs

**U.S. Department of Transportation
U.S. Federal Highway Administration
Highway Planning and Construction Cluster
CFDA No. 20.205**

Criteria

In accordance with 2 CFR section 200.53, (a) *improper payment* means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and (b) *improper payment* includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received, any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Condition

During our audit, we identified two duplicate payments totaling \$442,695 whereby the Highways Division incorrectly requested reimbursements from the federal government for expenditures previously billed and for which the Highways Division already received payment.

Questioned Costs

Questioned costs identified were \$442,695.

Cause

The Highways Division HWYAC system was completely inoperable from early December 2019 through February 2020, and June 2020, requiring the Highways Division to manually compile federal expenditure reports to prepare federal reimbursement requests during this time (refer to Finding No. 2020-001). When HWYAC became operable, there was a lack of effective internal controls to identify previously reimbursed expenditures to prevent duplicate reimbursements of manually billed transactions.

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

Single Audit Findings

June 30, 2020

Effect

The Highways Division incorrectly requested and received \$442,695 in federal reimbursements.

Recommendation

We recommend that the Highways Division improve the process and strengthen controls to prevent duplicate requests for reimbursement from the federal government. The Highways Division should return the \$442,695 in excess federal funds received, plus any interest owed to the federal government, or reduce future claims by that amount as directed by federal guidance.

Views of Responsible Officials and Planned Corrective Action

The duplicated payment requests were due to inadvertent oversight during associated current billing reviews. Such reviews include checking system generated detail billing items against a list of previous manual adjustments. Manual adjustments are more prone to human errors.

The Highways Division will incorporate current billing review by double checking all system generated detail billing items that involve projects that have been manually billed. All future manual billings will record both associated document reference number and charge code which can be traceable to current billing.

The Highways Division returned \$281,392 via the February 10, 2021 billing. The remaining funds will be returned to the federal government in March 2021.

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

Single Audit Findings

June 30, 2020

**Finding No. 2020-003
Subrecipient Monitoring**

**U.S. Department of Transportation
U.S. Federal Highway Administration
Highway Planning and Construction Cluster
CFDA No. 20.205**

Criteria

In accordance with 2 CFR section 200.331(d) through (f), all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals. This monitoring includes following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

Condition

For certain Highways Division capital projects, the Highways Division provides a portion of its federal awards to subrecipients such as the local counties in the State of Hawaii. Accordingly, the Highways Division is subject to subrecipient monitoring requirements applicable to federal awards.

We noted that the annual subrecipient on-site monitoring reviews were not performed during the year ended June 30, 2020. In addition, we noted that one out of four subrecipient single audit reports received included a finding related to direct funding from the Highways Division for the Highway Planning and Construction grant. We noted that this finding was not followed up on and a management decision letter was not issued by the Highways Division to the subrecipient.

Cause

Management indicated that the on-site monitoring reviews of ongoing projects were not performed due to the suspension of inter-island travel caused by the COVID-19 pandemic.

Although the Highways Division did perform annual reviews of subrecipients' single audit reports, the federal award finding was not identified due to oversight.

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

Single Audit Findings

June 30, 2020

Effect

The Highways Division was not in compliance with subrecipient monitoring requirements of the Uniform Guidance dictating that on-site reviews be performed and that appropriate follow-up procedures be performed on findings identified in the subrecipients' single audit reports.

Recommendation

We recommend that the Highways Division adhere to its subrecipient monitoring policy and develop alternative procedures to conduct compliance audits while on-site reviews are suspended during the pandemic. We also recommend that the Highways Division carefully review subrecipient audit reports and follow up on any identified noncompliance deficiencies to ensure that the subrecipient takes timely and appropriate action on all deficiencies reported.

Views of Responsible Officials and Planned Corrective Action

For Fiscal Year 2021, the Highways Division will resume review of subrecipient projects. However due to the fluidness of the ongoing COVID-19 pandemic situation, associated travel and meeting restrictions and policies at both the State and County levels, and to ensure the safety of all involved parties, virtual meetings are planned for the months of April and May 2021 with all four counties. These meetings are currently in the process of being scheduled. Follow-up of past observations or findings will be covered in this planned 2021 county review.

Since we anticipate that with the continued rollout of the vaccination will result in the lifting of travel restrictions and changes in state and county meeting policies, the Highways Division has budgeted travel for onsite meetings to resume in calendar year 2022.

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

Single Audit Findings

June 30, 2020

**Finding No. 2020-004
Subrecipient Cash Management**

**U.S. Department of Transportation
U.S. Federal Highway Administration
Highway Planning and Construction Cluster
CFDA No. 20.205**

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 8 days.

Condition

During our audit, we noted that the Highways Division requested federal reimbursements from U.S. Federal Highway Administration (FHWA) for subrecipient expenditures prior to remitting payments to subrecipients.

We noted that for 11 of the 28 requests for reimbursement during the year ended June 30, 2020, payments to subrecipients were made more than 8 days after reimbursements were received from FHWA, ranging from 10 days to 64 days. These payments to subrecipients aggregated to \$15.9 million.

Cause

Upon receipt of federal reimbursement from FHWA 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 eight days to post. Once the funds are posted in FAMIS, subrecipient payments begin to be processed. Staffing issues, including the extended leave of absences, retirements, staff turnover, and vacancies within the fiscal office, has contributed to the delay in processing payments.

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

Single Audit Findings

June 30, 2020

Effect

The Highways Division did not comply with the cash management requirements to minimize the time elapsing between the receipt of funds from 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 FHWA prior to remitting payments to subrecipients.

Recommendation

We recommend that the Highways Division adhere to established policies and procedures to ensure compliance with the Treasury State Agreement. 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 8 days as stipulated in the Treasury State Agreement.

Views of Responsible Officials and Planned Corrective Action

The Highways Division has developed and implemented a written policy and procedure to ensure compliance with the Treasury State Agreement.

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

Status of Prior Audit Findings

Year Ended June 30, 2020

Findings and Recommendations	Status
<p>2019-001 Financial Reporting</p> <p>During the 2019 audit, we noted that the Highways Division did not reconcile amounts recorded in HWYAC to amounts recorded in FAMIS on a timely basis. We identified several errors due to the untimely reconciliation of amounts recorded in HWYAC to amounts reported in FAMIS.</p> <p>We also identified other errors in the audit schedules provided by the Highways Division, which led to the recording of additional audit adjustments.</p> <p>Further, we noted that the Highways Division's ongoing technical issues with the aging HWYAC system, which negatively affected the Highways Division's ability to provide complete, accurate, and timely financial information.</p> <p>We recommended that the Highways Division reconcile amounts recorded in HWYAC to amounts recorded in FAMIS on a monthly basis. We also recommended that the Highways Division assess their fiscal office staffing and take appropriate steps to ensure sufficient resources are available to meet its day-to-day and year-end financial reporting requirements.</p> <p>In addition, we recommended that the Highways Division establish formal, written policies and procedures to enhance its year-end closing and financial reporting process. Further, we recommended that the Highways Division continue its efforts to implement a new financial system to replace HWYAC that fully meets internal and external accounting and reporting requirements.</p>	<p>Not accomplished. Refer to Finding No. 2020-001.</p>

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

Status of Prior Audit Findings

Year Ended June 30, 2020

Findings and Recommendations	Status
<p>2019-002 Davis-Bacon Act</p> <p>During the 2019 audit, we noted instances of certified payroll reports that were received after the 7-day deadline. We also noted there was no consistent method followed to document the review of certified payroll reports and/or the date that the review was performed.</p> <p>We recommended that the Highways Division adhere to its internal policy requiring project engineers to obtain and review certified payroll reports on a timely basis. We also recommended that the Highways Division develop standardized procedures to document the date and time of receipt of certified payroll reports, as well as the review and approval of those certified payroll reports by project engineers.</p>	<p>This matter has been addressed and resolved. The Highways Division had follow-up discussions with the General Contractors Association on the timely submission of weekly certified payroll reports. The Highways Division had also addressed reporting requirements with construction personnel for timely submittal and review of certified payroll. We noted no instances of noncompliance in current year.</p>