

NEIL ABERCROMBIE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

GLENN M. OKIMOTO
DIRECTOR

Deputy Directors
FORD N. FUCHIGAMI
RANDY GRUNE
AUDREY HIDANO
JADINE URASAKI

IN REPLY REFER TO:
PPB 12.2886

April 14, 2014

The Honorable David Ige
Chair, Senate Ways and Means Committee
Twenty-Seventh State Legislature
State Capitol, Room 208
Honolulu, Hawaii 96813

Dear Chair Ige:

Thank you for the opportunity to allow us to discuss the committee's concerns on the DOT's Executive CIP Budget on April 9, 2014 with Vice Chair, Senator Kidani. As a follow up to the meeting with Senator Kidani, Mr. Will Kane, Jadine and myself, please see attached list of TRN projects, that as indicated by your committee, have substantially increased in cost. In addition, a response to the following questions is provided:

- 1) What is the current status of the project?
- 2) What specifically was the reason for the cost increase?
- 3) How was this cost increase calculated?
- 4) Copies of the RFP, contracts, etc.

As per the follow up questions sent by Mr. Will Kane on April 10, 2014, we have provided the following responses in the attachment and please note, the electronic copies are available for your staff to access via our ftp site for which they have already been provided instructions to access.

Should you have any additional questions, please contact Director Glenn Okimoto at glenn.okimoto@hawaii.gov or 587-2150 or Deputy Director of Projects, Jadine Urasaki at Jadine.Urasaki@hawaii.gov or 587-2156.

Very truly yours,

A handwritten signature in black ink, appearing to read "Glenn M. Okimoto".

GLENN M. OKIMOTO, Ph.D.
Director of Transportation

Attachments

cc: House Finance Chair Sylvia Luke
Ways and Means Vice-Chair, Senator Kidani
Representative Kyle Yamashita



Meeting Follow up Info

Will Kane to: Glenn.okimoto@hawaii.gov

04/10/2014 12:45 PM

Cc: "Jadine.Urasaki@hawaii.gov", "shelli.oye@hawaii.gov", "Sen. Michelle Kidani", Park Kaleiwahea

History: This message has been forwarded.

1 attachment



TRN PROJECTS.pdf

Aloha Director Okimoto,

As a follow up to the meeting today with you, Senator Kidani, Jadine and myself, please see attached list of TRN projects that have substantially increase in cost. Just as a reference and to further reduce the list, I eliminated all projects below a 30% cost increase. However, I did include projects that had an additional requested appropriation in FY15, but which there was no change in the either the cost elements or project description.

As discussed, would your staff be able to provide the following for each project listed?

- 1) What is the current status of the project?
- 2) What specifically was the reason for the cost increase?
- 3) How was this cost increase calculated?
- 4) Besides the intent of the department to use it in the way requested, can you please provide additional information regarding these projects, such as copies of the RFP, contracts, etc.?

Additionally, we request clarification for the following questions:

- 1) Does the FHWA agree with your removal of the OMPO director's authority for procurement?
- 2) How is OMPO reporting directly to the FHWA if ultimate authority to procure now lies with you?

One last item for clarification. Would you consider the following statement correct?

The DOT has the authority to issue revenue bonds, but chooses not to if the projects appropriated are not on the DOT's priority list. This is related to the discussion we had with regard to the state having to use G.O. bonds for projects which could be constructed with DOT Revenue Bond funds for highway projects such as Nanakuli Public Library, Pahoia Bypass Road improvements etc.

We appreciate your assistance. Please know that it is almost the end of the Legislative session, so we respectfully request a response no later than April 14, 2014.

Mahalo!

Will

Will Kane
CIP Specialist
Senate Ways and Means

FISCAL BIENNIUM 2013-15

DEPT.	ProgID	TITLE	DESCRIPTION	PROJ. #	ACT 134 FY14	ACT 134 FY15	MOF	G/GM FY14	G/GM FY15	MOF	% Diff.
TRN	TRN501	GUARDRAIL AND SHOULDER IMPROVEMENTS, VARIOUS LOCATIONS, OAHU	DESIGN AND CONSTRUCTION FOR INSTALLING AND/OR UPGRADING THE EXISTING GUARDRAILS, END TERMINALS, TRANSITIONS, BRIDGE RAILING, BRIDGE ENDPOSTS AND CRASH ATTENUATORS, RECONSTRUCTING AND PAVING OF SHOULDERS. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	S266	0	586	E	0	1,336	E	128%
TRN	TRN501	KALANIANAOLE HIGHWAY, INOAOLE STREAM BRIDGE REHABILITATION AND/OR REPLACEMENT, OAHU	CONSTRUCTION FOR THE REHABILITATION AND/OR REPLACEMENT OF THE INOAOLE STREAM BRIDGE WITH A LARGER BRIDGE, INCLUDING IMPROVEMENTS TO THE ROADWAY APPROACHES, DETOUR ROAD, AND UTILITY RELOCATIONS. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	S221	219	0	E	219	1,300	E	1300%
TRN	TRN501	KAMEHAMEHA HIGHWAY, SOUTH KAHANA STREAM BRIDGE REHABILITATION AND/OR	CONSTRUCTION FOR REHABILITATION AND/OR REPLACEMENT OF SOUTH KAHANA STREAM BRIDGE. THIS PROJECT IS DEEMED	S306	0	3,300	E	0	5,200	E	58%
TRN	TRN501	KAMEHAMEHA HIGHWAY, REHABILITATION AND/OR REPLACEMENT OF LAIELOA STREAM BRIDGE, OAHU	CONSTRUCTION FOR REHABILITATION AND/OR REPLACEMENT OF A CONCRETE SLAB BRIDGE ON KAMEHAMEHA HIGHWAY IN THE VICINITY OF LAIE TO INCLUDE BRIDGE RAILINGS, WALKWAYS, AND OTHER IMPROVEMENTS. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	S315	138	0	E	138	100	E	100%
TRN	TRN501	HIGHWAY LIGHTING REPLACEMENT AT VARIOUS LOCATIONS, OAHU	DESIGN AND CONSTRUCTION FOR REPLACING AND/OR UPGRADING THE EXISTING HIGHWAY LIGHTING SYSTEM ON STATE HIGHWAYS. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	S318	2,112	1,030	E	2,112	2,730	E	38%

FISCAL BIENNIUM 2013-15

DEPT.	ProgID	TITLE	DESCRIPTION	PROJ. #	ACT 134 FY14	ACT 134 FY15	MOF	G/GM FY14	G/GM FY15	MOF	% Diff.
TRN	TRN501	TRAFFIC OPERATIONAL IMPROVEMENTS TO EXISTING INTERSECTIONS AND HIGHWAYS FACILITIES, OAHU	PLANS, DESIGN, AND CONSTRUCTION FOR MISCELLANEOUS IMPROVEMENTS TO EXISTING INTERSECTIONS AND HIGHWAY FACILITIES NECESSARY FOR IMPROVED TRAFFIC OPERATION INCLUDING ELIMINATING CONSTRICTIONS, MODIFYING AND/OR INSTALLING TRAFFIC SIGNALS, CONSTRUCTING TURNING LANES, ACCELERATION AND/OR DECELERATION LANES, AND OTHER IMPROVEMENTS FOR MORE EFFICIENT TRAFFIC FLOW.	S270	2,050	850	E	2,050	1,150	E	35%
TRN	TRN501	KAMEHAMEHA HIGHWAY, HELEMANO-WAIALUA JUNCTION TO HALEIWA BEACH PARK, OAHU	PLANS FOR ENHANCED WETLANDS IN THE VICINITY OF UKOA POND. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	R053	165	0	E	165	935	E	935%
TRN	TRN531	KIHEI-UPCOUNTRY HIGHWAY, MAUI	LAND ACQUISITION FOR A NEW TWO-LANE HIGHWAY FROM KIHEI TO UPCOUNTRY MAUI. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL FINANCING AND/OR REIMBURSEMENT.	V060	720	0	E	720	13,800	E	13800%
TRN	TRN531	HANA HIGHWAY, KAILUA STREAM BRIDGE REHABILITATION AND/OR REPLACEMENT, MAUI	DESIGN FOR REHABILITATION AND/OR REPLACEMENT OF KAILUA STREAM BRIDGE ALONG HANA HIGHWAY (ROUTE 360). THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	V109	0	120	E	0	220	E	83%
TRN	TRN531	HANA HIGHWAY, MAKANALI STREAM BRIDGE REHABILITATION AND/OR REPLACEMENT, MAUI	DESIGN FOR REHABILITATION AND/OR REPLACEMENT OF MAKANALI STREAM BRIDGE ALONG HANA HIGHWAY (ROUTE 360). THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	V112	0	123	E	0	223	E	81%
TRN	TRN531	HALEAKALA HIGHWAY INTERSECTION IMPROVEMENTS AT KULA HIGHWAY, MAUI	CONSTRUCTION TO INSTALL RIGHT-TURN LANE ON WEST-BOUND HALEAKALA HIGHWAY, INSTALL WALKWAYS AND PAVED SHOULDERS AND/OR SIDEWALKS FROM INTERSECTION TO KING KEKAULIKE HIGH SCHOOL ENTRANCES, AND TO MAKE TRAFFIC SIGNAL IMPROVEMENTS, SIGNAGE, MARKINGS, AND OTHER RELATED IMPROVEMENTS.	VP1101	150	0	E	150	2,350	E	2350%

FISCAL BIENNIUM 2013-15

DEPT.	ProgID	TITLE	DESCRIPTION	PROJ. #	ACT 134 FY14	ACT 134 FY15	MOF	G/GM FY14	G/GM FY15	MOF	% Diff.
TRN	TRN531	TRAFFIC OPERATIONAL IMPROVEMENTS TO EXISTING INTERSECTIONS AND HIGHWAY FACILITIES, MAUI	CONSTRUCTION FOR MISCELLANEOUS IMPROVEMENTS TO EXISTING INTERSECTIONS AND HIGHWAY FACILITIES NECESSARY FOR IMPROVED TRAFFIC OPERATION, INCLUDING ELIMINATING CONSTRUCTIONS, MODIFYING AND/OR INSTALLING TRAFFIC SIGNALS, CONSTRUCTING TURNING LANES, ACCELERATION AND/OR DECELERATION LANES, AND OTHER IMPROVEMENTS.	V083	0	580	E	0	3,080	E	431%
TRN	TRN531	HANA HIGHWAY WIDENING, KAAHUMANU AVENUE TO HALEAKALA HIGHWAY, MAUI	LAND ACQUISITION FOR THE WIDENING OF HANA HIGHWAY FROM KAAHUMANU AVENUE TO HALEAKALA HIGHWAY, FROM FOUR TO SIX LANES. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	V096	4	0	E	4	100	E	100%
TRN	TRN561	KUHIO HIGHWAY, KAPAIA STREAM BRIDGE REHABILITATION AND/OR REPLACEMENT, KAUAI	CONSTRUCTION FOR REHABILITATION AND/OR REPLACEMENT OF A MULTI-TEE BEAM REINFORCED CONCRETE GIRDER BRIDGE ON KUHIO HIGHWAY IN THE VICINITY OF KAPAIA TO INCLUDE PEDESTRIAN WALKWAYS, BRIDGE RAILINGS AND APPROACHES, AND OTHER IMPROVEMENTS. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	X124	0	229	E	0	429	E	87%
TRN	TRN561	KAPULE HWY/RICE ST/WAAPA RD IMPROVEMENTS AND STRENGTHENING/WIDENING OF NAWILIWILI BRIDGE, KAUAI	LAND ACQUISITION FOR THE IMPROVEMENT OF KAPULE HIGHWAY, RICE STREET AND WAAPA ROAD; AND STRENGTHENING/WIDENING OF NAWILIWILI BRIDGE. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	X127	0	51	E	0	251	E	392%
TRN	TRN561	KUHIO HIGHWAY, MAILIHUNA RD INTERSECTION IMPROVEMENTS AND KAPAA STREAM BRIDGE REHABILITATION AND/OR REPLACEMENT, KAUAI	DESIGN AND LAND ACQUISITION FOR THE CONSTRUCTION OF INTERSECTION SAFETY IMPROVEMENTS AND REHABILITATION AND/OR REPLACEMENT OF KAPAA STREAM BRIDGE. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	X130	8	104	E	8	304	E	34%
TRN	TRN595	IMPROVEMENTS TO INTERSECTIONS AND HIGHWAY FACILITIES, STATEWIDE	DESIGN AND CONSTRUCTION FOR MISCELLANEOUS IMPROVEMENTS TO EXISTING INTERSECTIONS AND HIGHWAY FACILITIES NECESSARY FOR TRAFFIC SAFETY. THIS PROJECT IS DEEMED NECESSARY TO QUALIFY FOR FEDERAL AID FINANCING AND/OR REIMBURSEMENT.	X098	220	280	E	220	480	E	71%

FISCAL BIENNIUM 2013-15

DEPT.	ProgID	TITLE	DESCRIPTION	PROJ. #	ACT 134 FY14	ACT 134 FY15	MOF	G/GM FY14	G/GM FY15	MOF	% Diff.
TRN	TRN595	MISCELLANEOUS DRAINAGE IMPROVEMENTS, STATEWIDE	DESIGN AND CONSTRUCTION FOR DRAINAGE IMPROVEMENTS TO EXISTING HIGHWAY FACILITIES INCLUDING INSTALLATION OF DRAINAGE FACILITIES, CATCH BASINS, GRATED DROP INLETS, LINED SWALES, HEADWALLS, AND CULVERTS AT VARIOUS LOCATIONS.	X097	810	2,400	E	810	3,500	E	46%

NEIL ABERCROMBIE
GOVERNOR



MARIA ZIELINSKI
ACTING ADMINISTRATOR

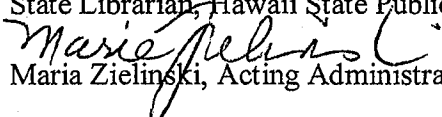
**STATE OF HAWAII
STATE PROCUREMENT OFFICE**

P.O. Box 119
Honolulu, Hawaii 96810-0119
Telephone: (808) 587-4700
e-mail: state.procurement.office@hawaii.gov
<http://hawaii.gov/spo>

November 4, 2013

PROCUREMENT DELEGATION NO. 2013-02

TO: The Honorable Neil Abercrombie, Governor
The Honorable Shan S. Tsutsui, Lieutenant Governor
Executive Department Heads (Excluding DOE, UH, OHA and HHSC)
State Librarian, Hawaii State Public Library System

FROM: 
Maria Zielinski, Acting Administrator and Chief Procurement Officer

SUBJECT: Delegation of Procurement Authority

Effective November 1, 2013, the cancellation of the procurement delegation imposed by Procurement Delegation No. 2013-01 is rescinded and all procurement delegation issued to you via Procurement Delegation No. 2010-01 is hereby reinstated.



**STATE OF HAWAII
STATE PROCUREMENT OFFICE**

P.O. Box 119,
Honolulu, Hawaii 96810-0119
Tel: (808) 587-4700 Fax: (808) 587-4703
<http://hawaii.gov/spo>

December 6, 2010

PROCUREMENT DELEGATION NO. 2010-01

TO: Chief of Staff, Office of the Governor
Chief of Staff, Office of the Lieutenant Governor
Executive Department Heads (Excludes DOE, UH, OHA and HHSC)
State Librarian, Hawaii State Public Library System

FROM: Aaron S. Fujioka, Chief Procurement Officer 

SUBJECT: Delegation of Procurement Authority

This Procurement Delegation replaces prior Procurement Delegation No. 2008-01 dated October 23, 2008 and 2009-01 dated September 11, 2009.

Pursuant to HRS chapter 103D, Hawaii Public Procurement Code (Code), procurement authority is centralized to the chief procurement officer (CPO), and allows the CPO to further delegate authority to designated Procurement Officers. To enable departments and agencies to operate effectively, efficiently, and expeditiously, procurement authority is delegated by the CPO to the head of the purchasing agency.

PROCUREMENT AUTHORITY

Pursuant to HRS chapter 103D and chapter 103F, effective the date of this memo, as CPO for the above agencies, I hereby delegate procurement authority to you as the head of the purchasing agency, for the following procurement methods:

HRS chapter 103D - Hawaii Public Procurement Code (goods, services, construction)

1. Competitive Sealed Bidding (HRS §103D-302);
2. Competitive Sealed Proposals (HRS §103D-303);
3. Professional Services (HRS §103D-304);
4. Small Purchases (HRS §103D-305)
Pursuant to and in compliance with Procurement Circular 2009-15, or as amended, on *Procedures for Small Purchases Procurement*;
5. Sole Source (HRS §103D-306)
Requires prior CPO written approval for ALL dollar amounts (Refer to form SPO-001); and
6. Emergency (HRS §103D-307)
Requires CPO approval for ALL dollar amounts and approval may be obtained after-the-fact (Refer to form SPO-002).

Other HRS chapter 103D delegations granted are for:

- Preparation of specifications (HAR §3-122-11);
- Bid security (HRS §103D-323);
- Contract performance and payment bonds (HRS §103D-324);
- Resolution of protests (HRS §103D-701);
- Contract controversies (HRS §103D-703);
- Act 150, SLH 2009 for the expedient use of ARRA funds (HAR chapter 3-133); and
- Designation of:
 - HePS System Administrator and alternate(s),
 - pCard Administrator and alternate(s), and
 - Emergency pCard Administrator and alternate(s).

HRS chapter 103F - Purchases of Health and Human Services

1. Competitive Purchase of Service (HRS §103F-402);
2. Restrictive Purchase of Service (HRS §103F-403);
Requires CPO approval for ALL dollar amounts (Refer to Form-H500);
3. Treatment Purchase of Service (HRS §103F-404);
4. Small Purchase of Service (HRS §103F-405); and
5. Crisis Purchase of Service (HRS §103F-406);
Requires CPO approval for ALL dollar amounts and approval may be obtained after-the-fact (Refer to Form-H600).

Exemptions to HRS chapter 103D (HRS §103D-102 & HAR chapter 3-120) and HRS chapter 103F (HRS §103F-101 & HAR chapter 3-141) may be used as appropriate. Except CPO exemptions pursuant to HRS §103D-102(b)(4)(L) and HRS §103F-101(a)(4) shall continue to be submitted using form SPO-007 or SPOH-150 as appropriate. Authorized designated Procurement Officers or personnel are required to attend SPO training Workshop #125, *Exemptions from HRS chapter 103D and/or #210 Treatment, Restrictive, Crisis and Small Purchase of Health & Human Services, and Exemptions from HRS Chapter 103F*, prior to submitting the respective request for exemption for approval.

DELEGATION OF PROCUREMENT AUTHORITY

This procurement authority may be further delegated by you to personnel as designated procurement officers or authorized to conduct and participate in procurement activities in accordance with HAR §3-121-16. Participation in procurement activities includes small purchases, developing/drafting a solicitation, reviewing, approving, conducting, managing, and administering the procurement/contract.

"Procurement officer" means any person with the delegated authority to enter into and administer contracts and make written determination with respect thereto. The term includes an authorized representative acting within the limits of authority. The delegated authority is received from the chief procurement officer directly or through the head of purchasing agency.

Delegation of procurement authority to a procurement officer is based on their expertise, knowledge and proficiency to carry out procurement duties, while seeking economy and efficiency to achieve program operations. Careful consideration shall be taken when granting procurement authority, as you remain ultimately accountable to the CPO for this procurement delegation to authorized procurement officers within your office/department.

EDUCATION AND TRAINING

Procurement officers and personnel with delegated procurement authority to conduct and or participate in the procurement process are required to attend applicable State Procurement Office (SPO) training workshops. Applicable training ensures delegated procurement personnel receive the appropriate training, and are in compliance with HRS §103D-110, as amended by Act 194, SLH 2008 and HRS §103F-301 for purchases of health and human services.

A separate memo will address the education and training requirements.

Procurement officers and personnel without written delegated procurement authority and/or who have not completed the applicable mandatory training for HRS chapters 103D and 103F shall not conduct, approve, or participate in the procurement.

NEW PROCUREMENT DELEGATION FORM (SPO-036)

Effective December 6, 2010, Procurement Delegation forms SPO-36A through SPO-36G are replaced and consolidated with a single form SPO-036, *Procurement Delegation*. This change reduces the number of forms from seven to one, to be completed for each employee delegated procurement authority, Hawaii Electronic Procurement System (HePS) or pCard responsibilities.

Current delegation forms (SPO-36A through SPO-36G) submitted to the SPO will continue to remain valid through April 30, 2011 or until updated and replaced with the new form SPO-036, whichever occurs first. Additional time may be requested should your department be unable to meet this date. Copies of your department's current delegation forms should be requested from your Administrative Services Office.

To assist in documenting and preparing your procurement delegation submittal are forms:

- *Procurement Delegation* Form SPO-036;
- *Procurement Delegation Transmittal* Form SPO-036 Transmittal; and
- *Procurement Delegation* Form SPO-036 Instructions.

Form SPO-036 shall be used for new delegations and as a replacement for current personnel delegated procurement authority, submitted via e-mail to state.procurement.office@hawaii.gov with the *Procurement Delegation Transmittal Form* signed and authorized by the Department Head. Forms and Instructions are available at <http://hawaii.gov/spo>, click *Forms for State Agencies*.

INFORMATION SESSION

An informational session is available to brief your staff should they need assistance on the requirement for personnel participating in procurement to have the applicable procurement authority and to complete the requirements for delegated procurement authority.

Two sessions are available to choose from:

Dates and times: December 13, 2010 at 10:00 am to 11:00 am
 December 14, 2010 at 1:30 pm to 2:30 pm

Place: Kalanimoku Building,
 1151 Punchbowl Street
 Room 322 B/C
 Honolulu, HI 96813

For neighbor islands, a webinar is scheduled for December 21, 2010 from 9:00 am to 10:00 am. To attend an informational session, please register at the SPO training website <http://www4.hawaii.gov/spoh/tng/trainingschedule.htm>.

Your staff may contact Stanton Mato at 586-0566 if they have any questions, or you may call me at 587-4700. Thank you for your cooperation and assistance.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2013

GILFORD SATO & ASSOCIATES, CPAS, INC.
PACIFIC PARK PLAZA
711 KAPIOLANI BOULEVARD, SUITE 1480
HONOLULU, HAWAII 96813
PHONE (808) 942-8868 FAX (808) 947-3628

GILFORD SATO & ASSOCIATES, CPAS, INC.

PACIFIC PARK PLAZA
711 KAPIOLANI BOULEVARD, SUITE 1480
HONOLULU, HAWAII 96813
PHONE (808) 942-8868 FAX (808) 947-3628

January 31, 2014

Mr. Brian Gibson
Executive Director
Oahu Metropolitan Planning Organization
Ocean View Center
707 Richards Street, Suite 200
Honolulu, HI 96813

Dear Mr. Gibson:

In planning and performing our audit of the financial statements of Oahu Metropolitan Planning Organization (OahuMPO) for the fiscal year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered OahuMPO's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OahuMPO's internal control. Accordingly, we do not express an opinion on the effectiveness of OahuMPO's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. The memorandum that accompanies this letter summarizes our comments and recommendations concerning these matters.

This letter does not affect our report dated January 31, 2013 on the financial statements of OahuMPO. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience.

Gilford Sato & Associates, CPAs, Inc.

MKI: la
Enclosure
OahuMPO Management Letter 2013.doc

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MEMORANDUM

PROCEDURAL COMMENTS

Updating the Overall Work Plan (OWP) Process and Procedures Document

During our examination, we noted that the most recently approved Overall Work Plan Process and Procedure document was dated October 2008. In recent years, OahuMPO has proposed some process and procedure revisions, which were reflected in the draft Overall Work Plan Process and Procedure document dated October 2010. According to OahuMPO, discussions were held regarding the revisions with the Technical Advisory Committee (TAC). As of the date of this memorandum, the draft Overall Work Plan Process and Procedure document dated October 2010 has not been approved by the Policy Committee.

We also noted that during the review of projects in the approved 2013 Overall Work Plan, OahuMPO does not obtain written certification from the State of Hawaii Department of Transportation – Highways (SOH DOT HWY) and the City & County of Honolulu Department of Transportation Services (C&C DTS) that their projects were procured in accordance with the State Procurement Office (SPO) guidelines.

Recommendation:

We recommend that OahuMPO conduct a review of its Overall Work Plan Process and Procedures document on a periodic basis as required. OahuMPO should also develop a framework related to the evaluation of the existing document, proposed revisions, evaluation of the revisions, and approval of the revised document by the Policy Committee. A timeline related to this process should also be established prior to the start of the process. The framework and timeline should be documented in writing and distributed to all personnel involved in this process.

We also recommend that OahuMPO include a requirement that the SOH DOT HWY and the C&C DTS submit a written certification of compliance with SPO guidelines for all projects included in the approved Overall Work Plan (OWP).

Management Response:

The Executive Director agrees that the procedures for developing the OWP should be periodically reviewed and updated as appropriate. Since 2010, OahuMPO's staff has been working with the TAC to consider various updates to the OWP development process, but the TAC has not made any formal recommendations to the Policy Committee. Currently, OahuMPO is undergoing a comprehensive planning process review (work element 205.01-12) to identify issues and opportunities for improving the agency's processes. Following the completion of that work, OahuMPO's staff will begin a formal process to update the OWP Process and Procedures Document, utilizing any recommendations relevant to the OWP development process resulting from work element 205.01-12. The Executive Director appreciates the recommendation for establishing a timeline and process prior to the start of the process. OahuMPO will also work with its partner agencies in establishing a written SPO compliance certification.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MEMORANDUM

Approved OWP Projects Open for Multiple Fiscal Years

During our examination, we noted that the SOH DOT HWY, C&C DTS, and OahuMPO originated projects that are approved in a fiscal year's OWP may start one to three years later from the time the projects were first approved. Since many of these projects are based on anticipated needs for a future period, there could be instances where the rationale for these projects may have changed and the scope of the project must be revised or even be removed in a subsequent OWP. While OahuMPO prepares a new OWP before the beginning of each fiscal year, it does not periodically review the viability of previously approved projects that have not been started during the fiscal year.

Recommendation:

We recommend that OahuMPO develop a policy and procedure to address the review of all previously approved projects on a periodic basis, particularly those projects that have not started for over two years. Projects that are not deemed viable after two years should be removed on a timely basis through an amended OWP or through the next fiscal year's OWP. This will ensure that OahuMPO only works on viable transportation projects. This will also allow for the timely release of federal and local share funds related to projects that are not deemed viable on a timely basis.

Management Response:

This recommendation echoes an informal recommendation OahuMPO has been hearing from the Federal Highway Administration. Again, following the completion of work element 205.01-12, OahuMPO's staff will begin to implement any relevant recommendations from that process. OahuMPO will add a candidate recommendation to that process regarding a two-year time limit under which OWP projects must be started in order to remain in the OWP or face re-evaluation and potential deletion. This candidate recommendation will be vetted through the process defined for work element 205.01-12.

State Procurement Office Guidelines

During our examination, we noted that OahuMPO did not have written procedures on how it will ensure compliance with the State Procurement Office (SPO) guidelines in the procurement of OahuMPO originated contracts. However, OahuMPO stated that they follow the SPO guidelines in the procurement of these types of contracts.

In reviewing the project files, we noted the following:

1. While the personnel selected for the review and selection committees by the Executive Director were employees of OahuMPO, SOH DOT HWY, and/or C&C DTS, there was no documentation of their qualifications to serve on the committees in the Executive Director's memorandum appointing these individuals or anywhere else in the project files. It should be noted that personnel selected for these committees that were indicated in the Executive Director's memorandum were OahuMPO Project Managers and other qualified staff and specialist for the SOH DOT HWY and/or C&C DTS.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MEMORANDUM

2. OahuMPO's request for proposals (RFP) or request for qualifications (RFQ) indicated that the responses should be sent to the Executive Director. It appears that the submissions from interested parties were sent to the Executive Director and given to another OahuMPO employee to log the receipt of the proposals.
3. OahuMPO used different evaluation processes and techniques by its review and selection committee on various projects. In most instances, there was documentation in the project file of the criteria and questions used to evaluate the proposer's responses and the documentation was signed by the committee member as indication that they completed the questionnaire. The results of the completed questionnaires were accumulated, ranked, and the selected proposer was reported in a memorandum from the section committee to the Executive Director.

It was also disclosed to us, that the Executive Director would attend the selection committee's meeting to listen in on the discussion. It was represented to us that this was done to gain an understanding of the submissions and not to influence the selection committee's final decision.

Recommendation:

We recommend that OahuMPO develop written procedures regarding the procurement of OahuMPO originated contracts in accordance with SPO guidelines. This will ensure that OahuMPO, SOH DOT Hwy, and C&C DTS personnel, and other interested parties understand the procurement process followed by OahuMPO. This will also facilitate any third party review of the procurement process followed by OahuMPO.

In addition, we also recommend OahuMPO review and incorporate the following into its written procedures:

1. OahuMPO should document the qualifications of committee members internally to ensure that there is proper documentation that the committee members are qualified to serve on the respective committees.
2. OahuMPO should designate a person within its organization that is outside of the Executive Director and Project Manager, and potential committee members to receive all proposals from interested parties. This will ensure that all proposals received from interested parties are properly accounted for and submitted to the review and selection committee for consideration.
3. OahuMPO should standardize its review and selection documentation to ensure that the criteria used to evaluate interested parties are used for all proposals received and that the evaluations performed are properly documented and maintained in the project files.

In addition, the Executive Director should not be present at the selection committee meetings to eliminate any potential influence on the selection process and final selection.

4. OahuMPO should eliminate any perceived noncompliance with SPO guidelines in the development of its written procedures.

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OAHU METROPOLITAN PLANNING ORGANIZATION
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Management Response:

The Executive Director appreciates this recommendation to develop written procedures regarding the procurement of OahuMPO contracts in accordance with SPO guidelines. Having clear procurement procedures is important and can help make the procurement process more efficient. Any potential OahuMPO procedures should supplement SPO guidelines (not replace them), and should include SPO guidelines by reference.

1. The Executive Director appreciates this advice to document the qualifications of committee members. While OahuMPO's staff makes every effort to select appropriate committee members, the Executive Director is concerned that taking the time to fully document each person's individual qualifications will add more time and complexity to an already time-consuming and laborious process. Additionally, such documentation does not appear to be required by law. However, the Executive Director will take this recommendation under advisement.
2. The Executive Director agrees that OahuMPO can and should identify a person to receive and account for all proposals from interested parties. OahuMPO can make that part of OahuMPO's written procurement procedures.
3. The Executive Director agrees that OahuMPO could standardize the process for evaluating proposals, but the Executive Director is concerned that standardizing the individual selection criteria could result in a selection process that does not result in the best value for the State. SPO procurement guidelines, gives the selection committee appropriate flexibility to tailor the selection criteria to a specific project. For example, the needs of the long-range transportation plan can be very different from the needs of the travel demand forecasting model. Pre-defining all selection criteria may result in a set of criteria that is inappropriate for a specific project. However, the Executive Director does see the advantages to standardizing the procurement process to the extent practical, and will take this recommendation under advisement. Regarding the presence of the Executive Director in the selection committee meetings, the Executive Director is the head of the purchasing agency and has procurement authority. The Executive Director is also responsible for negotiating the contract with the offeror(s). It is difficult to oversee compliance with procurement policies or negotiate the contract without being present when the selection is made. The Executive Director agrees that he should not attempt to influence the selection process, but understanding why the selection committee made their recommendations is important to ensuring that the committee's priorities are addressed in the final contract. However, again, the Executive Director will take this recommendation under advisement.
4. The Executive Director agrees that any procurement procedures developed by OahuMPO should be fully compliant with SPO guidelines.

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OAHU METROPOLITAN PLANNING ORGANIZATION
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FISCAL COMMENTS

Unspent Local Share

During our examination, we noted that the SOH DOT HWY and C&C DTS historically deposits their local share for OahuMPO originated projects and administrative costs at the beginning of each fiscal year in accordance with that fiscal year's approved OWP. This is largely done to ensure that the SOH DOT HWY and C&C DTS have appropriated funds and that the funds are available to meet their local share requirement for that fiscal year.

There is a time lag between the funding by SOH DOT HWY and C&C DTS at the beginning of each fiscal year and expending of these funds. This situation results in unspent local share from SOH DOT HWY and C&C DTS at the end of each fiscal year as a result of incomplete projects, staffing shortages, and changes between the project and actual costs incurred.

Recommendation:

With the fiscal constraints facing the State of Hawaii and the City & County of Honolulu, we recommend the unspent local share determined at the end of each fiscal year be used to reduce the SOH DOT HWY and C&C DTS's local share requirement in subsequent years. This will facilitate SOH DOT HWY and C&C DTS's cash management practices as it related to the funding of their local share.

In addition, we also recommend that OahuMPO, SOH DOT HWY, and C&C DTS meet to discuss the current local share funding policy (lump sum at the beginning of each year) and determine if a revision can be made to facilitate the SOH DOT HWY and C&C DTS's cash management practices in light of the State of Hawaii and the City & County of Honolulu's fiscal constraints. The options could include funding on a periodic basis (monthly or quarterly) or on an invoice by invoice basis. This recommendation assumes that the SOH DOT HWY and C&C DTS local shares are properly appropriated by the SOH DOT HWY and C&C DTS before the start of each fiscal year.

Management Response:

The Executive Director agrees that OahuMPO should take any reasonable step to help reduce the cost burden to its participating agencies without compromising the agency's ability to fulfill its requirements. Accounting for the local match that remains after the completion of a discrete project, and using those local funds to offset the next year's local match requirement appears to be a sensible and relatively simple procedure that will help maximize the value of the match provided.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
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Regarding the current policy of providing local share at the beginning of each year, Federal policy requires that local match be in-hand before Federal planning funds can be obligated. By permitting the payment of local match monthly, quarterly, or on an invoice-by-invoice basis, a significant amount of additional work would be created as multiple Federal obligation requests would have to be made throughout the year. Further, Federal policy appears to limit OahuMPO to one grant request per year, so obligating funds monthly or quarterly may not even be possible. The Executive Director will further consider this recommendation on this matter, but implementation appears to be problematic.

Interest Earned by OahuMPO on Cash in State Treasury

During our examination, we noted that during the fiscal years ended June 30, 1994 through June 30, 2013, OahuMPO earned interest totaling \$309,800. We also noted that during the fiscal years ending June 30, 2002 and 2003, C&C DTS had a shortfall in their local match. On February 28, 2002 and August 23, 2003, OahuMPO stated that income generated from investments with local funds in OahuMPO's cash account would be used to pay for the shortfalls for the fiscal years ended June 30, 2002 and 2003. On July 12, 2012, OahuMPO also agreed to do the same regarding a specific SOH DOT HWY contract. The total amount of earned interest applied to the SOH DOT HWY and C&C DTS's local share during this time was \$65,472. This results in a residual balance of unapplied earned interest totaling \$244,328.

Since OahuMPO expenditures are funded by federal grants and by the SOH DOT HWY and C&C DTS local share on a reimbursement basis, the interest earned by OahuMPO on the cash held in the State Treasury can constructively be considered as additional funding made by the SOH DOT HWY and C&C DTS to OahuMPO.

Recommendation:

With the fiscal constraints facing the State of Hawaii and the City & County of Honolulu, we recommend that the interest earned by OahuMPO be considered as additional funding made by the SOH DOT HWY and C&C DTS applied to their local share requirement in subsequent years.

We recommend that OahuMPO, the SOH DOT HWY, and the C&C DTS meet to determine the proper usage of this additional funding. The proper application of this additional funding will allow the SOH DOT HWY and the C&C DTS to facilitate its cash management practices to meet their local share obligations in future periods.

Management Response:

Again, the Executive Director is appreciative of any recommendation that allows OahuMPO to decrease the cost burden for its participating agencies without compromising OahuMPO's ability to meet their requirements. Applying the interest earned on cash balances to the local share requirement in subsequent years appears to be a reasonable and achievable step toward that goal. OahuMPO will add it to and vet it through work element 205.01-12's recommendation process.

STATE OF HAWAII
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Meeting In-Kind Contribution Requirement

During our examination, we noted that OahuMPO did not meet the matching requirement specified in its Climate Control grant. They could only obtain in-kind contributions totaling \$46,000 of its \$53,000 matching requirement. OahuMPO subsequently obtained approval from the Federal Highway Administration to use funds for the purpose of fulfilling the matching shortfall.

Based on our discussion with OahuMPO, the shortfall was due to previous commitments obtained that did not materialize once the contract was started.

Recommendation:

We recommend that OahuMPO take steps to ensure that they have sufficient in-kind contributions before starting any future projects funded by Federal matching grants.

Management Response:

The Executive Director believes it is important that OahuMPO's participating agencies have the choice of meeting local match requirements through in-kind services, as permitted in Federal regulations. Matching Federal funds with services can help defray the cost burden of providing local cash match for work elements. But it is the nature of such services, which are generally accounted for over the course of a study's development, which can be difficult to predict with precision the total value of the services that will be used during the study. The Executive Director intends to solicit and consider relevant best practices from other MPO's in this matter, and, if appropriate, will recommend the inclusion of such practices in OahuMPO's procurement process. In the meantime, OahuMPO is making clear to the participating agencies that any shortfall in forecasted in-kind match must be made up with a cash equivalent.

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OAHU METROPOLITAN PLANNING ORGANIZATION
MEMORANDUM**

STATUS OF PRIOR YEAR AUDIT COMMENTS AND RECOMMENDATIONS

The status of the audit comment and recommendation made for the fiscal year ended June 30, 2012 is reported below. This comment and recommendation for the fiscal year ended June 30, 2012 was made in our memorandum dated January 16, 2013.

Fiscal Year End Reported	Recommendation	Status
2012	<p><u>Timely Documentation of In-Kind Contributions</u></p> <p>During our examination, we noted that OahuMPO did not have an effective process to determine and substantiate the valuation of the in-kind contributions used to meet the matching requirement of its Federal Highway Administration grant award to pilot test a draft conceptual model to conduct climate change vulnerability and risk assessments of Oahu's transportation infrastructure. OahuMPO expended and requested reimbursements totaling \$46,675 during the fiscal year ended June 30, 2012. However, OahuMPO requested reimbursements from the grantor agency for these amounts before the appropriate documentation of the valuation of the in-kind contributions were derived. OahuMPO subsequently completed the appropriate documentation to support the matching requirement of its Federal Highway Administration grant.</p> <p>We also noted that the work performed by the vendor under contract was completed during the fiscal year ended June 30, 2012. However, OahuMPO has not made the final retention payment to the vendor, because OahuMPO cannot make a claim for reimbursement under the grant agreement, due to the lack of documentation to support the matching requirement.</p> <p>a. We recommend that OahuMPO establish a policy and procedure regarding the substantiation of the valuation of in-kind contributions used to meet any matching requirement stated in a grant agreement.</p> <p>b. The policy and procedure should be established before OahuMPO secures another grant that has a matching requirement.</p> <p>c. We also recommend that the documentation used to support the value the in-kind contributions be completed on a timely basis and completed prior to submitting any requests for reimbursement from the grantor agency.</p>	<p>Considered closed. Climate control contract closed out during the fiscal year ended June 30, 2013.</p> <p>Refer to current year's comment related to Meeting In-Kind Contribution Requirement.</p>

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
FINANCIAL AND COMPLIANCE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013
WITH INDEPENDENT AUDITOR'S REPORT

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STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
FINANCIAL AND COMPLIANCE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013
WITH INDEPENDENT AUDITOR'S REPORT

**Submitted by
The Auditor
State of Hawai'i**

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
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PART I – TRANSMITTAL LETTER

January 23, 2014

Office of the Auditor
State of Hawai'i

Mr. Brian Gibson
Executive Director
Oahu Metropolitan Planning Organization
Ocean View Center
707 Richards Street, Suite 200
Honolulu, HI 96813

Dear Mr. Gibson:

We have completed our financial audit of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the year ended June 30, 2013. The audit was performed in accordance with terms of our contract with the Office of the Auditor, State of Hawai'i, and with the requirements of auditing standards generally accepted in the United States of America, the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), and *Government Auditing Standards* issued by the Comptroller General of the United States.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of OahuMPO's financial statements as of and for the fiscal year ended June 30, 2013, and to comply with the requirements of OMB Circular A-133. The objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of OahuMPO's financial statements.
2. To ascertain whether expenditures and other disbursements have been made and revenues and other receipts to which OahuMPO is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawai'i and the federal government.
3. To ascertain whether OahuMPO has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To ascertain whether OahuMPO has complied with the laws and regulations that may have a material effect on the financial statements and on its major federal financial assistance program.
5. To satisfy the audit requirements of the federal grantor agency.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of OahuMPO for the fiscal year ended June 30, 2013.

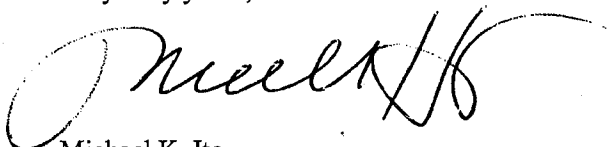
Organization of the Report

This report is presented in five parts as follows:

- PART I The transmittal letter.
- PART II The financial statements and supplementary information and our report on such financial statements and supplementary information, and management's discussion and analysis.
- PART III Our report on internal control over financial reporting and compliance and other matters and our report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance.
- PART IV The schedule of findings and questioned costs and schedule of prior findings and questioned costs.
- PART V The corrective action plan.

We wish to express our sincere appreciation for the cooperation and assistance extended by the personnel of OahuMPO's and the personnel of the Department of Transportation – Business Management Office.

Very truly yours,



Michael K. Ito
Partner

PART II – FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Office of the Auditor
State of Hawai'i

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities of OahuMPO, as of June 30, 2013, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United State of America require that the schedule of expenditures by agency and management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Schedule of Federal Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OahuMPO's basic financial statement. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 accompanying schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, on our consideration of OahuMPO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OahuMPO's internal control over financial reporting and compliance.

Guilford Sato & Associates, CPAs, P.C.

Honolulu, Hawai'i
January 30, 2014

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

This section of the annual financial report presents an analysis of OahuMPO's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements which follows this section.

Financial Highlights

- OahuMPO's net position decreased by \$4,000.
- During the fiscal year, OahuMPO's revenues decreased by \$266,000, and expenditures/expenses decreased by \$245,000.

This is reflective of the cycle of annual planning studies and activities with which OahuMPO is charged with overseeing, as the number of studies increase or decrease from fiscal year to fiscal year.

Overview of Annual Report

This annual report consists of the transmittal letter; management's discussion and analysis; financial statements, notes to the financial statements, and supplementary information that explain in more detail some of the information in the financial statements; the reports on internal controls and compliance; and schedule of findings and questioned costs. There was no corrective action plan required for the year ended June 30, 2013.

Required Financial Statements

The financial statements of OahuMPO present combined information about the organization as a whole and the activities of its special revenue fund. The financial statements begin with the presentation of fund financial statements, which explains how government activities were financed in the short-term, as well as what resources remain for future spending. These financial statements were prepared on the modified accrual basis of accounting, which reports revenues, when both measurable and available, and expenditures/expenses, when the related liabilities are incurred. The fund financial statements were then adjusted to the accrual basis of accounting to present OahuMPO's activities as a whole. The accrual basis of accounting, which is similar to the accounting used by most private-sector companies, recognizes revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position and Governmental Fund Balance Sheet includes all of OahuMPO's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of the organization to its creditors (liabilities). The Statement of Activity and Governmental Revenues, Expenditures, and Changes in Fund Balance/Net Position reports the organization's activities and the changes in its net position as a result of its activities.

Tables 1 and 2 present a comparative view of net position and changes in net position as of and for the years ending June 30, 2013 and June 30, 2012, respectively.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

TABLE 1
CONDENSED SUMMARY OF NET ASSETS
(Rounded to nearest \$1,000)

	2013	2012
ASSETS:		
Current assets	\$ 1,083,000	\$ 1,148,000
Capital assets, net of accumulated depreciation	10,000	12,000
Total assets	\$ 1,093,000	\$ 1,160,000
LIABILITIES:		
Current liabilities	\$ 789,000	\$ 861,000
Long-term liabilities	28,000	19,000
Total liabilities	\$ 817,000	\$ 880,000
NET ASSETS:		
Invested in capital assets	\$ 10,000	\$ 12,000
Unrestricted	266,000	268,000
Total net assets	\$ 276,000	\$ 280,000

OahuMPO's net position decreased 1.43% (\$276,000 as compared to \$280,000) between June 30, 2013 and June 30, 2012. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased 0.75% (\$266,000 as compared to \$268,000) between June 30, 2013 and June 30, 2012.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

TABLE 2
CONDENSED SUMMARY OF CHANGES IN NET ASSETS
(Rounded to nearest \$1,000)

	<u>2013</u>	<u>2012</u>
EXPENDITURES:		
Regional transportation forecasting and long-range planning	\$ 726,000	\$ 1,111,000
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	538,000	167,000
Regional transportation monitoring and analysis	183,000	550,000
Planning review and systems management	136,000	11,000
Coordination of the planning program	<u>512,000</u>	<u>501,000</u>
Total expenditures	<u>2,095,000</u>	<u>2,340,000</u>
REVENUES:		
Federal grant contributions	1,669,000	1,854,000
State and City contributions	416,000	452,000
Interest income and other	<u>6,000</u>	<u>51,000</u>
Total revenues	<u>2,091,000</u>	<u>2,357,000</u>
(Decrease) Increase in net assets	<u>\$ (4,000)</u>	<u>\$ 17,000</u>

OahuMPO's expenditures/expenses decreased by 10.47% between the years ended June 30, 2013 and 2012 in all expenditure/expense categories. OahuMPO's revenues decreased by 11.29% between the years ended June 30, 2013 and 2012. The changes in revenues were attributed largely to the correlating decrease in Federal grant and State and City contributions.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013 and 2012, OahuMPO had capital assets net of accumulated depreciation of approximately \$10,000 and \$12,000, respectively. OahuMPO did not have any capital acquisitions or dispositions for the years ended June 30, 2013.

Debt

OahuMPO did not have any outstanding debt as of June 30, 2013 and 2012.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2013

	Special Revenue	Adjustments (Note 2)	Statement of Net Position
CURRENT ASSETS:			
Cash and cash equivalents	\$ 577,110	\$ -	\$ 577,110
Receivables from federal government	506,678	-	506,678
Total current assets	1,083,788	-	1,083,788
NONCURRENT ASSETS:			
Capital assets, net of accumulated depreciation	-	9,797	9,797
Total assets	\$ 1,083,788	\$ 9,797	\$ 1,093,585
CURRENT LIABILITIES:			
Vouchers payable	\$ 336,630	\$ -	\$ 336,630
Advances from other agencies	397,624	-	397,624
Accrued liabilities	24,410	30,293	54,703
Total current liabilities	758,664	30,293	788,957
NONCURRENT LIABILITIES:			
Accrued liabilities	-	28,292	28,292
Total noncurrent liabilities	-	28,292	28,292
Total liabilities	758,664	58,585	817,249
FUND BALANCES/NET POSITION:			
Restricted fund balance	325,124	(325,124)	-
Net position:			
Invested in capital assets	-	9,797	9,797
Unrestricted	-	266,539	266,539
Total net position	-	276,336	276,336
Total liabilities and fund balance/net position	\$ 1,083,788	\$ 9,797	\$ 1,093,585

See accompanying notes to financial statements.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
STATEMENT OF ACTIVITY AND GOVERNMENTAL
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue	Adjustments (Note 2)	Statement of Activity
EXPENDITURES:			
Regional transportation forecasting and long-range planning	\$ 726,219	\$ -	\$ 726,219
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	537,447	-	537,447
Regional transportation monitoring and analysis	183,152	-	183,152
Planning review and system management	135,879	-	135,879
Coordination of the planning program	506,199	5,973	512,172
Total expenditures	2,088,896	5,973	2,094,869
REVENUES:			
Federal grant contributions	1,669,446	-	1,669,446
Local contributions:			
City and County of Honolulu	269,236	-	269,236
State of Hawai'i	146,719	-	146,719
In-kind contributions	3,496	-	3,496
Interest income and other	2,169	-	2,169
Total revenues	2,091,066	-	2,091,066
Change in fund balance/net position	2,170	(5,973)	(3,803)
FUND BALANCE/NET POSITION:			
Beginning of the year	322,955	(42,816)	280,139
End of the year	\$ 325,125	\$ (48,789)	\$ 276,336

See accompanying notes to financial statements.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Reporting Entity

Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO), was established in 1975 by the State Legislature to serve in an advisory capacity to the State Legislature, the City and County of Honolulu (City) Council, and appropriate state and county agencies in carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of Oahu as required by law.

The accompanying financial statements present only the financial activities of OahuMPO. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State of Hawai'i (State) annually, which includes OahuMPO's financial activities.

2. Summary of Significant Accounting Policies

a. Financial Statement Presentation

OahuMPO's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). Governments are required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP and used by OahuMPO are discussed below.

Basis of Accounting

Accrual – Government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual – The government fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Government-Wide

The financial statements focus on the sustainability of OahuMPO as an entity and the change in its net position resulting from the current year's activities. Both the government-wide and fund financial statements categorize the primary activities of OahuMPO as governmental. All costs are charged directly to programs of OahuMPO based on the use of resources.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Government Fund

Governmental fund is the fund through which the acquisition, use, and balances of OahuMPO's expendable financial resources and the related liabilities are accounted. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following describes OahuMPO's governmental fund type:

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than expendable trusts) that are restricted to expenditures for specified purposes. The special revenue funds were established to account for the contracts that the State entered into for OahuMPO with the U.S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA), and those between OahuMPO and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

Governmental Fund Balance

OahuMPO implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal year ended June 30, 2011. The guidance provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new fund balance structure is based primarily on the extent to which OahuMPO is bound to follow constraints on how the resources can be spent. Due to the specific revenue sources and restricted expenditures for specified purposes, OahuMPO's fund balance was classified as restricted as of June 30, 2013.

Net position

OahuMPO implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* for the fiscal year ended June 30, 2013, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net position throughout the financial statements.

Reconciliation

OahuMPO's financial statements include a combined government-wide and fund financial statement. The financial statements begin with the fund financial statements and include an adjustment column that reconciles amounts reported in the fund to an accrual basis of accounting under the government-wide financial statements.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Reconciling items include the following:

Statement of net assets:

Capital assets, net of accumulated depreciation	\$ 9,797
Accrued liabilities - current	\$ 30,293
Accrued liabilities - non current	28,292
	\$ 58,585
Restricted fund balance	\$ (325,124)
Net assets	276,336
	\$ (48,788)

Statement of activity:

Depreciation	\$ (2,359)
Accrued vacation	\$ (3,614)
	\$ (5,973)

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

c. Receivables From Federal Government

Revenues for all federal reimbursement-type grants are recorded as receivable from federal government when costs are incurred.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Summary of Significant Accounting Policies (continued)

d. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported in the Statement of Net Position and Governmental Fund Balance Sheet, at cost. Additions, improvement, and other capital outlays that significantly extend the useful life of an asset are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 – 7 years
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e. Accumulated Vacation and Sick Leave

OahuMPO's employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. OahuMPO records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No.16, *Accounting for Compensated Absences*. Sick leave is not convertible to pay upon termination of employment. Sick leave is recorded as expenditures when taken.

f. Encumbrance

OahuMPO's accounting procedures provide for the recording of commitments as encumbrances at the time contracts and other commitments are awarded and executed. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is generally employed as an extension of formal budgetary integration in governmental fund types. Encumbrances outstanding at fiscal year end are generally reported as reservations of fund balances since they do not constitute expenditures or liabilities. Although OahuMPO does not receive appropriations, the State Comptroller allows for the encumbrance of federally funded contracts. As of June 30, 2013, OahuMPO recorded encumbrances of approximately \$525,800.

3. Federal Grants

Federal Highway Administration (FHWA) Grants

The FHWA-PL grants represent apportionments under 23 USC Section 104(f) made to the OahuMPO through the State Department of Transportation – Highways Division. The FHWA-PL grants reimburse 80% of allowable expenditures claimed by OahuMPO, and the remaining 20% is contributed by the participating State and County agencies.

During the fiscal year ended June 30, 2013, OahuMPO completed a \$53,000 contract to pilot test a draft conceptual model to conduct climate change vulnerability risk assessments of Oahu's transportation infrastructure. The grant was passed-through the State Department of Transportation – Highway Division to OahuMPO and was subject to a 50% matching requirement.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

3. Federal Grants (continued)

Federal Transit Administration (FTA) Grants

The FTA apportions funds annually for Section 5303 Metropolitan Planning Program and for Section 5304 State Planning and Research Program. The apportionment is based on the State's urbanized area population as defined by the U.S. Census Bureau and is made to OahuMPO through the Statewide Transportation Planning Office – Department of Transportation.

The FTA grants provide for the undertaking of (1) metropolitan planning activities pursuant to 49 USC Section 5303 (previously known as Section 8 of the Federal Transit Act), and (2) state planning and research activities pursuant to 49 USC Section 5304 (previously known as Section 5313(b) of the Federal Transit Act). Under Sections 5303 and 5304 grants, FTA participates in 80% of allowable costs claimed by the OahuMPO. The remaining 20% is contributed by the participating State and County agencies.

The FTA grants were executed on the following dates:

<u>Grant No.</u>	<u>Date</u>
HI-80-0022	September 7, 2012
HI-80-0021	September 19, 2011
HI-80-0020	September 23, 2010
HI-80-0019	February 2, 2010
HI-80-X017	February 19, 2009
HI-80-X016	August 27, 2007

4. Budgeting and Budgetary Control

A budget, known as the Overall Work Program (OWP) is prepared by OahuMPO on an annual basis. The budget and any additions thereto, are approved by OahuMPO's Policy Committee and subsequently by the Federal Highway Administration. The OWP encompasses various projects (work elements), in which work performed is specifically for OahuMPO, the State, or the City and County of Honolulu, and are worked on over a multi-year period.

Amounts shown in the OWP include amounts budgeted for in prior fiscal years and for the current fiscal year. Because OahuMPO does not operate under a legally adopted budget, as defined by GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, budgetary comparison information is not included in the supplementary information.

The portion of OahuMPO budget representing work elements to be fully or partially funded by FHWA is financed by current and prior fiscal years' FHWA apportionments, which were obligated by the State. An obligation is a commitment – the federal government's promise to pay the State for the federal share of a project's eligible cost. This commitment occurs when the project is approved and the project agreement is executed. Unobligated FHWA apportionments are available for reprogramming for a period of three years following the federal fiscal year for which it is apportioned.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

4. Budgeting and Budgetary Control (continued)

As of June 30, 2013, the estimated balance of unused FHWA obligated funds amounted to:

<u>Fiscal Year of Appointment</u>	<u>Balance of Unused Obligation</u>
2009	\$ 79,340
2010	50,260
2011	16,777
2012	42,572
2013	1,808,580
	<u>\$ 1,997,529</u>

The portion of OahuMPO budget representing amounts allowable under specific FTA grants are financed by current and prior fiscal years' annual grant agreements which were approved, executed, and obligated to OahuMPO through the State Department of Transportation. At the end of each fiscal year, the unexpended portion of these obligated funds are carried forward to the following fiscal year.

The amount of unexpended FTA funds amounted to \$852,460 as of June 30, 2013.

5. Cash

Cash consisted of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 400	\$ 400
Amounts held in State Treasury	576,710	748,160
Total cash	<u>\$ 577,110</u>	<u>\$ 748,560</u>

Cash in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State Treasury's cash pool. Section 36-21, Hawai'i Revised Statute (HRS), authorizes the State to invest in obligations of the State, the United States Treasury, agencies and instrumentalities, certificate of deposits, and bank repurchase agreements.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

5. Cash (continued)

Cash in State Treasury (continued)

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury's cash pool. The State Director of Finance may invest any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. The HRS 36-1 authorizes the State Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State of Hawai'i, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Information related to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Earnings on cash held in the State Treasury are allocated to OahuMPO based on its average monthly investment balances at the end of each reporting period in the State Treasury.

6. Capital Assets

Changes in capital assets during the year ended June 30, 2013 were as follows:

	<u>Beginning</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>June 30, 2013</u>
<u>Capital assets:</u>				
Furniture and equipment	\$ 16,509	\$ -	\$ -	\$ 16,509
Total capital assets	<u>16,509</u>	<u>-</u>	<u>-</u>	<u>16,509</u>
Less accumulated depreciation:				
Furniture and equipment	4,353	2,359	-	6,712
Total accumulated depreciation	<u>4,353</u>	<u>2,359</u>	<u>-</u>	<u>6,712</u>
Capital assets, net of depreciation	<u>\$ 12,156</u>	<u>\$ (2,359)</u>	<u>\$ -</u>	<u>\$ 9,797</u>

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

7. Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Accrued liabilities	\$ 18,937	20,464	11,109	\$ 28,292
Total noncurrent liabilities	<u>\$ 18,937</u>	<u>20,464</u>	<u>11,109</u>	<u>\$ 28,292</u>

8. Retirement Benefits

Employees' Retirement System of the State of Hawai'i

All eligible employees of OahuMPO are required by HRS Chapter 88 to become members of the Employee's Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan that is governed by a Board of Trustees. The ERS provides retirement, survivor, and disability benefits through contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required information. The report may be obtained by writing to the Employee's Retirement System of the State of Hawai'i at 201 Merchant Street, Suite 1400, Honolulu, Hawai'i 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. A new hybrid contributory plan provided employees in the contributory and noncontributory plan the option of joining the hybrid plan or remaining in their existing plan beginning July 1, 2006. All new employees covered by Social Security are required to join the hybrid plan beginning July 1, 2006.

The plans provide a monthly retirement allowance based on the employee's years of credited service, average final compensation (AFC), and applicable benefit multiplier percentage. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired beginning July 1, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

8. Retirement Benefits (continued)

Employees' Retirement System of the State of Hawai'i (continued)

Contributory Plan:

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits after 5 years of credited service. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire at any age with at least 25 years of credited service with reduced level of benefits. The benefit multiplier is 2% for employees covered by social security.

New employees in the contributory plan hired beginning July 1, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits after 10 years of credited service. Employees may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with at least 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by social security.

Hybrid Plan:

Employees in the hybrid plan are required to contribute 6% of their salary and are fully vested for benefits after 5 years of credited service. Employees may retire with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service, or may retire at age 55 with at least 20 years of credited service with reduced benefits. The benefit multiplier is 2% for employees covered by social security.

New employees in the hybrid plan hired beginning July 1, 2012 are required to contribute 8% of their salary and are fully vested for benefits after 10 years of credited service. Employees may retire at age 65 and 10 years of credited service, or may retire at age 60 and 30 years of credited service with reduced benefits. The benefit multiplier is 1.75 % for employees covered by social security.

Noncontributory Plan:

Employees in the noncontributory plan are fully vested after 10 years of credited service. Employees may retire with full benefits at age 62 and 10 years of credited service, or age 55 and 30 years of credited service, or at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

Funding Policy:

The funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and the actuarially determined rate of investment return are adequate to accumulate sufficient assets to pay benefits when they become due. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

8. Retirement Benefits (continued)

Employees' Retirement System of the State of Hawai'i (continued)

Funding Policy (continued):

The State's contribution requirement as of June 30, 2012, 2011, and 2010, based on the most recent information available were approximately \$396,380,000, \$388,242,000, and \$398,724,000, respectively, and represented the required contributions for each year.

Contributions by OahuMPO for the years ended June 30, 2013, 2012, and 2011 were approximately \$67,000, \$61,900, and \$59,700, respectively, at the pension accumulation rate of 15.00% of annual covered payroll, which were equal to the required contributions for each year.

Postemployment Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) which replaced the Hawai'i Public Employer Health Fund was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits under this plan. The EUTF issues a financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Hawai'i Employer-Union Health Benefits Trust Fund at P.O. Box 2121, Honolulu, Hawai'i 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly healthcare premium for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired from July 1, 1996 to June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the monthly healthcare premium. For employees who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the monthly healthcare premium. For those employees retiring with over 25 years of service, the State pays the entire healthcare premium. Retirees can elect a family plan to cover dependents.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the healthcare premium. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the healthcare premium. For those employees retiring with at least 25 years of service, the State pays the entire healthcare premium. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

8. Retirement Benefits (continued)

Postemployment Healthcare and Life Insurance Benefits (continued)

State Policy:

The actuarial valuation of the EUTF does not provide other postemployment healthcare and life insurance benefits information by department or agency. Accordingly, the State policy on the accounting and reporting for postemployment healthcare and life insurance benefits is to allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in the State's CAFR. The basis of the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

OahuMPO contributions for postemployment benefits for the years ended June 30, 2013, 2012, and 2011, were approximately \$44,000, \$32,900, and \$28,400, respectively.

The State's CAFR includes the required financial disclosures and required supplementary information on the State's pension and non-pension retirement benefits. The State's CAFR can be found at the Department of Accounting and General Services website at <http://hawaii.gov/dags/rpts>.

9. Commitments and Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an OahuMPO employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The accumulated sick leave is based on the employee's current salary rate including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2013, accumulated sick leave was approximately \$220,700.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, as well as property and rights purchased with those amounts and income attributable to those amounts, are held in trust by third-party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the deferred compensation plan are not reflected in OahuMPO's financial statements.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

9. Commitments and Contingencies (continued)

Leases

OahuMPO's lease for its office space situated at 707 Richards Street, Oceanview Center, Suite 200, Honolulu, Hawai'i under a new lease agreement entered into in November 2011, which is retroactive to March 1, 2011 and expires on January 31, 2016. Under the terms and conditions of the lease agreement, OahuMPO is responsible for the monthly base rent and a share of operating costs.

OahuMPO also leases equipment under a 5-year operating lease agreement that expires on October 25, 2015. In addition to the base rent, OahuMPO is responsible for all operating costs related to the use of this equipment.

At June 30, 2013, the minimum lease payments due under the new office space lease agreement and under the equipment agreement will be approximately \$40,400 for the year ended June 30, 2014, \$40,900 for the year ended June 30, 2015, and \$22,900 for the year ended June 30, 2016.

The total rental expenditures incurred on the office space lease, including common area fees and on the equipment lease, including operating costs were approximately \$106,900 and \$7,200 for the year ended June 30, 2013, respectively.

10. Risk Management

OahuMPO is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. A summary of the State's insurance coverage for property insurance, general liability, including torts, and self-insured risks are described below.

Property Insurance and Crime Insurance

The State has property insurance coverage with a variety of insurers. The deductible for coverage is 3% of the loss subject to a \$1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler machinery coverage. The limit of loss per occurrence is \$175,000,000, except for flood and earthquake which individually is a \$175,000,000 aggregate loss and terrorism which is \$50,000,000 per occurrence and a \$50,000 deductible.

The State also has a crime insurance policy for various types of coverage with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 limit per occurrence and a \$1,000 deductible.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

11. Risk Management (continued)

General Liability (Including Torts)

The State handles general liability claims under \$10,000 by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is \$10,000,000.

A liability for a claim is established if information indicates that it is probable that a liability has incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. As of June 30, 2013, there are no liabilities related to the OahuMPO that requires a provision and accordingly, no provision for any liabilities have been made in the accompanying financial statements.

Self-Insured Risks

The State generally self-insures its automobile, no-fault, and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

12. Related Party Transactions

OahuMPO utilizes the State Department of Transportation, for staff support, accounting, information technology, human resources, and other services. The Code of Federal Regulations requires that there be an agreement between the State, the transit operator, and OahuMPO specifying the cooperative procedures for carrying out transportation planning. A Comprehensive Agreement between the State, the County of Honolulu, and OahuMPO was executed on October 23, 2008.

The State and the City and County of Honolulu each contribute 10% of funding to OahuMPO's projects based on the budget for the Overall Work Program. For the year ended June 30, 2013, the State and the City and County of Honolulu each paid \$116,729 to OahuMPO for those projects.

As discussed in Note 4, the Overall Work Program includes projects for the State and the City and County of Honolulu. In these instances, the entity requesting the project pays for the entire cost of the project and is reimbursed 80% through federal grant monies. The remaining 20% is the local match as established in Federal regulations for these projects. OahuMPO serves as the fiscal agent in processing the federal reimbursements to the State and the City and County of Honolulu.

As of June 30, 2013, OahuMPO had a payable of \$133,598 to the City and County of Honolulu for federal grant monies received by OahuMPO, which will be paid to the City and County of Honolulu.

13. Subsequent Events

The OahuMPO's Policy Committee endorsed the fiscal year 2014 Overall Work Plan (OWP) at its July 9, 2013 meeting. In a joint letter dated September 6, 2013, FHWA and FTA approved the fiscal year 2014 OWP. However, as of the date of this report the State Department of Transportation has not obligated these funds for the fiscal year 2014.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES BY AGENCY
FOR THE YEAR ENDED JUNE 30, 2013

	W.E.	CITY	HWY	OMPO	TOTAL
Regional Transportation Forecasting and Long-Range Planning:					
Oahu Regional Transportation Plan	202				
Transportation Improvement Program	202.06	\$ -	\$ -	\$ 104,027	\$ 104,027
Asset Climate Change Risk Assessment	202.07	-	-	34,397	34,397
Selection of Enhancement Projects for Oahu	202.08	-	-	9,158	9,158
Household Interview Travel Survey	202.36	-	-	199	199
Waikiki Regional Circulator Study	202.63	-	-	452,838	452,838
	202.84	125,600	-	-	125,600
		125,600	-	600,619	726,219
Short-Range TSM/TDM Planning:					
Ewa Impact Fees for Traffic and Roadway Improvement Update Study	203				
Makakilo Traffic Study	203.75	83,237	-	-	83,237
West Waikiki Traffic Study	203.80	45,877	-	-	45,877
Separate Left-Turn Phase Alternative Study	203.81	109,862	-	-	109,862
Village Park - Kupuna Loop Corridor Study	203.82	43,618	-	-	43,618
Contra-flow Update Study	203.83	98,333	-	-	98,333
Emergency Evacuation Plan	203.84	657	-	-	657
	206.01	155,863	-	-	155,863
		537,447	-	-	537,447
Regional Transportation Monitoring and Analysis:					
2010 Census Data	201				
Federal Planning Requirements	201.06	-	-	8,276	8,276
Land Use Model Enhancement and Demonstration	201.11	-	-	9,356	9,356
Travel Demand Forecasting Model	201.50	-	-	64,191	64,191
Tantalus and Round Top Drive Boundary Identification Study	201.60	-	-	13,159	13,159
Pedestrian Master Plan	201.65	18,852	69,318	-	18,852
	201.66	-	-	69,318	69,318
		18,852	69,318	94,982	183,152
Planning Review and System Management:					
OahuMPO Planning Process Review	205				
OahuMPO Website Update and Electronic TIP and ORTP Development	205.01	-	-	46,464	46,464
	205.02	-	-	89,415	89,415
		-	-	135,879	135,879
Coordination of the Planning Program:					
Program Support and Administration	301				
Planning Resource	301.01	-	-	137,613	137,613
Overall Work Programs	301.02	-	-	26,527	26,527
Support for Citizen Advisory Committee and Additional Public Outreach	301.03	-	-	75,934	75,934
Single Audit	301.04	-	-	56,289	56,289
Disadvantaged Business Enterprise Program	301.05	-	-	52,431	52,431
Professional Development	301.08	-	-	4,215	4,215
Computer and Networking Maintenance	301.09	-	-	12,799	12,799
Transportation Improvement Pgm	301.10	-	-	4,349	4,349
Bicycle & Pedestrian Coord	301.17	-	-	42,066	42,066
Overhead (Indirect Costs)	301.18	-	-	716	716
	302.01	-	-	99,233	99,233
		-	-	512,172	512,172
Total expenditures by agency		\$ 681,899	\$ 69,318	\$ 1,343,652	\$ 2,094,869

See accompanying notes to financial statements.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Rounded FY 2013 Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed Through State Department of Transportation -			
Highway Planning and Construction: *			
OahuMPO Work Program	20.205	PL-0052(31)	\$ 55,454
OahuMPO Work Program	20.205	PL-0052(32)	33,467
OahuMPO Work Program	20.205	PL-0052(33)	64,907
OahuMPO Work Program	20.205	PL-0052(34)	69,861
OahuMPO Work Program	20.205	PL-0052(35)	1,076,390
			<u>1,300,079</u>
Federal Transit Technical Studies Grant: *			
FTA, Section 5303	20.505	HI-80-2016	14,120
FTA, Section 5303	20.505	HI-80-2017	56,195
FTA, Section 5303	20.505	HI-80-0019	88,649
FTA, Section 5303	20.505	HI-80-0020	120,418
FTA, Section 5303	20.505	HI-80-0021	70,925
FTA, Section 5303	20.505	HI-80-0022	19,060
			<u>369,367</u>
Total Federal Expenditures			<u>\$ 1,669,446</u>

* Major Program

See accompanying notes to schedule of expenditures of federal awards.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Major program

The Organization's major program is identified in the Schedule of Expenditures of Federal Awards.

PART III – INTERNAL CONTROL AND COMPLIANCE SECTION

**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**

Office of the Auditor
State of 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 of America, the financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements and have issued our report thereon dated January 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered OahuMPO'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of OahuMPO'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 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 designated to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OahuMPO's financial statements are free of 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 *Governmental Auditing Standards*.

We noted certain matters that we reported to management of OahuMPO in a separate letter dated January 30, 2014.

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.

This report is intended solely for the information and use of the Office of the Auditor, management of OahuMPO, 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.

Gilford Sato & Associates, CPAs, Inc.

Honolulu, Hawai'i
January 30, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Office of the Auditor
State of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO)'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that could have a direct and material effect on OahuMPO's major federal program for the year ended June 30, 2013. OahuMPO's major federal program is 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of OahuMPO'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 (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). 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 OahuMPO'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 of each major program. However, our audit does not provide a legal determination of OahuMPO's compliance.

Opinion on Each Major Federal Program

In our opinion, OahuMPO complied, in all material aspects, 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, 2013.

Report on Internal Control Over Compliance

Management of OahuMPO 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 OahuMPO's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OahuMPO's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

This report is intended solely for the information and use of the Officer of the Auditor, management of OahuMPO, 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.



Honolulu, Hawai'i
January 30, 2014

PART IV: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes no
- Significant deficiencies identified? _____ yes none reported

Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal control over major reporting:

- Material weakness(es) identified? _____ yes no
- Significant deficiencies identified? _____ yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction, U.S. Department of Transportation
20.505	Federal Transit Technical Studies

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? yes _____ no

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no matters to report for the year ended June 30, 2013.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no matters to report for the year ended June 30, 2013.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
AS OF JUNE 30, 2013

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no findings and questioned costs reported for the year ended June 30, 2012.

PART V – CORRECTIVE ACTION PLAN

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013

CORRECTIVE ACTION PLAN

A corrective action plan was not required, since there were no audit findings and questioned costs reported for the year ended June 30, 2013.

DOT Follow up to WAM inquiry email 4.10.14

WILL KANE:

As discussed, would your staff be able to provide the following for each project listed?

- 1) What is the current status of the project?
- 2) What specifically was the reason for the cost increase?
- 3) How was this cost increase calculated?
- 4) Besides the intent of the department to use it in the way requested, can you please provide additional information regarding these projects, such as copies of the RFP, contracts, etc.?"

WILL KANE:

As per your inquiry on April 10, 2014, DOT provides the following responses in blue.

Responses to the pdf list provided answering items 1-4.

1. TRN 501 Guardrail and Shoulder Improvements, Various Locations, Oahu
 - a. Status of Project:
Project is in design and construction for fiscal 2015.
 - b. Reason for cost increase:
As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, Session Laws of Hawaii (SLH) 2013 provision that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization and for an additional \$750K.
 - c. How was the cost increase calculated:
\$1.970M is the total FY14/15 funding required. \$2.241M appropriation is available upon which \$955K will lapse June 30, 2014. Currently, we are short \$750K.
 - d. Provide the contracts:
Design contract attached.

2. TRN 501 Kalaniana'ole Highway, Inoaole Stream Bridge Rehabilitation and/or Replacement, Oahu
 - a. Status of Project:
Final environmental assessment is in progress and preliminary designs have stopped at the 60% level pending final outcome of the environmental assessment process. Construction is estimated for fiscal 2015.

- b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization. The small additional balance is the amount needed to meet the current construction estimate derived from more detailed estimates developed during the course of the design development.
 - c. How was the cost increase calculated:

\$1.946M is the total estimated FY14/15 funding required. \$1.847M appropriation is available upon which \$1.178K will lapse June 30, 2014. We are short \$1.277M therefore rounded up to \$1.3M.
 - d. Provide the contracts:

Design contract attached.
3. TRN 501 Kamehameha Highway, South Kahana Stream Bridge Rehabilitation and/or Replacement, Oahu
- a. Status of Project:

Work is proceeding with the environmental assessment and permitting approvals. Designs have stopped at the initial stages pending final outcome of the environmental assessment process. Construction is estimated for fiscal year 2015.
 - b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.
 - c. How was the cost increase calculated:

\$5.2M is the total estimated FY14/15 funding required. \$5.2M appropriation is available upon which \$1.9M will lapse June 30, 2014. We are requesting for the \$1.9M.
 - d. Provide the contracts:

Design contract is attached.
4. TRN 501 Kamehameha Highway, Rehabilitation and/or Replacement of Laieloa Stream Bridge, Oahu
- a. Status of Project:

The draft environmental assessment was published. We are working on the final environmental assessment. Construction parcel acquisitions in process.

Design to restart after the final environmental assessment receives a FONSI. Construction is estimated for fiscal year 2015.

b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

c. How was the cost increase calculated:

\$1.837M total estimated FY14/15 funding required. \$1.836M appropriation is available upon which \$18K will lapse June 30, 2014. Therefore, requesting \$100K for construction.

d. Provide the contracts:

Design contract attached.

5. TRN 501 Highway Lighting Replacement of Various Locations, Oahu

a. Status of Project:

The consultant selection process will be starting shortly.

b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

c. How was the cost increase calculated:

\$6.640M total estimated FY14/15 funding required. \$7.912M appropriation available upon which \$2.860M will lapse June 30, 2014. Therefore requesting \$1.7M based on most current schedule and estimate

d. Provide the contracts:

There are none.

6. TRN 501 Traffic Operational Improvements to Existing Intersections and Highway Facilities, Oahu

a. Status of Project:

Consultant contract is to provide a study for areas identified. Design will be implemented under a separate project.

b. Reason for cost increase:

To meet estimates

c. How was the cost increase calculated:

Calculated based on supplemental budget schedules and estimates

d. Provide the contracts:

Contract attached.

7. TRN 501 Kamehameha Highway, Helemano-Waialua Junction to Haleiwa Beach Park, Oahu

a. Status of Project:

Project was bid out but prices were too high so we cancelled and are reassessing and working with the US Army Corps of Engineers to readdress wetland mitigations and then redesign. Construction is estimated for fiscal year 2016.

b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

c. How was the cost increase calculated:

There is no cost increase.

d. Provide the contracts:

Design contract attached.

8. TRN 531 Kihei-Upcountry Highway, Maui

a. Status of Project:

Design for Phase 1 is at 90%. Until the land acquisition is addressed then the final design can be completed. Environmental permitting in process as well.

b. Reason for cost increase:

No cost increase, rather the requested supplemental appropriation would provide a means to expedite construction of the first phase of the Kihei-Upcountry Highway project.

c. How was the cost increase calculated:

There is no cost increase.

d. Provide the contracts:

Design contract attached.

9. TRN 531 Hana Highway, Kailua Stream Bridge Rehabilitation and/or Replacement, Maui

a. Status of Project:

Consultant selection will be starting shortly.

b. Reason for cost increase:

There is no cost increase; rather the requested supplemental appropriation would allow land activities to be expedited (SB3010, SLH 2012) so that the project could be implemented the same time as we start the design.

c. How was the cost increase calculated:

Added land cost element.

d. Provide the contracts:

There is none.

10. TRN 531 Hana Highway, Makanali Stream Bridge Rehabilitation and/or Replacement, Maui

a. Status of Project:

Consultant selection will be starting shortly.

b. Reason for cost increase:

There is no cost increase; rather the requested supplemental appropriation would allow land activities to be expedited so that the project could be implemented the same time as we start the design.

c. How was the cost increase calculated:

Added land cost element

d. Provide the contracts:

There is none.

11. TRN531 Haleakala Highway Intersection Improvements at Kula Highway, Maui

a. Status of Project:

Design is ongoing.

b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

There is no cost increase. This request was submitted in case we did not make bid opening by June 30, 2014.

c. How was the cost increase calculated:

There is no increase.

d. Provide the contracts:

There is none.

12. TRN531 Traffic Operational Improvements to Existing Intersections and Highway Facilities, Oahu

a. Status of Project:

There are six project locations under assessment. After the assessments are completed and design parameters established, design would then commence.

b. Reason for cost increase:

To meet estimates.

- c. How was the cost increase calculated:
Calculated based on supplemental budget schedules and estimates.
- d. Provide the contracts:
Design contract attached.

13. TRN531 Hana Highway Widening, Kaahumanu Avenue to Haleakala Highway, Maui

- a. Status of Project:
Design consultant contract is in process for execution.
- b. Reason for cost increase:
As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.
- c. How was the cost increase calculated:
There is no cost increase.
- d. Provide the contracts:
Once the contract is executed, we can provide a copy.

14. TRN561 Kuhio Highway, Kapaia Stream Bridge Rehabilitation and/or Replacmement, Kauai

- a. Status of Project:
The draft Archaeological Inventory Study is being reviewed. Design is preliminary. Construction is estimated for fiscal 2015.
- b. Reason for cost increase:
As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.
- c. How was the cost increase calculated:
There is no cost increase
- d. Provide the contracts:
Design contract attached.

15. TRN561 Kapule Highway/Rice Street/Waapa Road Improvements and Strengthening/Widening of Nawiliwili Bridge, Kauai

- a. Status of Project:
Consultant selection will commence shortly.
- b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

- c. How was the cost increase calculated:

There is no cost increase.

- d. Provide the contracts:

Once the contract is executed, we can provide a copy.

16. TRN561 Kuhio Highway, Mailihuna Road Intersection Improvements and Kapaa Stream Bridge Rehabilitation and/or Replacement, Kauai

- a. Status of Project:

Design, environmental and construction will be done by Federal Highways, Central Federal Lands Division.

- b. Reason for cost increase:

As noted in our April 2, 2014 budget responses to HB1700HD1SD1, the request is due to Act 134, SLH 2013 that the legislature created to have non-general funded Departments lapse federal appropriations similar to state funded appropriations. We are requesting for the reauthorization.

- c. How was the cost increase calculated:

There is no cost increase.

- d. Provide the contracts:

There is no contract as Central Federal Lands will be doing this project.

17. TRN595 Improvements to Intersections and Highway Facilities, Statewide

- a. Status of Project:

Consultant selection process in progress for Honoapiilani Highway Safety Improvements from Ukumehame to Olowalu.

- b. Reason for cost increase:

The addition is for this project.

- c. How was the cost increase calculated:

Calculated based on supplemental budget schedules and estimates.

- d. Provide the contracts:

Once the contract is executed, we can provide a copy.

18. TRN595 Miscellaneous Drainage Improvements, Statewide

- a. Status of Project:

Project being designed and constructed is the Hawaii Belt Road Drainage Improvements at Paaloa, island of Hawaii. Design and environmental permitting in progress. Construction estimated for fiscal 2015.

- b. Reason for cost increase:
This addition is for this project.
- c. How was the cost increase calculated:
Calculated based on supplemental budget schedules and estimates.
- d. Provide the contracts:
Design contract attached.

In addition, we want to be sure that the projects not included in your list and that based on our April 2, 2014 response package, there are no further issues for the department to clarify.

WILL KANE:

Additionally, we request clarification for the following questions:

- 1) Does the FHWA agree with your removal of the OMPO director's authority for procurement?

DOT RESPONSE:

- a. By State statute (279E HRS) the Oahu Metropolitan Planning Organization is administratively attached to HDOT.
- b. Per State of Hawaii Procurement Office Procurement Delegation No. 2010-01 dated December 6, 2010 and Procurement Delegation No. 2013-02 dated November 4, 2013, the procurement delegation authority is assigned to the Director of HDOT. These documents are attached for your information and reference.

Further as noted in our discussions, the removal of the procurement delegation was a result of the State Auditors management report that was just completed for fiscal year 2013 and is attached for your information and reference.

- c. Therefore, the responsibility of procurement delegation authority is with HDOT, not FHWA.

WILL KANE:

2) How is OMPO reporting directly to the FHWA if ultimate authority to procure now lies with you?

DOT RESPONSE:

- a. According to federal law, the FHWA has final authority and responsibility towards the overall administration of the expenditures of federal funds.
- b. HDOT also has this responsibility towards the administration of federal funds in ensuring the use of the funds comply with all state and federal laws.
- c. As noted in #1 above, for procurement and contracting processes HDOT has always had final authority.

WILL KANE:

One last item for clarification. Would you consider the following statement correct?

The DOT has the authority to issue revenue bonds, but chooses not to if the projects appropriated are not on the DOT's priority list.

This is related to the discussion we had with regard to the state having to use G.O. bonds for projects which could be constructed with DOT Revenue Bond funds for highway projects such as Nanakuli Public Library, Pahoia Bypass Road improvements etc.

DOT RESPONSE:

Mission Statement: "The mission of the Highways Division is to provide a safe, and efficient and accessible highway system through the utilization of available resources in the maintenance, enhancement and support of land transportation facilities." Therefore the Highways Division constructs and maintains roadways for public transportation use.

Financing: Financing for Capital Improvement Projects (CIP) is done by state funds and federal funds. One of the primary source of **state funds** is from the sales of Highway Revenue Bonds whose principal and interest is paid from pledged (dedicated) revenue sources. The State issues Revenue Bonds pursuant to the Constitution, the laws of the State and the Certificate of the Director of Transportation. Revenue Bonds are special limited obligations of the State, and will be payable from and secured by the Pledged Funds. Pledged Funds is defined to include the Revenues held in the Highway Revenue Special Account (Highway Special Fund). Revenues is defined to include the following when deposited in the Highway Special Fund: Pledged user taxes, certain revenues derived from the ownership or operation of, or disposition of properties constituting part of, the State Highway System, and certain investment earnings. Pledged User Taxes is defined to include the receipts of the highway fuel license taxes, vehicle registration fees, the vehicle weight tax, and the rental motor vehicle and tour

vehicle surcharge taxes. Payment of principal of and interest on the Revenue Bonds is the first priority and charge against the Highway Special Fund.

Under the General Revenue Bond Law, the Department of Transportation is obligated to impose, prescribe and collect rates, rents, fees, or charges for the use and services of, and the facilities and commodities furnished by, the State Highway System which, together with the proceeds of the Pledged User Taxes derived from the State Highway System, are at least sufficient: (1) to make the required payments of principal and interest on all Bonds, including reserves therefore; (2) to pay the costs of operation, maintenance and repair of the State Highway System, including reserves therefore; and (3) to carry out the covenants of the Certificate.

Conditions, terms and other information related to Highway Revenue Bond sales are fully disclosed to all investors, and the Department of Transportation and the Highways Division are bound to any and all conditions.

Federal funds: Financing of State Highway projects are also done by the use of federal funds provided from the Federal Highway Administration (FHWA) under Title 23 – Highways. Eligible activities must occur on a Federal-Aid Highway, a roadway that is functionally classified and approved FHWA.

Such FHWA funds are to assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including the Eisenhower Interstate System; for transportation improvements to many other public roads; to provide aid for the repair of Federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes (research, planning, etc).

Purpose of funding: As indicated above, the purpose of Revenue Bond funds and FHWA funds are for transportation purposes to improve and maintain our roadways. As an implementing agency, in general, if the Department of Transportation Highways Division is the initiator (the *cause*) of the project for the purpose of transportation improvement, then the design, land acquisition, construction, operations or certain types of maintenance or system preservation are eligible activities for the use of Revenue Bond funds or FHWA funds.

In the case of Nanakuli Library, as an example, if the State Highways Division was widening the highway in front of the library and as a result, would be impacting the driveway connection to the highway, then the State Highways Division would be able to use Revenue Bond funding and FHWA federal funds (if the project is a federal aid) to make modifications to the driveway connection where it is impacted as a result of the widening.

Other responsibilities:

Further, for projects not initiated by the Highways Division may be bound by other binding conditions or agreements, such as land use (development) conditions and legal commitments in environmental documents. For example, private developers and other government agencies are responsible for impacts caused by their development to transportation facilities (like roadways and freeways), thus they are responsible for their share of transportation impacts. Such impacts are documented by studies (eg. traffic studies, traffic impact analysis studies) used to support environmental impact studies or environmental assessments. Any developer; private or government, are required to follow such planning and environmental processes.

Attachments

- a. Contracts
- b. Procurement Delegation Letters
- c. Office of the Auditor Documents
- d. April 2, 2014 HB1700HD1SD1 responses