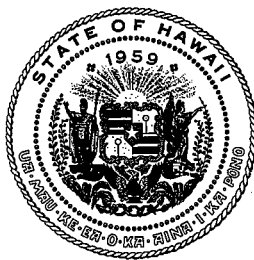


STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



ORIGINAL

LESLIE H. KONDO
State Auditor

(808) 587-0800
lao.auditors@hawaii.gov

82 114 27 JUL 17
DEPT. COMM. NO. 383

July 3, 2017

HAND DELIVER

The Honorable Ronald D. Kouchi
Senate President
415 S. Beretania Street
State Capitol, Room 409
Honolulu, Hawaii 96813

Re: Audit of the O'ahu Metropolitan Planning Organization

Dear President Kouchi:

The financial audit and the single audit reports of the O'ahu Metropolitan Planning Organization for the fiscal year ending June 30, 2016 was issued on March 31, 2017. The Office of the Auditor retained Choo, Osada & Lee, CPAs, Inc. to perform the financial and the single audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the financial and the single audit reports.

You may view the Auditor's Summary and report electronically on our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/OMPO_Summary_2016.pdf, and
http://files.hawaii.gov/auditor/Reports/2016_Audit/DOT_OMPO2016.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:ifs

Enclosures

Auditor's Summary

Financial Audit of the O'ahu Metropolitan Planning Organization

Financial Statements, Fiscal Year Ended June 30, 2016



PHOTO: O'AHU METROPOLITAN PLANNING ORGANIZATION

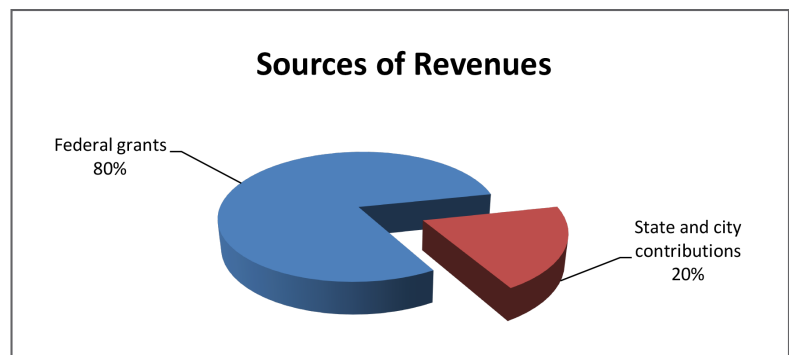
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the O'ahu Metropolitan Planning Organization (OMPO) as of and for the fiscal year ended June 30, 2016, and to comply with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Choo, Osada & Lee, CPAs, Inc.

About the Organization

OMPO WAS ESTABLISHED in 1975 to serve in an advisory capacity to the State Legislature, Honolulu City Council, and appropriate state and county agencies in carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of O'ahu as required by federal law.

Financial Highlights

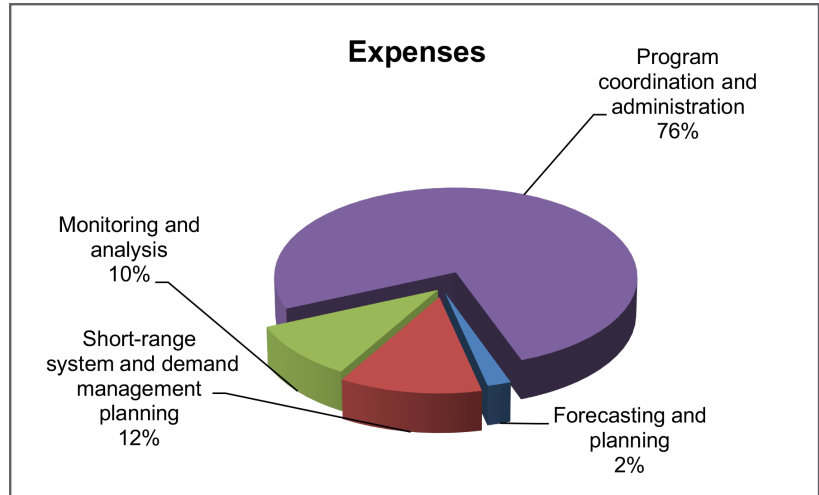
FOR THE FISCAL YEAR ended June 30, 2016, OMPO reported total revenues of approximately \$1.2 million and total expenses of approximately \$1.2 million, resulting in no change in net position. Revenues consisted of \$979,000 from federal grants and \$245,000 from state and city contributions.



Total expenses consisted of \$35,000 for transportation forecasting and long-range planning, \$139,000 for short-range transportation system and demand management planning, \$116,000 for transportation monitoring and analysis, and \$906,000 for program coordination and administration.

As of June 30, 2016, total assets exceeded total liabilities by \$77,000. Of this amount, \$73,000 is unrestricted and may be used to meet ongoing expenses and obligations.

Total assets of approximately \$1.4 million included cash of \$1.1 million, receivables and other assets of \$225,000, and net capital assets of \$4,000. Total liabilities totaled approximately \$1.3 million.



Auditors' Opinions

OMPO RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OMPO received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WERE FIVE SIGNIFICANT DEFICIENCIES in internal control over financial reporting that are required to be reported under *Government Auditing Standards*.

- No established code of conduct and conflict of interest policy.
- Lack of formal procedures to assess risk associated with the accounting, grants management, and financial reporting areas.
- Accounting, grants management, and financial reporting policies and procedures were not specific or not documented.
- Appropriate documentation over a key spreadsheet used to summarize the allocation of costs to the appropriate grants was not maintained.
- Lack of formal procedures over its financial reporting process.

There was one material weakness in internal control over compliance.

- Lack of formalized documented procedures over the subrecipient monitoring process.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/DOT_OMPO2016.pdf

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
FINANCIAL AND COMPLIANCE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(With Independent Auditor's Reports)**

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

CHOO, OSADA & LEE, CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

1136 12TH AVENUE
SUITE 240
HONOLULU, HAWAII 96816

TELEPHONE (808) 734-1921

March 31, 2017
Office of the Auditor
State of Hawai'i

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

Dear Mr. Au:

We have completed our financial audit of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the fiscal year ended June 30, 2016. 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 fair presentation of OahuMPO's financial statements as of and for the fiscal year ended June 30, 2016, and to comply with the requirements of the Uniform Guidance. The objectives of our audit were as follows:

1. To provide a basis for an opinion on the fair presentation of OahuMPO's financial statements.
2. To ascertain whether expenditures have been made, and all revenues 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 the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of OahuMPO as of and for the fiscal year ended June 30, 2016.

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 reports 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,

Choo, Osada's Lee, CPAs, Inc.

Honolulu, Hawaii

PART II – FINANCIAL SECTION

CHOO, OSADA & LEE, CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

1136 12TH AVENUE
SUITE 240
HONOLULU, HAWAII 96816

TELEPHONE (808) 734-1921

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, 2016, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements as listed in the 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 an opinion 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of OahuMPO, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of OahuMPO are intended to present the financial position and the changes in financial position of only those portions of the governmental activities and special revenue funds of the State of Hawaii that are attributable to the transactions of OahuMPO. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 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 Standard 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 certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OahuMPO's basic financial statements. The schedule of expenditures by agency is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures by agency and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures by agency and the schedule of expenditures of federal awards are 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 March 31, 2017, on our consideration of the OahuMPO's internal control over financial reporting and on 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 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.

Choo, Osada & Lu, CPAs, Inc.

Honolulu, Hawaii
March 31, 2017

**STATE OF HAWAI‘I
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT’S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

This section of the annual financial report presents an analysis of OahuMPO’s financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements which follows this section.

Financial Highlights

- OahuMPO’s net position increased by \$27,690.
- During the fiscal year, OahuMPO’s revenues decreased by \$973,895, and expenditures/expenses decreased by \$1,005,635.

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; schedule of findings and questioned costs; summary schedule of prior audit findings; and corrective action plan.

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 reports the organization’s activities and the changes in its net position as a result of its activities.

**STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
 FISCAL YEAR ENDED JUNE 30, 2016**

Tables 1 and 2 present a comparative view of net position and changes in net position as of and for the fiscal years ending June 30, 2016 and 2015, respectively.

**Table 1
 Condensed Summary of Net Position**

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 1,370,771	905,475
Capital assets	<u>3,912</u>	<u>5,477</u>
Total assets	<u>\$ 1,374,683</u>	<u>\$ 910,952</u>
Liabilities:		
Current liabilities and other liabilities	\$ 1,293,658	845,062
Long-term liabilities	<u>4,267</u>	<u>16,822</u>
Total liabilities	<u>1,297,925</u>	<u>861,884</u>
Net position:		
Invested in capital assets	3,912	5,477
Unrestricted	<u>72,846</u>	<u>43,591</u>
Total net position	<u>\$ 76,758</u>	<u>\$ 49,068</u>

OahuMPO's net position increased by \$27,690, or 56.43%, between June 30, 2016 and 2015. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased \$29,255, or 67.11%, between June 30, 2016 and 2015.

**STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
 FISCAL YEAR ENDED JUNE 30, 2016**

**Table 2
 Condensed Summary of Revenues, Expenses, and Changes in Net Position**

	Governmental Activities	
	2016	2015
Expenses		
Regional transportation forecasting and long-range planning	\$ 34,622	\$ 674,887
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	139,062	640,556
Regional transportation monitoring and analysis	116,495	81,657
Planning review and systems management	49,744	72,980
Coordination of the planning program	856,399	731,877
 Total expenditures	 <u>1,196,322</u>	 <u>2,201,957</u>
Revenues		
Federal grant contributions	979,210	1,757,991
State and City contributions	244,802	439,916
 Total revenues	 <u>1,224,012</u>	 <u>2,197,907</u>
 Change in net position	 27,690	 (4,050)
 Beginning net position	 <u>49,068</u>	 <u>53,118</u>
 Ending net position	 <u>\$ 76,758</u>	 <u>\$ 49,068</u>

OahuMPO's expenditures/expenses decreased by \$1,005,635, or 45.67% between the fiscal years ended June 30, 2016 and 2015 in all expenditure/expense categories. OahuMPO's revenues decreased by \$973,895, or 44.31% between the fiscal years ended June 30, 2016 and 2015. The changes in revenues were attributed largely to the correlating decrease in Federal grant and State and City contributions.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FISCAL YEAR ENDED JUNE 30, 2016**

Capital Asset and Debt Administration

Capital Assets:

As of June 30, 2016 and 2015, OahuMPO had capital assets net of accumulated depreciation of approximately \$3,912 and \$5,477, respectively. OahuMPO did not have any capital acquisitions or dispositions for both the fiscal years ended June 30, 2016 and 2015.

Debt:

OahuMPO did not have any outstanding debt as of June 30, 2016 and 2015.

Request for Information

The financial report is designed to provide a general overview of OahuMPO's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Randolph Sykes, Planning Program Coordinator, Oahu Metropolitan Planning Organization, 707 Richards Street, Suite 200, Honolulu, HI 96813.

**STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
 JUNE 30, 2016**

	<u>Special Revenue</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,146,197	\$ -	\$ 1,146,197
Receivables from federal government	218,816	-	218,816
Other current assets	<u>5,758</u>	<u>-</u>	<u>5,758</u>
Total current assets	1,370,771	-	1,370,771
NONCURRENT ASSETS:			
Capital assets, net of accumulated depreciation	<u>-</u>	<u>3,912</u>	<u>3,912</u>
Total noncurrent assets	<u>-</u>	<u>3,912</u>	<u>3,912</u>
Total assets	<u>\$ 1,370,771</u>	<u>\$ 3,912</u>	<u>\$ 1,374,683</u>
CURRENT LIABILITIES:			
Vouchers payable	\$ 59,002	\$ -	\$ 59,002
Advances from other agencies	1,198,595	-	1,198,595
Accrued liabilities	<u>30,781</u>	<u>5,280</u>	<u>36,061</u>
Total current liabilities	1,288,378	5,280	1,293,658
NONCURRENT LIABILITIES:			
Accrued liabilities	<u>-</u>	<u>4,267</u>	<u>4,267</u>
Total noncurrent liabilities	<u>-</u>	<u>4,267</u>	<u>4,267</u>
Total liabilities	<u>1,288,378</u>	<u>9,547</u>	<u>1,297,925</u>
FUND BALANCE/NET POSITION:			
Restricted fund balance	<u>82,393</u>	(82,393)	-
Total liabilities and fund balance	<u>\$ 1,370,771</u>		
Net position			
Invested in capital assets		3,912	3,912
Unrestricted		<u>72,846</u>	<u>72,846</u>
Total net position		<u>\$ 76,758</u>	<u>\$ 76,758</u>

See accompanying notes.

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE
 FISCAL YEAR ENDED JUNE 30, 2016

	<u>Special Revenue</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>
EXPENDITURES:			
Regional transportation forecasting and long-range planning	\$ 34,622	\$ -	\$ 34,622
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	139,062	-	139,062
Regional transportation monitoring and analysis	116,495	-	116,495
Planning review and system management	49,744	-	49,744
Coordination of the planning program	884,089	(27,690)	856,399
	<u>1,224,012</u>	<u>(27,690)</u>	<u>1,196,322</u>
REVENUES:			
Federal grant contributions	979,210	-	979,210
Local contributions:			
City and County of Honolulu	102,942	-	102,942
State of Hawai'i	70,430	-	70,430
Honolulu Authority for Rapid Transportation (HART)	71,430	-	71,430
	<u>1,224,012</u>	<u>-</u>	<u>1,224,012</u>
Change in fund balance/net position	-	27,690	27,690
FUND BALANCE/NET POSITION:			
Beginning of the year	<u>82,393</u>	<u>(33,325)</u>	<u>49,068</u>
End of the year	<u>\$ 82,393</u>	<u>\$ (5,635)</u>	<u>\$ 76,758</u>

See accompanying notes.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - FINANCIAL REPORTING ENTITY

Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO), was established by agreement between the Governor of the State of Hawaii and the Chairperson of the City Council of the City and County of Honolulu to serve as the decision making body responsible to carry out the continuing, comprehensive, and cooperative transportation planning and programming for the island of Oahu as required by federal 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.

NOTE 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. The more significant accounting policies used by OahuMPO are discussed below.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements

The governmental funds financial statements are prepared using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OahuMPO considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government Fund

The 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 Highway 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, 2016.

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. There were no deferred inflows or outflows that required reporting on the statement of net position as of June 30, 2016.

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO BASIC FINANCIAL STATEMENTS - continued
 JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Reconciling items include the following:

Statement of net position:

Capital assets, net of accumulated depreciation	\$ 3,912
	<u>5,280</u>
Accrued liabilities - current	\$ 5,280
Accrued liabilities - noncurrent	4,267
	<u>9,547</u>
Restricted fund balance	\$ (82,393)
Net position	76,758
	<u>(5,635)</u>

Statement of activity:

Depreciation	\$ 1,565
Accrued vacation	(29,255)
	<u>(27,690)</u>

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 amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

c. Cash and Cash Equivalents

Cash and cash equivalents consists of petty cash and amounts held in State Treasury as discussed in Note 5.

**STATE OF HAWAI‘I
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

d. Receivables From Federal Government

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

e. 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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f. Compensated Absences

OahuMPO permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

g. 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, 2016, OahuMPO recorded encumbrances of approximately \$976,000.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. ERS investments are reported at their fair value. The ERS issues a publicly available financial report that can be obtained at ERS' website: <http://ers.ehawaii.gov/>.

i. Risk Management

OahuMPO is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

j. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, including OahuMPO personnel, 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 plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the deferred compensation plan are not reflected in the accompanying's financial statements.

NOTE 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. Allowable expenditures to the FHWA-PL grants include labor and non-labor expenditures incurred that are recorded based on the approved Overall Work Program (OWP).

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 3 – FEDERAL GRANTS - continued

OahuMPO has the following FHWA grants outstanding as of June 30, 2016; PL-0052(38) for the fiscal year 2016, PL-0052(37) for the fiscal year 2015, and PL-0052(36) for the fiscal year 2014.

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. Allowable expenditures to the FTA grants include labor and non-labor expenditures incurred that are recorded based on the approved Overall Work Program (OWP).

OahuMPO has the following FTA grants outstanding as of June 30, 2016; HI-80-0025 (fiscal year 2016), HI-80-0024 (fiscal year 2015), and HI-80-0023 (fiscal year 2014). No FTA grants were closed during the fiscal year ended June 30, 2016. There were no available funds related to the following grants; HI-80-0021 (fiscal year 2012) and HI-80-0019 (fiscal year 2010).

NOTE 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 Board and subsequently and jointly by FHWA and the FTA. The OWP encompasses various projects (work elements), in which work performed is specifically for OahuMPO, the State, the City and County of Honolulu (C&C) or the Honolulu Authority for Rapid Transportation (HART), 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.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 4 – BUDGETING AND BUDGETARY CONTROL – continued

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 as a pass-through agency to and for the OahuMPO. 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.

The amount of unexpended FHWA obligated funds amounted to approximately \$3,991,000, \$147,400, and \$400 related to the fiscal years 2016, 2015, and 2014, respectively, for a total amount of approximately \$4,138,800 as of June 30, 2016.

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 approximately \$57,000 as of June 30, 2016.

NOTE 5 - CASH AND CASH EQUIVALENTS

Substantially all of OahuMPO's cash is held in the State Treasury.

The State Director of Finance is responsible for safekeeping of all monies paid to the State Treasury and pools and invests any monies of the State, which in the State Director of Finance's judgement are in excess of amounts necessary for meeting the specific requirements of the State. Legally authorized investments include obligations guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificate of deposits, and repurchase agreements with federally-insured financial institutions.

The State maintains an investment pool that is used by various State Departments and Agencies, including OahuMPO. Information is determined on a statewide basis and not for individual departments or divisions. OahuMPO earnings on amounts held in State Treasury are allocated to OahuMPO based on its average monthly investment balances at the end of each reporting period by the State Treasury.

Cash

At the State level, for financial reporting purposes, cash and cash equivalents consists of cash, time-certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

Investments

The risks related to the State investments are as follows:

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 5 - CASH AND CASH EQUIVALENTS - continued

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits its investments to investments in State and U.S. Treasury securities, time certificate of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

Custodial Risk

For bank accounts, custodial risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. 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.

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by Securities Investor Protection Corporation (SIPC) up to a maximum amount. Excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities to and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

For further information related to the amount held in State Treasury, refer to the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Cash in Bank

OahuMPO also maintains cash in banks which are held separately from cash in the State Treasury. As of June 30, 2016, the carrying amount of total bank balance was approximately \$400, which is insured by the Federal Deposit Insurance Corporation.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 6 - CAPITAL ASSETS

The changes in capital assets were as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities				
Furniture and equipment, at cost	\$ 16,509	\$ -	\$ -	16,509
Less accumulated depreciation	11,032	1,565	-	12,597
Governmental activities capital assets, net	<u>\$ 5,477</u>	<u>\$ (1,565)</u>	<u>\$ -</u>	<u>\$ 3,912</u>

NOTE 7 – CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities during the fiscal year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Accrued liabilities	<u>\$ 16,822</u>	<u>\$ 14,511</u>	<u>\$ 27,066</u>	<u>\$ 4,267</u>
Total noncurrent liabilities	<u>\$ 16,822</u>	<u>\$ 14,511</u>	<u>\$ 27,066</u>	<u>\$ 4,267</u>

NOTE 8 - RETIREMENT BENEFITS

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the Employees' Retirement System of the State of Hawai'i (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefit terms, eligibility, and contribution requirements are established by Hawaii Revised Statutes (HRS) Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS' website: <http://ers.ehawaii.gov/>.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

Hybrid Class for Employees Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.
- Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Plan for Employees Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 8 - RETIREMENT BENEFITS – continued

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 25.00% for police officers and firefighters and 17.00% for all other employees. Contributions to the pension plan from the State was \$373,881,000 for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

OahuMPO contributions for the fiscal year ended June 30, 2016 was approximately \$67,400 at the pension accumulation rate of 17.00% of annual covered payroll, which were equal to the annual required contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the State reported a liability of approximately \$4.3 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.2380% which was a decrease of 1.2454% from its proportion measured as of June 30, 2014.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 8 - RETIREMENT BENEFITS – continued

For the year ended June 30, 2016, the State recognized pension expense of approximately \$354,299,000. At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 41,650	\$ (121,021)
Changes in assumptions	102,682	-
Net difference between projected and actual earnings on pension plan investments	-	(146,939)
Changes in proportion and differences between State contributions and proportionate share of contributions	5,804	(26,929)
State contributions subsequent to the measurement date	<u>476,076</u>	<u>-</u>
Total	<u>\$ 626,212</u>	<u>\$ (294,889)</u>

The \$476,076,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ended June 30:	
2017	\$ (64,048)
2018	(64,048)
2019	(64,048)
2020	52,228
2021	<u>(4,837)</u>
	<u>\$ (144,753)</u>

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO BASIC FINANCIAL STATEMENTS - continued
 JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.65% per year, compounded annual including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
 Total investments	 <u><u>100.0%</u></u>	

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO BASIC FINANCIAL STATEMENTS - continued
 JUNE 30, 2016

NOTE 8 - RETIREMENT BENEFITS – continued

* The real estate, private equity, and real return targets will be the percentage actually invested up to 7.0%, 7.0%, and 5.0%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the State’s proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the State’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate (amounts expressed in thousands):

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
State's proportionate share of the net pension liability	\$ 5,465,016	\$ 4,314,247	\$ 3,213,481

Pension Plan Fiduciary Net Position

The pension plan’s fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ERS financial report. ERS’ complete financial statements are available at: <http://www.ers.hawaii.gov>.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 8 - RETIREMENT BENEFITS – continued

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS was \$21,256,000.

Post-Employment Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. 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 BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 8 - RETIREMENT BENEFITS – continued

Cost

The State is required to contribute the annual required contribution of the employer (ARC), and amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 30 years.

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

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 ARC, to component units and proprietary funds that are reported separately in stand-alone department financial statements or 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. With respect to OahuMPO, the State Department of Accounting and General Services did not allocate any other postemployment healthcare and life insurance benefits to OahuMPO for the fiscal year ended June 30, 2016.

Contributions

OahuMPO contributions for postemployment benefits for the fiscal years ended June 30, 2016, 2015, and 2014, were approximately \$48,500, \$40,900, and \$38,700, respectively.

NOTE 9 – 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, 2016, accumulated sick leave was approximately \$12,700.

**STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO BASIC FINANCIAL STATEMENTS - continued
 JUNE 30, 2016**

NOTE 10 - LEASES

OahuMPO’s is leasing its office space situated at The Block-Richards Building, 707 Richards Street, Suite 200, Honolulu, Hawaii’i under a lease agreement entered into in January 2016, which expires on January 31, 2021. 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 leased copier equipment under a 5-year operating lease agreement that expired on October 25, 2015. Subsequent to this lease expiring OahuMPO entered into a new 3-year operating lease. In addition to the base rent, OahuMPO is responsible for all operating costs related to the use of this equipment.

At June 30, 2016, future minimum lease payments, not including common area fees or operating expenses were as follows:

Fiscal Year Ending June 30,	
2017	\$ 38,200
2018	38,900
2019	36,700
2020	36,100
2021	<u>21,300</u>
	<u>\$ 171,200</u>

The total rental expenditures incurred on the office space lease, including common area fees and on the equipment lease, for the fiscal year ended June 30, 2016, was as follows:

Minimum rentals under noncancelable operating leases	\$ 39,555
Common area fees and other	<u>38,314</u>
	<u>\$ 77,869</u>

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 11 - 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. The State records a liability for risk financing and insurance-related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism and boiler and machinery coverage. The limit of loss per occurrence is \$200 million, except for terrorism, which is \$50 million per occurrence and a \$10,000 deductible.

Crime Insurance

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10 million per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 per occurrence and a \$1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Liability claims up to \$10,000 and automobile claims up to \$15,000 are handled 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 million self-insured retention per occurrence. The annual aggregate limit per occurrence is \$15 million, and for crime loss, \$10 million with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Self-insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses below \$15,000 are administered by the Risk Management Office of the Department of Accounting and General Services. The State administers its workers' compensation losses.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 11 - RISK MANAGEMENT – continued

Reserve for Losses

At June 30, 2016, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

NOTE 12 – RELATED PARTY TRANSACTIONS

OahuMPO uses the State Department of Transportation, for staff support, accounting, information technology, human resources, and other services as per an Administrative Agreement between OahuMPO and HDOT. 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 C&C, the Honolulu Authority for Rapid Transportation (HART), and OahuMPO was executed on July 20, 2015.

The State, the C&C, and HART each contribute \$125,000 as dues to fund OahuMPO's operations. Any balance of unencumbered local funds and dues budgeted and provided by the State, Operator, and City for that year's OWP shall be used towards the following year's OWP dues. For the fiscal year ended June 30, 2016, the State, the C&C, and HART each contributed \$125,000 to OahuMPO for those projects.

As discussed in Note 4, the Overall Work Program includes projects for the State, the C&C and HART. OahuMPO serves as the fiscal agent in processing the federal reimbursements to the State and the C&C. 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. For the fiscal year ended June 30, 2016, the amount of local share contributed by the State, the C&C, and HART was approximately \$70,400, \$103,000 and \$71,400, respectively.

OahuMPO processed approximately \$154,000 of federal reimbursement claims for C&C consultant contract costs incurred on projects included in the approved OWP for the fiscal year ended June 30, 2016.

As of June 30, 2016, OahuMPO had a payable of approximately \$19,700 to the C&C for federal grant monies to be received by OahuMPO, which will be paid to the C&C.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO BASIC FINANCIAL STATEMENTS - continued
JUNE 30, 2016**

NOTE 13 – TRANSPORTATION MANAGEMENT AREA (TMA) CERTIFICATION REVIEW

On September 26, 2014, United States, Department of Transportation (USDOT) issued 11 corrective actions for OahuMPO, in three priority tiers. The Tier 1 corrective actions included: 1) revising State statute to ensure appropriate authority for OahuMPO and compliance with Federal laws; 2) revising the Comprehensive Agreement; 3) developing three specific supplemental agreements; and 4) developing bylaws for the Policy Board and advisory committees. The deadline for addressing the Tier 1 corrective actions was July 26, 2015. All Tier 1 corrective actions were successfully addressed by the deadline, except for the development of an Administrative Supplemental Agreement for which OahuMPO requested and was granted a deadline extension. The Tier 2 corrective actions included: 1) documenting procedures for the development of key planning products, 2) documenting a list of available planning data and protocols for the collection and sharing of that data; 3) updating the Congestion Management Process (CMP) procedures so that the CMP influences project selection for the Oahu Regional Transportation Plan (ORTP) and Transportation Improvement Program (TIP). The deadline for addressing the Tier 2 corrective actions and the Tier 1 action for which an extension was granted was September 26, 2015.

All Tier 1 and Tier 2 corrective actions were addressed by the deadline. Tier 3 corrective actions require improvements to specific documents and are due when the documents are next updated. One of these – improvements for the Overall Work Program (OWP) – was successfully addressed with the approval of the fiscal year 2016 OWP. The 2040 ORTP was approved in April 2016. The TIP is next scheduled to be updated by June 2018. The Public Participation Plan is anticipated to be updated by July 2017.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES BY AGENCY
FISCAL YEAR ENDED JUNE 30, 2016

	W.E.	CITY	HWY	OMPO	TOTAL
<u>Regional Transportation Forecasting and Long-Range Planning:</u>	202				
Central Oahu Transportation Study	202.02	\$ -	\$ -	\$ 17,373	\$ 17,373
Farrington Highway Realignment Feasibility Study	202.04	-	-	10,229	10,229
Waikiki Transit Circulator	202.84	7,020	-	-	7,020
		7,020	-	27,602	34,622
<u>Short-Range TSM/T</u>	203/206				
Complete Streets Implementation Plan	203.05	83,114	-	-	83,114
Ewa Impact Fees for Traffic & Roadway Improvements Update Study	203.75	19,815	-	-	19,815
Contra-flow Update Study	203.84	10,000	-	-	10,000
Emergency Evacuation Plan	206.01	26,133	-	-	26,133
		139,062	-	-	139,062
<u>Regional Transportation Monitoring and Analysis:</u>	201				
OahuMPO Participation Plan Evaluation	201.02	-	-	84,346	84,346
Title IV & Environmental Justice Monitoring	201.04	-	-	12,885	12,885
Congestion Management Process Update	201.05	-	-	2,784	2,784
Tantalus & Round Top Drive Boundary Identification Study	201.65	16,480	-	-	16,480
		16,480	-	100,015	116,495
<u>Planning Review and System Management:</u>	205				
OahuMPO Planning Process Review	205.01	-	-	49,744	49,744
		-	-	49,744	49,744
<u>Coordination of the Planning Program:</u>	301/302				
Program Administration & Support	301.01	-	-	205,950	205,950
General Technical Assistance & Support	301.02	-	-	17,177	17,177
Overall Work Program	301.03	-	-	42,663	42,663
Support for Citizen Advisory Committee	301.04	-	-	33,494	33,494
Single Audit	301.05	-	-	126,913	126,913
Disadvantage Business Enterprise Program	301.08	-	-	181	181
Professional Development	301.09	-	-	45,202	45,202
Computer Network Maintenance	301.10	-	-	6,204	6,204
Census & Other Data	301.13	-	-	4,142	4,142
Federal Planning Requirements	301.14	-	-	13,182	13,182
Computer Model Operations & Support	301.15	-	-	48,030	48,030
Oahu Regional Transportation Program	301.16	-	-	89,161	89,161
Transportation Improvement Program	301.17	-	-	54,190	54,190
Transportation Alternatives Program	301.18	-	-	4,421	4,421
Overhead (Indirect Costs)	302.01	-	-	193,179	193,179
		-	-	884,089	884,089
Total expenditures by agency		\$ 162,562	\$ -	\$ 1,061,450	\$ 1,224,012

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Subrecipients</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(36)	\$ 39,795	\$ -
OahuMPO Work Program	20.205	PL-0052(37)	15,798	15,798
OahuMPO Work Program	20.205	PL-0052(38)	<u>633,696</u>	<u>138,198</u>
			<u>689,289</u>	<u>153,996</u>
Federal Transit Technical Studies Grant:				
FTA, Section 5303	20.505	HI-80-0024	60,265	-
FTA, Section 5303	20.505	HI-80-0025	<u>229,656</u>	<u>-</u>
			<u>289,921</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 979,210</u>	<u>\$ 153,996</u>

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of OahuMPO, it is not intended to and does not present the financial position, changes in net position, or cash flows of OahuMPO.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. OahuMPO has elected to not use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - LOCAL SHARE

The FHWA and FTA grants reimburse 80% of the allowable expenditures claims by OahuMPO and the remaining 20% is contributed by the State, City and County of Honolulu, and the Honolulu Authority for Rapid Transportation. For the fiscal year ended June 30, 2016, the amounts contributed by the State, City and County of Honolulu, and the Honolulu Authority for Rapid Transportation were approximately \$70,400, \$102,900, and \$71,400, respectively.

PART III – INTERNAL CONTROL AND COMPLIANCE SECTION

CHOO, OSADA & LEE, CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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 OahuMPO'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2016-001 through 2016-005)

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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2016-006.

OahuMPO's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of our 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.

Choo, Orado & Lee, CPAs, Inc.

Honolulu, Hawai'i
March 31, 2017

CHOO, OSADA & LEE, CPAs, INC.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Office of the Auditor
State of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of OahuMPO's major federal programs for the year ended June 30, 2016. OahuMPO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 for each major federal program. However, our audit does not provide a legal determination of the OahuMPO's compliance.

Basis for Qualified Opinion on Highway Planning and Construction

As described in the accompanying schedule of findings and questioned costs, OahuMPO did not comply with requirements regarding CFDA 20.205 Highway Planning and Construction as described in finding numbers 2016-006 for sub-recipient monitoring. Compliance with such requirements is necessary, in our opinion, for OahuMPO to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, OahuMPO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.205 Highway Planning and Construction for the year ended June 30, 2016.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-006, that we consider to be a material weakness.

OahuMPO's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. OahuMPO's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Choo, Osada & Lee, CPAs, Inc.

Honolulu, Hawai'i
March 31, 2017

PART IV – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Unmodified

Type of auditor's report issued:

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:

Qualified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance

yes no

Identification of major program:

CFDA Number

Name of Federal Program

20.205

Highway Planning and Construction, U.S. Department of Transportation

Dollar threshold used to distinguish between type A and type B programs?

\$750,000

Auditee qualified as low-risk auditee?

yes no

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED June 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

Summary of Financial Statement Findings

<u>Finding Number</u>	<u>Finding</u>
2016-001	Improve Commitment to Integrity and Ethical Values
2016-002	Formalize Risk Assessment Procedures
2016-003	Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures
2016-004	Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets
2016-005	Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-001
Area: Improve Commitment to Integrity and Ethical Values

Criteria:

OahuMPO's control environment is a key component of internal controls over the accounting, grants management, and financial reporting areas. The Policy Board and the Executive Director must make a commitment to integrity and ethical values to strengthen OahuMPO's control environment.

Condition:

During our audit, we noted that OahuMPO did not adopt a code of conduct and a conflict of interest policy, which is reviewed and signed by the Policy Board and employees of OahuMPO during the fiscal year ended June 30, 2016. Due to the nature of the role and responsibilities of the Policy Board members and as a recipient of OahuMPO's grant monies related to projects included in the approved OWP, it is important to have a code of conduct and conflict of interest policies that is acknowledged by the Policy Board and employees of OahuMPO. This is a repeat of prior year finding 2015-001.

Cause:

OahuMPO drafted code of conduct and conflict of interest policies during the fiscal year ended June 30, 2016, but has not finalized them.

Effect:

The effect of the above condition is a weak control environment, which will reduce the effectiveness of the other components of OahuMPO's system of internal controls over these areas. Weak internal control over this area could result in incomplete and inaccurate financial reporting and noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO finalize the code of conduct and conflict of interest policies.

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 57.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-002
Area: Formalize Risk Assessment Procedures

Criteria:

OahuMPO's risk assessment process is a key component of internal controls to determine the risks associated with accounting, grants management, and financial reporting areas, particularly with respect to federal reporting and compliance requirements.

Condition:

During our audit, we noted that management stated that it considered the risk associated with the accounting, grants management, and financial reporting areas, but did not formalize procedures to assess the risk associated with each area, including the documentation of the results of its risk assessments. This is a repeat of prior year finding 2015-002.

Cause:

OahuMPO did not develop formalized procedures to assess the risks associated with each area and to document results of its risk assessments. There appears to be weak internal controls regarding OahuMPO's ability to assess and document the risks associated with each area.

Effect:

The effect of the above condition is a weak risk assessment process, which will reduce the effectiveness of the other components of OahuMPO's system of internal controls over these areas. Weak internal controls over this area could result in incomplete and inaccurate financial reporting and noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO formalize procedures to identify and document its objectives for the accounting, grants management, and financial reporting areas and the related risks associated with achieving those objectives, so that OahuMPO can generate the accurate and reliable financial information and comply with laws, regulations, grant agreements, and other contractual arrangements.

Proper identification of these objectives and related risks will provide critical information that can be used to design the appropriate policies and procedures related to these areas. When designing internal controls, management should consider where material misstatements could occur in the financial statements and areas where non-compliance may occur, and design appropriate policies and procedures to prevent or detect these errors on a timely basis.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-002
Area: Formalize Risk Assessment Procedures - continued

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 57.

Finding Number: 2016-003
Area: Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

Criteria:

OahuMPO's control activities over accounting, grants management, and financial reporting are key components of internal controls. Current written policies and procedures and adherence to those policies and procedures are required to ensure that material misstatements are identified on a timely basis, grants are properly managed, grants are in compliance with applicable regulations and grant agreements, assets are properly safeguarded, compliance with State regulations, and to provide a basis to evaluate the effectiveness of those internal controls over these areas.

Condition:

During our audit, we noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not specific or undocumented related to these areas. Some of the decisions on how to handle accounting and grants management issues were not documented. This is a repeat of prior year finding 2015-003

Cause:

There is a lack of written policies and procedures over the accounting, grants management, and financial reporting areas. There is also a lack of adequate evaluation and monitoring of these policies and procedures on a timely basis.

Effect:

The effect of the above condition is a weak component of internal controls, regarding OahuMPO's control activities. Weak internal controls over the accounting, grants management, and financial reporting areas will result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-003
Area: Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures - continued

Recommendation:

We recommend OahuMPO review and update its policies and procedures over the accounting, grants management, and financial reporting areas on a timely basis. OahuMPO should also develop a framework to review and determine areas where policies and procedures are missing and develop the appropriate policies and procedures related to grant management as required. OahuMPO must also consistently adhere to its policies and procedures in these areas to prevent or detect material misstatements to the financial statements on a timely basis, to issue accurate financial statements on a timely basis, and to ensure compliance with federal regulations and grant agreements.

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 58.

Finding Number: 2016-004
Area: Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets

Criteria:

OahuMPO's control activities over accounting, grants management, and financial reporting are key components of internal controls. Written policies and procedures and adherence to those policies and procedures are required to ensure that material misstatements are identified on a timely basis, grants are properly managed, grants are in compliance with applicable regulations and grant agreements, assets are properly safeguarded, and to provide a basis to evaluate the effectiveness of those internal controls over these areas.

Condition:

During our audit, we noted that the Financial Specialist maintains a spreadsheet that is used to allocate and summarize costs charged to specific grants. At the beginning of each fiscal year, the Financial Specialist modifies the spreadsheet to add new grants and to remove expired grants. However, the Financial Specialist does not maintain documentation on how to utilize the spreadsheet to allocate and summarize costs, how to modify the spreadsheet to add new grants and to remove expired grants, and how to test the spreadsheet, including the extent of the testing required to ensure that the modifications were properly done and that the spreadsheet is properly allocating and summarizing cost. This is a repeat of prior year finding 2015-004

During our testing of major program expenditures, we did not note any material discrepancies related to the allocation of expenditures on the allocation worksheets.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-004
**Area: Lack of Complete Documentation and Testing of Key Cost Allocation
Summary Worksheets - continued**

Cause:

OahuMPO personnel did not prepare or did not have on hand documentation to explain the purpose of the key spreadsheet that allocates and summarizes costs to the various grants.

Effect:

Weak internal controls over the accounting, grants management, and financial reporting areas may result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that the OahuMPO prepare documentation over the key spreadsheet used to summarize the allocation of costs to the appropriate grants.

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 58.

Finding Number: 2016-005
**Area: Inadequate Monitoring of Internal Controls over the Accounting, Grants
Management, and Financial Reporting Areas**

Criteria:

OahuMPO's monitoring efforts is a key component of internal controls. Proper monitoring of internal controls over accounting, grants management, and financial reporting will evaluate whether controls established for these areas are operating as designed and identify internal control deficiencies and to correct the deficiencies on a timely basis.

Condition:

During our audit, we noted that OahuMPO's policies and procedures for the accounting, grants management, and financial reporting were not formally established or reviewed and updated on a periodic basis for changes in the respective area's processes and procedures. OahuMPO also lacked a process to appropriately monitor the internal controls over these areas. This is a repeat of prior year finding 2015-007.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-005
Area: Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas – continued

Cause:

There is a lack of written policies and procedures over the monitoring of internal controls over the accounting, grants management, and financial reporting areas.

Effect:

The effect of the above condition is a weak component of internal controls. Weak internal controls over the accounting, grants management, and financial reporting areas may result in inaccurate financial statements and may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that OahuMPO establish a process to evaluate the design and implementation of the OahuMPO's internal controls over the accounting, grants management, and financial reporting areas, so that deficiencies in the current or new processes can be identified and corrected on a timely basis. The process should include the staff, management, and the Policy Board. The Executive Director should keep the Policy Board informed of the changes in policies and procedures in these areas. Lastly, if deficiencies in internal controls exist, the management should notify the Policy Board of the situation and the corrective action that will be taken to address the situation noted.

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 58.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Summary of Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2016-006	Improve Sub-Recipient Monitoring Process	None

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST - continued
FOR THE FISCAL YEAR ENDED June 30, 2016**

Finding Number: 2016-006
Federal Agency: U.S. Department of Transportation
CFDA Program Number: 20.205
CFDA Program Name: Highway Planning and Construction – OahuMPO Work Program
Area: Improve Sub-Recipient Monitoring Process
Questioned Cost: None

Criteria:

OahuMPO's sub-recipient monitoring process is a key component of internal control in the grants management area. Sub-recipient monitoring is a critical process to ensure that OahuMPO is in compliance with regulations such as the Uniform Guidance, terms and conditions of the respective grant agreements, and the State Procurement Office (SPO Guidelines).

Condition:

During our audit, we noted that OahuMPO did have a formalized documented sub-recipient monitoring process, which was finalized during the current fiscal year that outlines the responsibilities of OahuMPO and the sub-recipients in accordance with the Uniform Guidance, the terms and conditions of the respective grant agreements, and the SPO Guidelines. However, these processes have not been applied to sub-awards that had been awarded in the previous fiscal years, and OahuMPO did not conduct any procedures to ensure that the sub-recipient City and County of Honolulu Department of Transportation Services (C&C DTS) complied with the SPO Guidelines with respect to consulting contracts produced by the C&C DTS for various approved projects, and there are no written sub-award agreements. It should be noted that OahuMPO conducted some monitoring, such as reviewing the status of projects when processing reimbursement requests from the C&C DTS, but improvements to the monitoring process is required to comply with the Uniform Guidance. There were no new sub-awards subsequent to establishing the written sub-recipient monitoring process during the fiscal year June 30, 2016. This is a repeat of prior year finding 2015-008.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. We also did not note any consultants that were either suspended or debarred. Therefore, there will be no questioned costs related to the major programs. However, OahuMPO should address this issue of proper sub-recipient monitoring to ensure compliance with the Uniform Guidance.

Cause:

There appears to be weak internal control in the grants management process regarding OahuMPO's sub-recipient monitoring process for those receiving federal funds from the Organization.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2016-006
Federal Agency: U.S. Department of Transportation
CFDA Program Number: 20.205
CFDA Program Name: Highway Planning and Construction - OahuMPO Work Program
Area: Improve Sub-Recipient Monitoring Process - continued
Questioned Cost: None

Effect:

The effect of the above condition is a weak component of internal control in the grants management area, regarding whether the sub-recipients that received federal funds from OahuMPO were properly monitored prior to awarding the federal funds, during the award period, and at the end of the grant period. Weak internal controls in this area could result in non-compliance with the Uniform Guidance, the respective grant agreements, and with SPO Guidelines. Non-compliance with these guidelines may result in unallowable costs being incurred, which will lead to questioned costs, return of funds by OahuMPO and possible loss of funding in the future.

Recommendation:

We recommend that OahuMPO review its grants management process to ensure that sub-recipients who receive federal funds from OahuMPO are properly monitored prior to awarding the federal funds, during the award period, and at the end of the grant period.

OahuMPO should have the sub-recipients sign a sub-award agreement for each award that has been awarded in the previous fiscal years. OahuMPO should also request periodic progress reports to monitor the status of the outstanding sub-awards and to ensure the sub-recipient is in compliance with Federal statutes, regulations, and the terms and conditions of the sub-award.

Views of Responsible Officials and Planned Corrective Action:

OahuMPO agrees with the finding and will follow the corrective action plan on page 59.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

Finding Number: 2015-001
Area: Improve Commitment to Integrity and Ethical Values

Condition:

The prior auditor noted that OahuMPO did not have code of conduct and conflict of interest policies that were reviewed and signed by the Policy Board and employees of OahuMPO. Due to the nature of the role and responsibilities of the Policy Board members and the SOH DOT HWY and C&C DTS recipients of OahuMPO's grant monies related to transportation projects, it is important to have a code of conduct and conflict of interest policies that is acknowledged by the Policy Board and employees of OahuMPO.

Status:

COMPLETED. The *Code of Conduct and Conflict of Interest Policy* for Policy Board and Advisory Committee members as well as for staff were finalized and approved by the OahuMPO Policy Board on October 17, 2016. All Policy Board and Advisory Committee members as well as staff have attended at least one briefing on the policy content and signed affidavits confirming receipt of the document by December 29, 2016. Refer to current year finding number 2016-001

Finding Number: 2015-002
Area: Formalize Risk Assessment Procedures

Condition:

The prior auditor noted that management did not complete an assessment of its accounting, grants management, and financial reporting areas of the related risks associated with each area.

Status:

IN PROGRESS: Spire Hawaii LLP was awarded an accounting consultancy contract and received a Notice to Proceed on March 15, 2017. Work is proceeding to develop the documentation of the internal control framework. It is anticipated that this effort will be completed by March 31, 2018. Refer to current year finding number 2016-002.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2015-003
Area: Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

Condition:

The prior auditor noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not documented or were outdated related to these areas. Specific areas identified were updating the Overall Work Plan Process and Procedures document and addressing approved Overall Work Plans projects open for multiple fiscal years.

Status:

PARTIALLY COMPLETE: The Processes and Procedures document for the Overall Work Program was approved by the Policy Board on September 15, 2015. As part of its long-term review of all policies and procedures, the Technical Advisory Committee will begin a review and update to the approved procedures in the Second Quarter of State Fiscal Year 2017.

OahuMPO staff will be working with Spire Hawaii LLP concerning the applicability of the COSO Internal Framework document, dated May 2013, and as part of its guidance evaluate the five components of internal control. Refer to current year finding number 2016-003.

Finding Number: 2015-004
Area: Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets

Condition:

The prior auditor noted that the Accountant maintains a spreadsheet that is used to allocate and summarize costs charged to specific grants. At the beginning of each fiscal year, the Accountant modifies the spreadsheet to add new grants and to remove expired grants. However, the Accountant does not maintain documentation on the objectives of the worksheet, how to use the worksheet, how the worksheets allocates and summarizes costs charged to the various grants, how to modify the worksheets for changes in the grants administered by OahuMPO, how to test the worksheets, and what testing documentation must be maintained to ensure the worksheets are computing properly.

Status:

IN PROGRESS: OahuMPO is working with Spire Hawaii LLP on the documentation of the processes used to summarize the allocation of costs to the appropriate grants. It is anticipated that one of the consultant's recommendations will be the implementation of an accounting system since OahuMPO currently relies exclusively on Excel spreadsheets. The corrective action plan for this effort is expected to be completed by September 30, 2017. Refer to current year finding 2016-004.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number: 2015-005
Area: Timely Closing and Preparation of Financial Statements for June 30, 2015

Condition:

The prior auditor noted that OahuMPO did not close its books in a timely manner.

Status:

COMPLETED: OahuMPO closed its books in a timely manner for the year ended June 30, 2016.

Finding Number: 2015-006
Area: Lack of Periodic Financial Reports

Condition:

The prior auditor noted that internally generated financial statements (statement of net position and governmental fund balance sheet and statement of activity and governmental fund revenues, expenditures, and changes in fund balance) were generated only at the end of the fiscal year by the State of Hawaii, Department of Transportation, Business Management Office (SOH DOT BUS). SOH DOT BUS works with OahuMPO to generate the OahuMPO internally generated financial statements.

Status

COMPLETED: OahuMPO presents quarterly financial reports to the Policy Board.

Finding Number: 2015-007
Area: Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

Condition:

OahuMPO's monitoring efforts is a key component of internal controls. Proper monitoring of internal controls over accounting, grants management, and financial reporting will evaluate whether controls established for these areas are operating as designed and identify internal control deficiencies and to correct the deficiencies on a timely basis.

Status

IN PROGRESS: While Spire Hawaii LLP was selected as part of the FY 2016 Professional Services Solicitation, funding anticipated was not available until February 2017. This corrective action plan is estimated to be completed by the fiscal year ended June 30, 2017. Refer to current year finding number 2016-005.

**STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Award Findings and Questioned Costs

U.S. Department of Transportation

Finding Number: 2015-008
Area: Improve Sub-Recipient Monitoring Process, CFDA 20.205 and 20.505

Condition:

The prior auditor noted that OahuMPO did not have a formalized documented sub-recipient monitoring process to address key compliance areas with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, the terms and conditions of the respective grant agreements, and SPO Guidelines. OahuMPO also did not conduct any procedures to ensure that the sub-recipients State of Hawaii Department of Transportation (SOH DOT HWY) and C&C DTS complied with the SPO Guidelines with respect to consulting contracts produced by SOH DOT HWY and C&C DTS for various approved projects.

Status

PARTIALLY COMPLETE: OahuMPO formalized and documented a subrecipient policy as required by 2 CFR 200, which meets the compliance requirements of the Uniform Guidance. While accepted by both Federal Highway Administration, Federal Transit Administration, and the Hawaii Department of Transportation, the City and County of Honolulu's Department of Corporation Counsel is still reviewing it and it is expected the OahuMPO will have its comments by April 2017. Refer to current year finding number 2016-006.

PART V – CORRECTIVE ACTION PLAN



STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Financial Statement Findings

2016-001 Improve Commitment to Integrity and Ethical Values

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

COMPLETED. As referenced in Finding No. 2015-001, the draft *Code of Conduct and Conflict of interest Policy*, based upon a draft developed by OahuMPO staff in cooperation with the Department of the Attorney General and State Ethics Commission and approved by the Policy Board on July 20, 2015, was adopted in its final form and approved on October 17, 2016. All Policy Board and Advisory Committee members as well as all staff have attended at least one briefing on the *Code of Conduct and Conflict of interest Policy* and have signed affidavits acknowledging receipt thereof prior to December 29, 2016.

2016-002 Formalize Risk Assessment Procedures

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

IN PROGRESS: As stated concerning finding 2015-002, Spire Hawaii LLP has been engaged to assist in the development of these policies and procedures to formalize risk assessment and management. This effort may include recommending the implementation of a computer-based accounting system since all record keeping is currently done using Excel spreadsheets. It is anticipated that his effort will be completed by March 31, 2018.

Anticipated completion date:

March 31, 2018

2016-003 Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

IN PROGRESS: As referenced in Finding No 2015-003, OahuMPO staff will be working with Spire Hawaii LLP concerning the applicability of the COSO Internal Framework document, dated May 2013, and as part of its guidance evaluate the five components of internal control.

Anticipated completion date:

June 30, 2018

2016-004 Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

IN PROGRESS: The Planning Program Coordinator and OahuMPO Accountant will be working with Spire Hawaii LLP to document the process used to summarize the allocation of OahuMPO's administrative labor and non-labor costs.

Anticipated completion date:

September 30, 2017.

2016-005 Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

IN PROGRESS: As referenced in Finding No. 2015-004, OahuMPO is working with Spire Hawaii LLP on the documentation of the processes used to summarize the allocation of costs to the appropriate grants. It is anticipated that one of the consultant's recommendations will be the

implementation of an accounting system since OahuMPO currently relies exclusively on Excel spreadsheets.

Anticipated completion date:

September 30, 2017.

Federal Award Findings and Questioned Cost

2016-006 Improve Sub-Recipient Monitoring Process

Contact person:

Randolph Sykes, Planning Program Coordinator

Corrective action plan:

PARTIALLY COMPLETE: OahuMPO formalized and documented a subrecipient policy as required by 2 CFR 200, which meets the compliance requirements of the Uniform Guidance. While accepted by both Federal Highway Administration, Federal Transit Administration, and the Hawaii Department of Transportation, the City and County of Honolulu's Department of Corporation Counsel is still reviewing it and it is expected the OahuMPO will have its comments by April 2017.

Anticipated completion date:

June 30, 2017