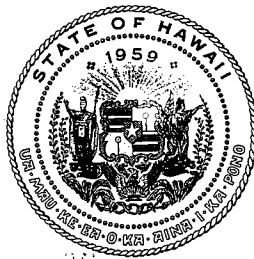


STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



LESLIE H. KONDO
State Auditor

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

DEPT. COMM. NO. 374

April 12, 2018

VIA HAND DELIVERY

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

RE: Single Audit of the State of Hawaii

Dear President Kouchi:

The Single Audit Report of the State of Hawaii for the fiscal year ended June 30, 2017, was issued on March 1, 2018. The Office of the Auditor retained Accuity LLP to perform the Single Audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the Single Audit Report.

You may view the Auditor's Summary and report on our website at:

http://files.hawaii.gov/auditor/Reports/2017_Audit/SOH_SA_FY2017.pdf and

http://files.hawaii.gov/auditor/Reports/2017_Audit/SingleAudit_Summary_2017.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

Auditor's Summary

Single Audit of Federal Financial Assistance Programs of the State of Hawai'i

Financial Statements, Fiscal Year Ended June 30, 2017



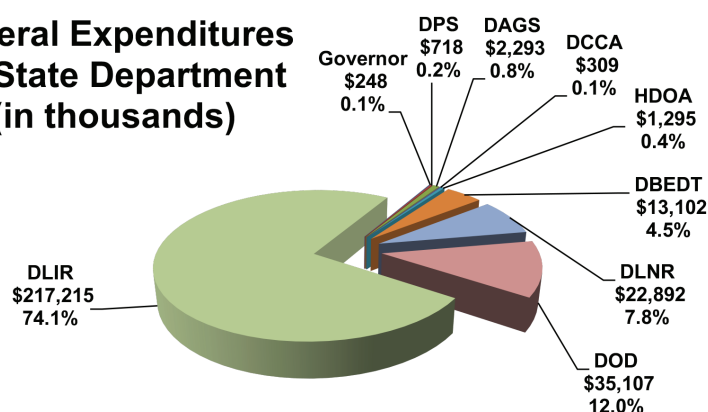
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THE PRIMARY PURPOSE of the audit for the fiscal year ended June 30, 2017, was to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance) which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.

About the Report

THIS REPORT INCLUDES the total federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2017. Federal expenditures totaled approximately \$293.2 million. Other departments' federal expenditures and findings are reported in their individual audit reports.

Federal Expenditures by State Department (in thousands)



Auditors' Report on Internal Controls over Financial Reporting

THE AUDITORS IDENTIFIED three significant deficiencies in internal controls over financial reporting in accordance with *Government Auditing Standards*.

Significant Deficiencies (3)

- Inefficiencies in the financial statement preparation process resulted in the auditors making numerous adjusting and reclassification entries;
- Certain component units and proprietary funds were incorrectly included in the governmental activities and respective governmental funds in the State's Comprehensive Annual Financial Report; and
- Lack of IT internal controls over systems operated by the Office of Enterprise Technology Services, Department of Accounting and General Services, and the Department of Taxation.

Auditors' Report on Compliance with Major Federal Programs

The auditors expressed a qualified opinion on certain major programs and identified 5 material weaknesses and 10 significant deficiencies over compliance with major federal programs in accordance with the *Uniform Guidance*.

Material Weaknesses (5)

- Lack of controls and resources delayed disbursement of federal funds (2);
- Failure to execute the Cash Management Improvement Act Agreement between the U.S. Treasury and the State (2); and
- Failure to meet earmarking requirements and inaccurate reporting.

Significant Deficiencies (10)

- Untimely submission of federal reports (4);
- Deficiencies in internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA);
- Deficiencies in internal controls delayed disbursement of federal funds;
- Deficiencies in internal controls delayed payroll changes;
- Deficiencies in internal controls and lack of documentation caused improper payments;
- Deficiencies in internal controls delayed processing of paid and denied claims; and
- Failure to obtain memorandums of understanding to assess the cultural significance of properties nominated to the National Register of Historic Places.

DEPARTMENTS & AGENCIES	FINANCIAL REPORTING		FEDERAL PROGRAM COMPLIANCE		TOTALS
	Material Weakness	Significant Deficiency	Material Weakness	Significant Deficiency	
Defense (DOD)	-	-	1	1	2
Land and Natural Resources (DLNR)	-	-	1	2	3
Accounting and General Services (DAGS)	-	3	-	1	4
Labor & Industrial Relations (DLIR)	-	-	1	4	5
Business, Economic Development and Tourism (DBEDT)	-	-	2	2	4
TOTALS	0	3	5	10	18

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/SOH_SA_FY2017.pdf

STATE OF HAWAII

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



RODERICK K. BECKER
COMPTROLLER

Independent Audit Contracted and Administered by
Office of the State Auditor

State of Hawaii
Single Audit of Federal Financial Assistance Programs
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**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND UNIFORM GUIDANCE
COMPLIANCE REPORTS**

**Report of Independent Auditors on Internal Control Over
Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 28, 2017.

Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2017-001 through 2017-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 28, 2017

**Report of Independent Auditors on Compliance for Each Major Program,
Internal Control Over Compliance, and the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii's Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, Department of Business, Economic Development and Tourism, Department of Commerce and Consumer Affairs, Department of Defense, Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Land and Natural Resources, Department of Public Safety, Department of Taxation, and the Governor's Office (collectively, the State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2017. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended \$3,518,146,992 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of the Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units separately engaged auditors to perform audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or did not require an audit in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State'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 the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State'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 major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion on Major Federal Programs

As described in Findings No. 2017-005, 2017-007, 2017-009, 2017-012 and 2017-014 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding:

Finding No.	CFDA No.*	Program or Cluster Name	Compliance Requirement
2017-005	12.114	Collaborative Research and Development (R&D Cluster)	Cash Management
2017-007	12.401	National Guard Military Operations and Maintenance Projects	Cash Management
2017-009	12.800	Air Force Defense Research Sciences Program (R&D Cluster)	Cash Management
2017-012	15.904	Historic Preservation Fund Grants-in-Aid	Earmarking
2017-014	17.225	Unemployment Insurance	Cash Management

* Catalog of Federal Domestic Assistance number

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Programs section, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified above for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2017-004, 2017-006, 2017-008, 2017-010, 2017-011, 2017-013, and 2017-015 through 2017-018. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State'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 State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2017-005, 2017-007, 2017-009, 2017-012 and 2017-014 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2017-004, 2017-006, 2017-008, 2017-010, 2017-011, 2017-013, and 2017-015 through 2017-018 to be significant deficiencies.

The State's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The State'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.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements. We issued our report thereon dated December 28, 2017, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. As described in Note 4 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Accuity LLP

Honolulu, Hawaii
March 1, 2018

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
U.S. Department of Agriculture Direct Programs			
Aquaculture Assistance Grants	10.U01	\$ 281	\$ -
Plant and Animal Disease, Pest Control and Animal Care	10.025	410,270	-
Federal-State Marketing Improvement Program	10.156	37	-
Inspection Grading and Standardization	10.162	9,156	-
Market Protection and Promotion	10.163	34,400	-
Specialty Crop Block Grant Program – Farm Bill	10.170	423,719	-
Organic Certification Cost Share Programs	10.171	77,634	-
Senior Farmers Market Nutrition Program	10.576	483,573	476,728
Cooperative Forestry Assistance	10.664	877,017	10,000
Urban and Community Forestry Program	10.675	277,300	41,314
Forest Legacy Program	10.676	27,563	-
Forest Stewardship Program	10.678	209,170	-
Forest Health Protection	10.680	496,676	-
Watershed Protection and Flood Prevention	10.904	9,007	-
Environmental Quality Incentives Program	10.912	6,086	-
Wildlife Habitat Incentive Program	10.914	9,479	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	139,410	120,862
Emergency Food Assistance Program (Administrative Costs)	10.568	159,090	129,373
Emergency Food Assistance Program (Food Commodities)	10.569	1,849,827	1,849,827
Total Food Distribution Cluster		2,148,327	2,100,062
Total U.S. Department of Agriculture Direct Programs		5,499,695	2,628,104
Pass-through from the State University of Hawaii			
Federal-State Marketing Improvement Program (14-FSMIP-HI-0004)	10.156	1,715	-
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster) (DHS-14-SNAP-919 and DHS-14-SNAP-920)	10.561	113,105	-
Total U.S. Department of Agriculture		5,614,515	2,628,104
U.S. DEPARTMENT OF COMMERCE			
U.S. Department of Commerce Direct Programs			
National Oceanic and Atmosphere Administration –			
Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11.U01	274,376	-
Interjurisdictional Fisheries Act of 1986	11.407	38,655	-
Fishery Products Inspection and Certification	11.413	11,072	-
Coastal Zone Management Administration Awards	11.419	1,590,464	769,468
Coastal Zone Management Estuarine Research Reserves	11.420	28,303	750
Marine Sanctuary Program	11.429	90,629	-
Pacific Fisheries Data Program	11.437	390,569	-
Habitat Conservation	11.463	784	-
Meteorologic and Hydrologic Modernization Development	11.467	384,276	-
Unallied Science Program	11.472	670,792	-
Office for Coastal Management	11.473	73,424	73,424
Coral Reef Conservation Program	11.482	842,467	-
State and Local Implementation Grant Program	11.549	41,006	-
Manufacturing Extension Partnership	11.611	584,639	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Economic Development Cluster			
Economic Adjustment Assistance	11.307	154,502	89,548
Total Economic Development Cluster		154,502	89,548
Total U.S. Department of Commerce		5,175,958	933,190
U.S. DEPARTMENT OF DEFENSE			
U.S. Department of Defense Direct Programs			
Collaborative Research and Development	12.114	7,025,596	-
National Guard Military Operations and Maintenance Projects	12.401	20,013,505	-
National Guard ChalleNGe Program	12.404	5,054,931	-
Economic Adjustment Assistance for State Governments	12.617	388,190	305,555
Air Force Defense Research Sciences Program	12.800	1,121,902	-
Total U.S. Department of Defense		33,604,124	305,555
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
U.S. Department of Housing and Urban Development Direct Program			
Fair Housing Assistance Program – State and Local	14.401	142,721	-
Total U.S. Department of Housing and Urban Development		142,721	-
U.S. DEPARTMENT OF INTERIOR			
U.S. Department of Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	64,775	-
Coastal Wetlands Planning, Protection and Restoration	15.614	336,122	-
Cooperative Endangered Species Conservation Fund	15.615	3,928,996	1,214,000
Clean Vessel Act	15.616	29,959	-
Sport Fishing and Boating Safety Act	15.622	11,779	-
Multistate Conservation Grant Program	15.628	175	-
Coastal Program	15.630	8,552	-
Partners for Fish and Wildlife	15.631	14,515	-
State Wildlife Grants	15.634	996,122	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	552,199	-
National Fire Plan – Wildland Urban Interface Community Fire Assistance	15.674	12,298	-
Economic, Social and Political Development of the Territories	15.875	134,287	-
Historic Preservation Fund Grants-In-Aid	15.904	342,640	-
Outdoor Recreation – Acquisition, Development and Planning	15.916	385,725	385,725
Natural Resource Stewardship	15.944	32,482	-
Fish and Wildlife Cluster			
Sport Fish Restoration	15.605	3,422,164	-
Wildlife Restoration and Basic Hunter Education	15.611	3,966,499	-
Total Fish and Wildlife Cluster		7,388,663	-
Total U.S. Department of Interior		14,239,289	1,599,725
U.S. DEPARTMENT OF JUSTICE			
U.S. Department of Justice Direct Programs			
Domestic Cannabis Eradication Suppression Program	16.U01	172,292	-
Services for Trafficking Victims	16.320	148,442	132,049
Crime Victim Compensation	16.576	169,627	-
Total U.S. Department of Justice Direct Programs		490,361	132,049

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Pass-through from the U.S. Drug Enforcement Agency Domestic Cannabis Eradication and Suppression Program (2016-68 and 2017-67)	16.U02	77,055	-
Pass-through from the State Department of the Attorney General Violence Against Women Formula Grants (14-WF-10)	16.588	39,264	-
Residential Substance Abuse Treatment for State Prisoners (11-RT-01 and 12-RT-01)	16.593	95,268	-
Edward Byrne Memorial Justice Assistance Grant Program (12-DJ-01 and 14-DJ-08)	16.738	86,447	-
Edward Byrne Memorial Competitive Grant Program (15-XT-01)	16.751	23,150	-
Pass-through from the Council of State Governments Edward Byrne Memorial Competitive Grant Program (20-RR-BX-K071)	16.751	163	-
Total U.S. Department of Justice Pass-through Programs		321,347	-
Total U.S. Department of Justice		811,708	132,049
U.S. DEPARTMENT OF LABOR			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	600,014	-
Compensation and Working Conditions	17.005	75,731	-
Unemployment Insurance	17.225	192,754,885	-
Senior Community Service Employment Program	17.235	1,566,112	1,503,556
Trade Adjustment Assistance	17.245	572,120	-
Workforce Investment Act (WIA) / Workforce Innovation Opportunity Act (WIOA) Pilots, Demonstrations and Research Projects	17.261	25	-
H-1B Job Training Grants	17.268	107,143	-
Work Opportunity Tax Credit Program	17.271	40,982	-
Temporary Labor Certification for Foreign Workers	17.273	59,156	-
WIOA National Dislocated Workers Grants / WIA National Emergency Grants	17.277	216,364	127,105
WIA / WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281	83,224	-
Apprenticeship USA Grants	17.285	87,387	-
Occupational Safety and Health – State Program	17.503	1,484,280	-
Consultation Agreements	17.504	432,227	-
Employment Service Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207	3,205,123	-
Disabled Veterans' Outreach Program	17.801	398,100	-
Local Veterans' Employment Representative Program	17.804	386,785	-
Total Employment Service Cluster		3,990,008	-
WIA / WIOA Cluster			
WIA / WIOA Adult Program	17.258	2,058,695	1,782,591
WIA / WIOA Youth Activities	17.259	1,735,042	1,411,313
WIA / WIOA Dislocated Worker Formula Grants	17.278	1,952,843	1,359,108
Total WIA / WIOA Cluster		5,746,580	4,553,012
Total U.S. Department of Labor		207,816,238	6,183,673

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION			
U.S. Department of Transportation Direct Program			
Space Transportation Infrastructure Matching Grants	20.110	5,292	-
Highway Planning and Construction Cluster			
Recreational Trails Program	20.219	1,378,149	-
Total Highway Planning and Construction Cluster		1,378,149	-
Total U.S. Department of Transportation Direct Programs		1,383,441	-
Pass-through from the State Department of Transportation			
Federal Transit Cluster			
Federal Transit – Capital Investment Grants (HI-03-0038-00)	20.500	1,586,079	-
Total U.S. Department of Transportation		2,969,520	-
U.S. DEPARTMENT OF THE TREASURY			
U.S. Department of Treasury Direct Program			
State Small Business Credit Initiative	21.U01	1,432,099	1,432,099
Total U.S. Department of the Treasury		1,432,099	1,432,099
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
U.S. Equal Employment Opportunity Commission Direct Program			
Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	176,064	-
Total U.S. Equal Employment Opportunity Commission		176,064	-
U.S. GENERAL SERVICES ADMINISTRATION			
U.S. General Services Administration Direct Program			
Donation of Federal Surplus Personal Property	39.003	426,082	-
Total U.S. General Services Administration		426,082	-
U.S. NATIONAL ENDOWMENT FOR THE ARTS			
U.S. National Endowment for the Arts Direct Program			
Promotion of the Arts – Partnership Agreements	45.025	685,833	219,339
Total U.S. National Endowment for the Arts		685,833	219,339
U.S. SMALL BUSINESS ADMINISTRATION			
U.S. Small Business Administration Direct Program			
State Trade Expansion	59.061	726,158	98,550
Total U.S. Small Business Administration		726,158	98,550
U.S. ENVIRONMENTAL PROTECTION AGENCY			
U.S. Environmental Protection Agency Direct Program			
Performance Partnership Grants	66.605	183,609	-
Total U.S. Environmental Protection Agency		183,609	-
U.S. DEPARTMENT OF ENERGY			
U.S. Department of Energy Direct Programs			
State Energy Program	81.041	239,638	-
Weatherization Assistance for Low-Income Persons	81.042	184,716	159,065
State Energy Program Special Projects	81.119	119,705	10,053
Total U.S. Department of Energy		544,059	169,118

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the State Department of Education Title I State Agency Program for Neglected and Delinquent Children and Youth (S013A150011)	84.013A	178,042	-
Pass-through from the State Department of Human Services Rehabilitation Services Vocational Rehabilitation Grants to States (DHS 16VR-3117, 16VR-3107 and 17VR-4151)	84.126	732,695	-
Pass-through from the State University of Hawaii Career and Technical Education – Basic Grants to States (V048A40011)	84.048A	49,462	-
Total U.S. Department of Education		960,199	-
U.S. ELECTION ASSISTANCE COMMISSION			
U.S. Election Assistance Commission Direct Program Help America Vote Act Requirements Payments	90.401	611,553	-
Total U.S. Election Assistance Commission		611,553	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
U.S. Department of Health and Human Services Direct Programs Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	2,781	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	878,214	-
State Planning and Establishment Grants for the ACA Exchanges	93.525	1,408,860	253,858
Refugee and Entrant Assistance – State Administered Programs	93.566	85,878	72,512
Community Services Block Grant	93.569	3,106,387	2,847,777
ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	245,309	-
Total U.S. Department of Health and Human Services Direct Programs		5,727,429	3,174,147
Pass-through from the State Department of Human Services Temporary Assistance for Needy Families (TANF Cluster) (DHS-16-ETP0-3064)	93.558	738,677	123,981
Total U.S. Department of Health and Human Services		6,466,106	3,298,128
U.S. DEPARTMENT OF HOMELAND SECURITY			
U.S. Department of Homeland Security Direct Programs Boating Safety Financial Assistance	97.012	1,166,146	-
Community Assistance Program State Support Services Element	97.023	65,754	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	69,888	62,891
Hazard Mitigation Grant	97.039	773,548	-
National Dam Safety Program	97.041	41,472	-
Emergency Management Performance Grants	97.042	3,631,418	713,641
Cooperating Technical Partners	97.045	165,204	-
Port Security Grant Program	97.056	10,649	-
Homeland Security Grant Program	97.067	4,542,807	4,079,302
Buffer Zone Protection Program	97.078	124,897	-
Earthquake Consortium	97.082	1,389	-
Total U.S. Department of Homeland Security		10,593,172	4,855,834
Total Expenditures of Federal Awards		\$ 293,179,007	\$ 21,855,364

(concluded)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

1. Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services
- Department of Agriculture
- Department of Budget and Finance
- Department of Business, Economic Development and Tourism
- Department of Commerce and Consumer Affairs
- Department of Defense
- Department of Human Resources Development
- Department of Labor and Industrial Relations
- Department of Land and Natural Resources
- Department of Public Safety
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and accordingly, separate Uniform Guidance submissions are made (see Note 2).

2. Other State of Hawaii Departments and Agencies Not Included in the Accompanying Schedule of Expenditures of Federal Awards

The following is a summary of State of Hawaii departments and agencies that obtain separate Uniform Guidance audits or do not receive federal grants and, therefore, do not obtain an audit under the Uniform Guidance. Awards listed in these audit reports are not included in the accompanying SEFA:

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance and Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority
- Judiciary
- University of Hawaii
- Water Pollution Control Revolving Fund

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

3. Basis of Accounting

The basic financial statements of the State of Hawaii have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

4. Basis of Presentation

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Expenditures reported in the schedule are reported on the cash basis of accounting.

5. Nonmonetary Assistance

The SEFA contains values of a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Personal Property program (CFDA No. 39.003) is presented at the estimated fair value at the time of donation.

6. Unemployment Insurance

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$192,754,885 reported as expenditures for the Unemployment Insurance program (CFDA No. 17.225), \$176,328,462 represented expenditures of the State of Hawaii.

7. Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and State financial reports vary by State and federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and State financial reports do not necessarily agree with the amounts reported in the accompanying SEFA which is prepared as explained in Notes 3 and 4 above.

8. Indirect Costs

The State of Hawaii does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

9. Research and Development Cluster Expenditures

The SEFA includes the following Research and Development amounts:

<u>Federal Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Direct Programs		
Federal-State Marketing Improvement Program	10.156	\$ 37
Urban and Community Forestry Program	10.675	277,300
Forest Stewardship Program	10.678	209,170
Total U.S. Department of Agriculture		<u>486,507</u>
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	38,655
Marine Sanctuary Program	11.429	90,629
Pacific Fisheries Data Program	11.437	390,569
Habitat Conservation	11.463	784
Coral Reef Conservation Program	11.482	842,467
Total U.S. Department of Commerce		<u>1,363,104</u>
U.S. Department of Defense Direct Programs		
Collaborative Research and Development	12.114	7,025,596
Air Force Defense Research Sciences Program	12.800	1,121,902
Total U.S. Department of Defense		<u>8,147,498</u>
U.S. Department of Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	64,775
Cooperative Endangered Species Conservation Fund	15.615	3,928,996
Multistate Conservation Grant Program	15.628	175
State Wildlife Grants	15.634	996,122
Economic, Social and Political Development of the Territories	15.875	134,287
Natural Resource Stewardship	15.944	32,482
Total U.S. Department of Interior		<u>5,156,837</u>
Total Research and Development Cluster		<u>\$ 15,153,946</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting		
• Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiencies identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs		
• Material weaknesses identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
• Significant deficiencies identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported

Type of auditors' report issued on compliance for major programs	Qualified
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An unmodified opinion was issued on the State of Hawaii's compliance with its major federal programs for the year ended June 30, 2017, except for the requirements regarding cash management that are applicable to CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 17.225, *Unemployment Insurance*, and the Research and Development Cluster, and earmarking requirements for CFDA No. 15.904, *Historic Preservation Fund Grants-in-Aid*, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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Dollar threshold used to distinguish between type A and type B program	\$ 3,000,000
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Identification of Major Programs

Federal CFDA Number	Name of Federal Program or Cluster
12.401	National Guard Military Operations and Maintenance Projects
15.904	Historic Preservation Fund Grants-In-Aid
17.225	Unemployment Insurance
93.525	State Planning and Establishment Grants for the ACA Exchanges
93.569	Community Services Block Grant
	Employment Service Cluster
17.207	Employment Service/Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
	Research and Development (R&D) Cluster
10.156	Federal-State Marketing Improvement Program
10.675	Urban and Community Forestry Program
10.678	Forest Stewardship Program
11.407	Interjurisdictional Fisheries Act of 1986
11.429	Marine Sanctuary Program
11.437	Pacific Fisheries Data Program
11.463	Habitat Conservation
11.482	Coral Reef Conservation Program
12.114	Collaborative Research and Development
12.800	Air Force Defense Research Sciences Program
15.608	Fish and Wildlife Management Assistance
15.615	Cooperative Endangered Species Conservation Fund
15.628	Multistate Conservation Grant Program
15.634	State Wildlife Grants
15.875	Economic, Social and Political Development of the Territories
15.944	Natural Resource Stewardship

FINANCIAL STATEMENT FINDINGS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings

Finding No. 2017-001: Internal Control over Financial Reporting (Significant Deficiency)

State Department of Accounting and General Services

Condition

The State's internal control over financial reporting could be improved. During our audit of the fiscal year 2017 financial statements, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the State's internal control over financial reporting.

The process used by the State Department of Accounting and General Services (DAGS) Accounting Division to consolidate required information from State departments and agencies to prepare the State's Comprehensive Annual Financial Report (CAFR) (e.g., preparing Governmental Funds financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting.

Information necessary to prepare such accounting entries must be obtained from other State departments and agencies. In fiscal year 2017, DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive timely responses from some departments.

A similar finding was reported in the prior year as Finding No. 2016-001.

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The DAGS Accounting Division is responsible for preparing the CAFR in accordance with GAAP.

Effect

Due to the untimely submission of information to DAGS, inadequate review of journal entries by the departments, and issues in accounting for capital assets at the department level, various audit adjustments and reclassifications were necessary to properly report the fiscal year 2017 financial statements.

Various other misstatements were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of timely information from various departments, and the lack of adequate review at the departments.

Recommendation

DAGS should continue to develop well-defined, systematic, efficient and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Furthermore, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper source codes, appropriations, and object codes being used. Departments should perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries. Departments should also ensure any construction and information technology implementation projects performed directly by the departments are properly included and accounted for in capital assets schedules provided to DAGS.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Finding No. 2017-002: Accounting for Component Units and Proprietary Funds (Significant Deficiency)

State Department of Accounting and General Services

Condition

During fiscal year 2008, DAGS implemented a financial statement policy on reporting material component units (CU) and proprietary funds (PF), which indicated that only material CUs and PFs would be reported as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS. During the year ended June 30, 2013, DAGS revised its financial reporting policy to comply with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and 34*.

Consequently, although DAGS determined that the Stadium Authority, Hawaii Strategic Development Corporation, Hawaii Technology Development Corporation (HITDC), Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation met the definition of discretely presented CUs as defined in GASB Statement No. 61, these CUs did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented in the June 30, 2017 CAFR. Instead, these entities were reported as blended component units within the State's governmental activities and the governmental funds to which they were administratively attached.

DAGS also determined that the Department of Labor and Industrial Relations – Disability Compensation Fund, the Department of Public Safety – Correctional Industries Fund, the Department of Accounting and General Services – State Parking Revolving Fund, and the Department of Accounting and General Services – Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. However, they did not meet the materiality threshold under the State's financial reporting policy. Therefore, these PFs were not reported as PFs in the June 30, 2017 CAFR but were reported as part of the State's governmental activities and within the governmental funds to which they were administratively attached.

A similar finding was reported in the prior year as Finding No. 2016-002.

Criteria

CUs are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement No. 61. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a discretely presented CU of the State.

Similarly, Enterprise Funds that meet the definition of proprietary funds established by GASB Statement No. 34 should be reported within the PF financial statements and the business-type activities in the government-wide financial statements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Effect

In accordance with the State's policy, the CUs and PFs noted above were incorrectly included in the governmental activities and respective governmental funds in the State's CAFR, rather than as discretely presented CUs or PFs, despite meeting the discretely presented CU and PF criteria under GAAP. A summary of account balances and funds that were incorrectly classified by State management is presented below (amounts expressed in millions):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Assets</u>
Discretely presented component units			
Stadium Authority	\$ 7.4	\$ 11.7	\$ 90.3
Hawaii Strategic Development Corporation	0.2	3.4	10.3
High Technology Development Corporation	12.0	20.2	7.4
Natural Energy Laboratory of Hawaii	4.9	9.3	13.0
Agribusiness Development Corporation	3.0	22.8	39.8
Nonmajor proprietary funds			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 3.7	\$ 3.6	\$ 15.6
Department of Accounting and General Services – State Motor Pool Fund	2.6	2.5	3.5
Department of Public Safety – Correctional Industries Fund	6.0	6.0	0.4
Department of Labor and Industrial Relations – Disability Compensation Fund	17.0	19.9	16.1

Cause and View of Responsible Officials

In determining which CUs and PFs should be presented as discretely presented CUs and nonmajor PFs in the CAFR, management did not follow the guidelines described in GASB Statements No. 61 and 34, respectively. DAGS also determined that some of the potential CUs and PFs are unable to close their accounting records and to complete audits in a timely manner, such that audited financial statements would not be available for the preparation of the CAFR. Therefore, application of GASB Statements No. 61 and 34 would require time and resources to complete and would likely delay the completion of the CAFR.

Recommendation

DAGS should consider changing the CAFR accounting and reporting policy to conform to the provisions of GASB Statements No. 34 and 61.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Finding No. 2017-003: IT General Control Deficiencies (Significant Deficiency)

Condition

Information technology (IT) is a strategic element of the State's operations. Because of the high volume of transactions at the State, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit of the State for the year ended June 30, 2017, we performed an IT general controls review of selected State departments' systems, including the following systems operated by the Office of Enterprise Technology Services (ETS), Department of Taxation (DoTAX), and DAGS:

ETS	DoTAX	DAGS
FAMIS	ITPS	FAMIS
Payroll	eFile (as it relates to data received from Hawaii Information Consortium)	Payroll
CWWS	GenTax	CWWS
Recon		Recon
Statewide Inventory System		Statewide Inventory System
Data Entry		
UI BPS		
UI Tax		
QWRS		

Our review resulted in IT control deficiencies in the areas of logical security, change management, and IT operations as follows:

Logical security

ETS

- Developers have access to the production UI BPS, UI Tax and QWRS applications causing a segregation of duties issue.
- Natural password settings for minimum length, complexity, expiration or lockout for failed log-in attempts do not comply with the ETS Information System Access Policy.

DoTAX

- User access rights on the ITPS were not reviewed on at least an annual basis.
- Weak password security for the ITPS.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Change management

ETS

- There was no evidence that mainframe security patches and software releases were tested prior to transferring into production.

DoTAX

- Developers have access to the production environment in the ITPS and a shared account is used.
- Developers had the ability to promote their own changes within the GenTax system through October 26, 2017.
- Monitoring of unauthorized changes to the GenTax database is not performed.
- Development personnel for the GenTax system have access to administrative functions causing a segregation of duties concerns.

DAGS

- Prior to October 5, 2016, developers and DAGS end users had access to the Statewide Inventory System production environment causing a segregation of duties issue.

IT operations

DoTAX

- There is currently no Disaster Recovery Plan in place for GenTax and application recovery procedures were not performed.

Collectively, the number and related nature of the IT control deficiencies resulted in an overall significant deficiency.

A similar finding was reported in the prior year as Finding No. 2016-003.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Internal controls in the areas of logical security, change management, and IT operations address the following risks:

Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

IT operations

Lack of a disaster recovery plan could result in a loss of data and an inability to continue operations.

Cause and View of Responsible Officials

The State's IT policies and procedures do not include internal control procedures addressing the risks discussed above or such controls are not consistently followed.

Recommendation

We recommend that ETS and DoTAX perform the following:

Logical Security

ETS

- Reevaluate current processes and rights to implement proper segregation of duties.
- Improve system password security parameters.

DoTAX

- Perform a user access review of the ITPS on at least an annual basis.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the ITPS.
- Improve system password security parameters.

Change management

ETS

- Reevaluate current processes to ensure testing performed over mainframe security patches or software updates are properly documented and retained prior to promotion into production.

DoTAX

- Remove developers' access to the ITPS production environment.
- Replace shared accounts with unique user accounts.
- Implement monitoring procedures to detect unauthorized changes to the GenTax database.
- Remove the developers' access to administrative functions within the GenTax system.

IT operations

DoTAX

- Implement a disaster recovery plan and perform testing to ensure the application and data are recoverable.

**FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS**

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding No. 2017-004: Schedule of Expenditures of Federal Awards (SEFA)
(Significant Deficiency)

Condition

The State's current accounting process does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal awards, it must prepare and maintain separate accounting records outside of FAMIS, the State's accounting system, to be able to segregate the cash balances, receipts and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled into FAMIS periodically.

A similar finding was reported in the prior year as Finding No. 2016-004.

Criteria

The Office of Management and Budget (OMB) issued the Uniform Guidance, which requires non-federal entities that expend \$750,000 or more in federal awards in a year to have a Single Audit conducted on its federal award programs and SEFA.

The Uniform Guidance established responsibilities for auditees, including:

- Identify all federal awards received and expended and the federal programs under which they were received.
- Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- Prepare appropriate financial statements, including the SEFA.

Effect

Due to the deficiencies in internal control over SEFA preparation noted, material misstatements occurred in the SEFA that were not detected by management's internal controls, and were subsequently identified and corrected as part of our auditing procedures.

For CFDA No. 17.235, Senior Community Service Employment, amounts reported as provided to subrecipients were understated by \$1,503,556.

Cause and View of Responsible Officials

A thorough review of each department's reconciliation of its separate accounting records that track federal expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts were accurate. Although formal reporting instructions were created by DAGS to establish internal control over preparing the SEFA and sent to other departments for the year ended June 30, 2017, certain departments failed to follow the instructions and process established by DAGS.

Recommendation

We recommend DAGS enforce its established process for preparing the SEFA. We also recommend DAGS provide training to the other departments to ensure proper information is provided by the departments for DAGS to accurately prepare the State's SEFA.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-005:	Cash Management (Material Weakness)	\$ _____
State Agency:	Department of Business, Economic Development & Tourism (DBEDT) – HITDC	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.114 – Collaborative Research & Development (R&D Cluster)	
Award Number and Award Year:	FA8650-15-2-5601 2015	
Repeat Finding?	No	

Condition

During our audit, we examined a haphazard selection of seven expenditure transactions and identified five instances totaling approximately \$1,845,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. For these five instances, the time elapsed ranged from 28 to 48 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The delays in processing cash drawdown requests exist due to differences between estimated cash needs and actual expenditures for a month, resulting in over or under draws depending on the actual expenditures for the month. As drawdowns are only performed monthly, any payments made at the end of the monthly drawdown period could be close to 30 days after the federal funds were received. Additionally, program management noted that the federal awarding agency must also approve payments, and that there are often delays in receiving its approval.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Recommendation

HITDC should design and implement internal controls over monitoring of cash management timeliness requirements and work with Air Force personnel to ensure timely disbursement of federal funds. HITDC should also work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds. As HITDC can draw down funds via electronic funds transfer (EFT), consideration to this option should be given as to allow for more frequent drawdowns.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-006:	Reporting (Significant Deficiency)	\$ _____
State Agency:	DBEDT – HITDC	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.114 – Collaborative Research & Development Program (R&D Cluster)	
Award Number and Award Year:	FA8650-15-2-5601 2017	
Repeat Finding?	No	

Condition

During our audit, we examined two haphazardly selected performance reports for compliance with reporting requirements and identified two instances in which the reports were filed beyond their respective due dates. The performance report for the quarter ended December 31, 2016 was submitted on February 21, 2017, or 22 days beyond the due date of January 30, 2017. The performance report for the quarter ended March 31, 2017 was submitted on May 25, 2017 or 25 days beyond the due date of April 30, 2017.

Criteria

The federal awarding agency requires the recipient to submit interim performance reports within 30 days after the end of each reporting quarter.

Effect

Failure to submit reports prevents the granting agency from assessing the status and activities of the program in a timely manner.

Cause and View of Responsible Officials

The untimely report submissions were due to delays in reports from project subcontractors. The program manager noted that weekly teleconferences are held with the awarding agency, during which the awarding agency is informed of status, including any delays.

Recommendation

The State department should request and obtain a formal extension from the federal awarding agency when management becomes aware of probable reporting delays.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-007:	Cash Management (Material Weakness)	\$ _____ –
State Agencies:	Department of Defense (DOD) and B&F	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.401 – National Guard Military Operations and Maintenance Projects	
Award Number and Award Year:	W912J6-15-2-1000 2015 to 2017 W912J6-16-2-1000 W912J6-17-2-1000	
Repeat Finding?	Yes, Finding No. 2016-007	

Condition

During our audit, we tested a haphazard selection of 25 federal cash draws for compliance with federal cash management requirements. We noted there was no Cash Management Improvement Act Agreement between the United States Department of the Treasury and the State of Hawaii (Treasury-State Agreement) for the year ended June 30, 2017.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205, Subpart A, requires that major federal assistance programs of a state be covered by a Treasury-State Agreement.

Effect

The lack of a Treasury-State Agreement may result in disbursements of federal funds that are not in accordance with federal cash management requirements and does not comply with 31 CFR Section 205, Subpart A.

Cause and View of Responsible Officials

B&F is responsible for coordinating and negotiating the Treasury-State Agreement with the U.S. Department of Treasury. However, due to a vacancy in the position that handles the Treasury-State Agreement and a lack of management oversight, an agreement was not executed for the year ended June 30, 2017.

Recommendation

B&F should implement internal controls over cash management to ensure that the Treasury-State Agreement is negotiated and executed in a timely manner.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-008:	Allowable Costs (Significant Deficiency)	\$ _____
State Agencies:	DOD	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.401 – National Guard Military Operations and Maintenance Projects	
Award Number and Award Year:	W912J6-17-2-1000 2017	
Repeat Finding?	No	

Condition

During our audit, we examined 10 haphazardly selected payroll transactions and identified two instances in which scheduled pay increases were not applied to employee compensation. The aggregate amount of the underpayment was \$972 over 12 pay periods and was paid subsequent to discovery.

Criteria

According to 2 CFR Section 200.430(a), compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in Section 200.431, Compensation-Fringe Benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

Effect

The underpayment of compensation could affect the accuracy and transparency of program costs used by management and reported to the federal awarding agency.

Cause and View of Responsible Officials

The unapplied pay change was caused by a lack of proper communication between Human Resources and Payroll offices.

Recommendation

The State department should implement processes and procedures to ensure that all pay changes are applied accurately and in a timely manner.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-009:	Cash Management (Material Weakness)	\$ _____
State Agency:	DBEDT – HITDC	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.800 – Air Force Defense Research Sciences Program (R&D Cluster)	
Award Number and Award Year:	FA8650-11-2-5605 2011	
Repeat Finding?	Yes, Finding No. 2016-008	

Condition

During our audit, we examined eight haphazardly selected disbursements of federal advances and identified three instances totaling approximately \$558,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days prior to disbursement. For these three instances, the time elapsed was 31, 57 and 69 days. While the expenditures were allowable costs under the grant, it does not appear the State department disbursed these federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 for cash management compliance requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The delays in processing cash drawdown requests exist due to differences between estimated cash needs and actual expenditures for a month, resulting in over or under draws depending on the actual expenditures for the month. As drawdowns are only performed monthly, any payments made at the end of the monthly drawdown period could be close to 30 days after the federal funds were received. Additionally, program management noted that the federal awarding agency must also approve payments, and that there are often delays in receiving its approval.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Recommendation

HITDC should design and implement internal controls over monitoring of cash management timeliness requirements and work with Air Force personnel to ensure timely disbursement of federal funds. HITDC should also work with DAGS and B&F to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds. As HITDC can draw down funds via EFT, consideration to this option should be given as to allow for more frequent drawdowns.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-010:	Reporting (Significant Deficiency)	\$ _____
State Agency:	DBEDT – HITDC	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.800 – Air Force Defense Research Sciences Program (R&D Cluster)	
Award Number and Award Year:	FA8650-11-2-5605 2011	
Repeat Finding?	No	

Condition

During our audit, we examined two haphazardly selected performance reports for compliance with reporting requirements and identified one instance in which the report was filed beyond the due date. The report for the quarter ended March 31, 2017 was submitted on May 4, 2017, or four days beyond the due date of April 30, 2017.

Criteria

The federal awarding agency requires the recipient to submit quarterly reports within 30 days after the end of each reporting quarter.

Effect

Failure to submit reports prevents the granting agency from assessing the status and activities of the program in a timely manner.

Cause and View of Responsible Officials

The untimely report submissions were due to delays in reports from project subcontractors. Program personnel contacted the federal awarding agency on April 25, 2017 or five days before the reporting due date to inform the federal awarding agency of the delay, however, authorization to submit the report beyond the stated deadline was not received.

Recommendation

The State department should obtain and maintain evidence of a formal extension from the federal awarding agency when management becomes aware of probable reporting delays.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-011:	Cash Management (Significant Deficiency)	\$ _____
State Agency:	Department of Land and Natural Resources (DLNR)	
Federal Agency:	Department of Interior	
CFDA Number and Title:	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
Award Number and Award Year:	F14AF00878 2017 F15AF00594 2017 F15AF00595 2017 F15AF00596 2017 F16AF00883 2017	
Repeat Finding?	Yes, Finding No. 2016-010	

Condition

During our audit, we examined 25 haphazardly selected cash disbursements and identified five instances totaling approximately \$97,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. For these five instances, the time elapsed ranged from 26 to 51 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances from federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The lag in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

Additionally, there was a large drawdown for contract expenditures under a grant award with an approaching period end date to avoid the loss of awarded funds.

Recommendation

The State department should design and implement internal controls over monitoring of cash management timeliness requirements, work with DAGS and B&F to ensure timely disbursement of Federal funds, and ensure personnel have adequate knowledge of cash management requirements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-012:	Earmarking (Material Weakness)	\$ _____
State Agency:	DLNR	
Federal Agency:	Department of Interior	
CFDA Number and Title:	15.904 – Historic Preservation Fund Grants-In-Aid	
Award Number and Award Year:	P17AF00003 2016 P17AF00042 2017	
Repeat Finding?	No	

Condition

During our audit, we noted 10% of federal funds awarded were not obligated to certified local governments (CLGs) within the first year of award P17AF00042, and 10% of the federal funds were not expended for transfers to local governments by the end of the second year for award P17AF00003.

We also noted that the Carryover Statement for award P17AF00042 in the End-of-Year (EOY) Report included a total grant amount of \$583,153. However, the federal funds awarded through the reporting period was \$410,781.

Criteria

Recipients are required to pass through at least 10% of each year's award as subgrants to CLGs or is recaptured by the National Park Service (NPS). According to paragraph (4) of Section 3029-02 (c) of the National Historic Preservation Act, not less than 10% of the annual apportionment shall be transferred by the State to certified local governments for historic preservation projects or programs of the certified local governments.

The federal awarding agency requires grantees to submit annual performance information to the NPS in the EOY Report. NPS expects that the State's reports are accurate, replicable and based upon regularly updated source records.

Effect

Failure to comply with the awards earmarking requirements results in noncompliance with the terms of the award and result in the recapture of funds by the awarding agency. The discrepancy in actual and reported grant amounts in the EOY Report does not properly calculate the carryover amount allowed under the award.

Cause and View of Responsible Officials

NPS funding of the Historic Preservation Grants-in-Aid program to the State Historic Preservation Division (SHPD) was not awarded until late in the grant years. Award P17AF00003, with a grant period of October 1, 2015 through September 30, 2017, was issued on October 17, 2016, after the end of the first year of the award. Delays in project approvals further hindered contracting and fulfillment of CLG fund transfers. Likewise, award P17AF00042 with a grant period of October 1, 2016 through September 30, 2018 was issued on August 15, 2017, over ten months into the first year of the award.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

The difference between amounts awarded and reported in the EOY Report are based on SHPD personnel's understanding of the funding awarded. SHPD was informed of an additional \$172,372 in funding via an email NPS sent to and forwarded by the National Conference of Historic Preservation Officers in August 2017 and included the additional amount in the calculation of the carryover amount in the EOY Report. However, as of February 15, 2018, SHPD did not receive the award document formally awarding the additional funds.

Recommendation

SHPD should work with the federal awarding agency to clarify earmarking requirements and request guidance on how to meet such requirements when there are delays in the awarding of the federal grants. SHPD should also report federal award amounts based on official award documents.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-013:	Special Tests and Provisions (Significant Deficiency)	\$ _____
State Agency:	DLNR	
Federal Agency:	Department of Interior	
CFDA Number and Title:	15.904 – Historic Preservation Fund Grants-In-Aid	
Award Number and	P15AF00130	2015
Award Year:	P17AF00003	2016
	P17AF00042	2017
Repeat Finding?	Yes, Finding No. 2016-002 (Historic Preservation Fund Grants-In-Aid Program Audit)	

Condition

During our audit, we determined that there were 13 properties nominated to the National Register of Historic Places and haphazardly selected four properties for testing. However, there was no available evidence to verify that the State Historic Preservation Division (SHPD) entered into a memorandum of understanding or agreement with Native Hawaiian organizations in assessing the cultural significance of the nominated properties.

Criteria

Pursuant to Section 101(d), subsection (6)(c) of the National Historic Preservation Act, the State must enter into a memorandum of understanding or agreement with Native Hawaiian organizations for the assessment of the cultural significance of any property in determining whether to nominate such property to the National Register, and to carry out the cultural component of such preservation program or plan. This provision was not a requirement of the 2017 grant award.

Effect

Failure to enter into memorandums of agreement or understanding with Native Hawaiian organizations in determining the cultural significance of nominated properties could lead to a preservation plan that does not adequately address the property's cultural significance. A lack of an agreement with Native Hawaiian organizations may result in the Program losing its Federal funding.

Cause and View of Responsible Officials

Program management believes the objectives of the memorandums of understanding or agreement with Native Hawaiian organizations were met through alternative means.

Recommendation

The State department should either clarify with the federal awarding agency whether the memorandums of understanding or agreement with Native Hawaiian organizations are required, or develop procedures and controls to ensure that the memorandums are executed.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-014:	Cash Management (Material Weakness)	\$ _____ –
State Agencies:	Department of Labor and Industrial Relations (DLIR) and B&F	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number and Award Year:	UI-27972-17-55-A-15 2017	
Repeat Finding?	Yes, Finding No. 2016-011	

Condition

During our audit, we tested a haphazard selection of 25 federal cash draws for benefit payments and eight federal cash draws for payroll and administrative expenses for compliance with federal cash management requirements. We noted there was no Treasury-State Agreement for the year ended June 30, 2017.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205, Subpart A, requires that major federal assistance programs be covered by a Treasury-State Agreement.

Effect

The lack of a Treasury-State Agreement may result in disbursements of federal funds that are not in accordance with federal cash management requirements and does not comply with 31 CFR Section 205, Subpart A.

Cause and View of Responsible Officials

B&F is responsible for coordinating and negotiating the Treasury-State Agreement with the U.S. Department of Treasury. However, due to a vacancy in the position that handles the Treasury-State Agreement and a lack of management oversight, an agreement was not executed for the year ended June 30, 2017.

Recommendation

B&F should implement internal controls over cash management to ensure that the Treasury-State Agreement is negotiated and executed in a timely manner.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-015:	Eligibility (Significant Deficiency)	\$ _____
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number and Award Year:	UI-29892-17-55-A-15 2017	
Repeating Finding?	No	

Condition

During our audit, we examined 40 haphazardly selected disbursements, including five disbursements to participants of the Trade Adjustment Assistance (TAA) program who received Reemployment Trade Adjustment Assistance (RTAA) wage subsidy benefits. We identified one instance in which the claimant received RTAA payments in excess of their respective eligible weekly benefit amount, resulting in an aggregate overpayment of \$20 over two benefit periods. We also identified one instance in which the claimant received RTAA payments totaling \$86 without having submitted a weekly claim certification form.

Criteria

RTAA is a wage supplement option available to workers under the TAA program. Pursuant to the U.S. DOL's Training and Employment Guidance TEGG No. 22-08, an adversely affected worker must meet the following conditions to receive RTAA wage subsidy benefits at the time of reemployment:

- Is at least 50 years of age.
- Earns not more than \$50,000 each year in wages from re-employment (2011 and 2015 program amendments).
- Is employed on a full-time basis as defined by the law of the State in which the worker is employed and is not enrolled in a training program, or is employed at least 20 hours per week and is enrolled in a TAA-approved training program.
- Is not employed at the firm from which the worker was separated.

Effect

Without appropriate evidence that eligibility requirements were met, ineligible payments may be made to program participants.

Cause and View of Responsible Officials

Benefits under the TAA program are new to the DLIR, as the TAA program was previously inactive for a number of years. In addition, claims processing, eligibility review, claimant record-tracking, and payment processing are manual processes.

Recommendation

The State department should design and implement internal controls to ensure that claimants are meeting continuing eligibility requirements and payment amounts are proper. The State department should also continue to implement safeguards as issues are identified.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-016:	Reporting (Significant Deficiency)	\$ _____
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number and Award Year:	UI-28046-16-55-A-15 2016	
Repeat Finding?	No	

Condition

During our audit, we examined two haphazardly selected performance reports for compliance with reporting requirements and identified one instance in which the report was filed beyond the due date. The report for the quarter ended September 30, 2016 was submitted on November 17, 2016, or three days beyond the due date of November 14, 2016.

Criteria

Pursuant to the U.S. DOL's Training and Employment Guidance TEGL 06-09, the federal awarding agency requires all reports and records contained within the Trade Act Participation Report (TAPR) to be submitted no later than 45 days after the end of each reporting quarter.

Effect

Failure to submit reports prevents the granting agency from assessing the status and activities of the program in a timely manner.

Cause and View of Responsible Officials

The untimely report submission was due to a change in the federal reporting system to the Workforce Integrated Performance System, transition of reporting responsibilities between DLIR offices, and retirement of a key Workforce Development Division reporting staff member.

Recommendation

The State department should design and implement internal controls over reporting to ensure that reports are prepared and transmitted in a timely manner.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-017:	Special Tests and Provisions (Significant Deficiency)	\$ _____
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number and Award Year:	UI-29837-17-55-A-15 2017	
Repeat Finding?	No	

Condition

During our audit, we examined the Time Lapse Report for the year ended June 30, 2017 to determine whether DLIR met timeliness requirements for completing paid and denied claims (monetary, separation and nonseparation based claims). We noted that the requirements were not met for the analysis of paid claims within 90 and 120 days and denied claims within 120 days.

Criteria

The U.S. DOL designed the Benefit Accuracy Measurement (BAM) system to provide a basis for determining the accuracy of program payments and denied claims in the Unemployment Insurance (UI) program. Under the system, representative samples of UI payments and disqualifying ineligibility determinations are drawn and examined to determine whether they were properly administered to claimants and whether these payments were accurately calculated, or were appropriately denied. Based on the errors identified and information gathered, each state must develop plans and implement corrective actions to ensure accurate administration of state laws, rules and procedures.

The BAM system requires the State to complete a minimum number of UI cases timely in order to maintain a current database. The minimum number of cases and the timeliness requirements for completing paid and denied claims are as follows:

- Paid Claims
 1. Minimum cases: 360 paid cases
 2. Timeliness requirements: Complete 70% within 60 days, 95% within 90 days, and 98% within 120 days
- Denied Claims
 1. Minimum cases: 450 denied cases
 2. Timeliness requirements: Complete 60% within 60 days, 85% within 90 days, and 98% within 120 days

Effect

Failure to complete the minimum number of analyses may cause DLIR Quality Control (QC) unit's database to contain outdated data, which could result in program personnel drawing erroneous conclusions.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Cause and View of Responsible Officials

The delays in processing of claims were due to an increased number of overpayments and performance errors during the claims processing. These errors caused the completion of QC reviews to take longer than usual.

Recommendation

The State department should design and implement additional controls to analyze the status of their completion prior to the period ends.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

		Questioned Cost
Finding No. 2017-018:	Reporting (Significant Deficiency)	\$ _____
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.801 – Disabled Veterans’ Outreach Program 17.804 – Local Veterans’ Employment Representative Program (Employment Services Cluster)	
Award Number and Award Year:	DV-30010-17-55-5-15 2015 to 2016 DV-26579-15-55-5-15	
Repeat Finding?	No	

Condition

During our audit, we examined 10 haphazardly selected financial reports for compliance with reporting requirements and identified two instances in which the reports were filed beyond the respective due dates. The report for award DV-30010-17-55-5-15 for the quarter ended December 31, 2016 was submitted on February 6, 2017, or seven days beyond the due date of January 30, 2017. The report for award DV-26579-15-55-5-15 for the quarter ended December 31, 2016 was submitted on February 3, 2017, or four days beyond the due date of January 30, 2017.

Criteria

The federal awarding agency requires financial reports be submitted no later than 30 days after the end of each specified reporting period.

Effect

Failure to submit the reports on a timely basis prevents the granting agency from timely assessing the status and activities of the program.

Cause and View of Responsible Officials

The untimely report submissions were due to delays in receiving necessary data for report preparation prior to internal reviews and approvals.

Recommendation

The State department should implement procedures to ensure that financial reports are submitted by the required deadlines, including considering any additional time due to different offices preparing and submitting the reports.

DAVID Y. IGE
GOVERNOR



RODERICK K. BECKER
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P O BOX 119, HONOLULU, HAWAII 96810-0119

March 1, 2018

ACC 18.U011

Accuity LLP
999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813

To Whom It May Concern:

Thank you for the opportunity to provide comments on the Schedule of Findings and Questioned Costs issued in connection with the Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2017. We have also attached our comments on the status of prior audit findings.

We commend Accuity LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call Mr. Wayne M. Horie, Accounting Division at 586-0600.

Sincerely,

A handwritten signature in black ink, appearing to read "Roderick K. Becker".

RODERICK K. BECKER
Comptroller

Attachments

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2016-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2017-001
2016-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2017-002
2016-003	IT General Control Deficiencies	DAGS; ETS; DoTAX	Material Weakness		X	2017-003
2016-004	Schedule of Expenditures of Federal Awards	DAGS	Significant Deficiency		X	2017-004
2016-005	Cash Management	DLNR	Significant Deficiency		X	
2016-006	Procurement	DLNR	Significant Deficiency	X		
2016-007	Cash Management	DOD and B&F	Material Weakness		X	2017-007
2016-008	Cash Management	DBEDT	Material Weakness		X	2017-009
2016-009	Reporting	DLNR	Significant Deficiency	X		
2016-010	Cash Management	DLNR	Significant Deficiency		X	2017-011
2016-011	Cash Management	DLIR and B&F	Material Weakness		X	2017-014
2016-012	Subrecipient Monitoring	DLIR	Material Weakness	X		
2016-013	Cash Management	DLIR	Significant Deficiency	X		
2016-014	Reporting	DLIR	Significant Deficiency	X		
2016-015	Reporting	DLIR	Material Weakness	X		
2016-016	Activities Allowed or Unallowed	DLIR	Significant Deficiency	X		

(continued)

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2016-017	Subrecipient Monitoring	DLIR	Significant	X		
2016-018	Cash Management	DOD	Material Weakness	X		
2016-019	Subrecipient Monitoring	DOD	Significant Deficiency	X		
2016-001	Allowable Costs (Program Audit)	DLNR	Significant Deficiency	X		
2016-002	Special Tests and Provisions (Program Audit)	DLNR	Significant Deficiency		X	2017-012
2015-011	Equipment Management	DLNR	Significant Deficiency	X		
2014-025	Reporting	DOD	Significant Deficiency		X	
2013-031	Unrecorded and Untimely Recorded Property Acquisitions	DLNR	Significant Deficiency		X	
2013-032	Untimely Recorded Property Acquisition	DLNR	Significant Deficiency		X	
2012-25	Acquisitions Not Recorded in FAIS	Department of Public Safety (DPS)	Significant Deficiency		X	
09-01	Improve Controls over Inmate Agency Accounts	DPS	Material Weakness		X	

(concluded)

State of Hawaii

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Corrective Actions Taken for Unresolved Findings

Finding No. 2016-001: Internal Control Over Financial Reporting

In fiscal year 2017, DAGS requested formal reporting information packages from State departments but did not receive timely responses from some departments. As a current year finding (Finding No. 2017-001) is reported, Finding No. 2016-001 will not be carried forward.

Finding No. 2016-002: Accounting for Component Units and Proprietary Funds

No corrective action was taken in fiscal year 2017. As a current year finding (Finding No. 2017-002) is reported, Finding No. 2016-002 will not be carried forward.

Finding No. 2016-003: IT General Control Deficiencies

Corrective actions were taken in fiscal year 2017 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2017-003) is reported, Finding No. 2016-003 will not be carried forward.

Finding No. 2016-004: Schedule of Expenditures of Federal Awards

Formal reporting instructions were created by DAGS and sent to other departments and agencies for the year ended June 30, 2017. As a current year finding (Finding No. 2017-004) is reported, Finding No. 2016-004 will not be carried forward.

Finding No. 2016-005: Cash Management

DLNR continues to improve its internal controls with compliance over cash management requirements.

Finding No. 2016-007: Cash Management

B&F is in the process of bringing the State into compliance with the Cash Management Improvement Act (CMIA) requirements; however, corrective action is still ongoing. DOD continues to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2017-007) is reported, Finding No. 2016-007 will not be carried forward.

Finding No. 2016-008: Cash Management

The program continues to explore options for meeting compliance requirements, prescribed draw procedures of the Air Force Research Labs (AFRL), and good business practice (with vendors). As a current year finding (Finding No. 2017-009) is reported, Finding No. 2016-008 will not be carried forward.

Finding No. 2016-010: Cash Management

DLNR continues to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2017-011) is reported, Finding No. 2016-010 will not be carried forward.

Finding No. 2016-011: Cash Management

B&F is in the process of bringing the State into compliance with the CMIA requirements; however, corrective action is still ongoing. DLIR continues to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2017-014) is reported, Finding No. 2016-011 will not be carried forward.

Finding No. 2016-002: Special Tests and Provisions (Historic Preservation Fund Grants-in-Aid Program Audit)

The State agency has taken corrective actions in fiscal year 2017 by working with the National Park Service to develop and implement procedures to ensure that Native Hawaiian organizations can enter into a Memoranda of Agreement for review of National Register of Historic Places nominations consistent with the requirements of the National Historic Preservation Act. As a current year finding (Finding No. 2017-013) is reported, Finding No. 2016-002 (Program Audit) will not be carried forward.

State of Hawaii

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Finding No. 2014-025: Reporting

Written procedures have been developed and key staff have been informed to keep the reporting requirements current. However, DOD continues to experience problems with the federal reporting portal as grants with reporting requirements are not made available online, resulting in an inability to file the required reporting items. The issues have been raised with the U.S. Department of Homeland Security and regional federal agency representative; however, no fix has been implemented for awardees. DOD will continue to coordinate with the federal agency to ensure that the reports are filed. Implementation of the corrective action plan is anticipated to be completed by June 2018.

Finding No. 2013-031: Unrecorded and Untimely Recorded Property Acquisitions

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action is anticipated to be completed by June 2018.

Finding No. 2013-032: Untimely Recorded Property Acquisition

DLNR is establishing a monitoring process to ensure equipment transactions are recorded timely. Implementation of the corrective action is anticipated to be completed by June 2018.

Finding No. 2012-25: Acquisitions Not Recorded in FAIS

DPS is establishing monitoring procedures over reconciliations between equipment purchases and FAIS. Implementation of the corrective action is expected to be completed by December 2018.

Finding No. 09-01: Improve Controls over Inmate Agency Accounts

No corrective action was taken in fiscal year 2017. DPS continues to explore options to assist the facilities to address the Inmate Agency Accounts issue. Implementation of the corrective action plan is anticipated to be completed by December 2018.

CORRECTIVE ACTION PLAN

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SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001 – Internal Control over Financial Reporting (Significant Deficiency) (Page 17)

Corrective Action Plan

Concur. The Department of Accounting and General Services (DAGS) will continue to develop a well-defined, systematic, efficient, and orderly process for financial reporting that will include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process will be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

DAGS will review audit entries for use of proper source codes, object codes, and appropriation accounts and work with individuals who perform reviews of journal entries at the identified departments on specific issues relating to proper use of such codes and accounts. Departments will be reminded to perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries and all the journal entries properly reflect what is shown on the schedules.

While DAGS will continue to improve efficiencies within the current system, significant efficiencies are not anticipated to be achieved until implementation of a new financial system. A new financial system will improve internal controls and facilitate a more efficient financial reporting process, allowing more time for review and analysis of financial results.

Person Responsible	Wayne Horie, Administrator DAGS Accounting Division
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Anticipated Completion Date	June 30, 2019
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2017-002 – Accounting for Component Units and Proprietary Funds (Page 19) **(Significant Deficiency)**

Corrective Action Plan

Concur. DAGS will review the State's policy annually regarding the reporting of discretely presented Component Units and nonmajor Proprietary Funds as compared with Governmental Accounting Standards Board Statement Nos. 34 and 61.

Person Responsible	Wayne Horie, Administrator DAGS Accounting Division
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Anticipated Completion Date	June 30, 2019
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CORRECTIVE ACTION PLAN JUNE 30, 2017

2017-003 – IT General Control Deficiencies (Significant Deficiency)

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Corrective Action Plan

The Enterprise Technology Services (ETS), the Department of Tax (DoTax), and DAGS address their respective IT control deficiencies in the areas of logical security, change management and IT operations as follows:

Logical Security

ETS

- **Finding:** Developers have access to the production UI BPS, UI Tax and QWRS applications causing a segregation of duties issue.
Response: Concur. Procedures were implemented so that developers no longer have access to the UI BPS, UI Tax and QWRS applications.

Person Responsible Bennett Yap, DLIR IT Specialist

Anticipated Completion Date June 30, 2018

- **Finding:** Natural password settings for minimum length, complexity, expiration, or lockout for failed log-in attempts do not comply with the ETS Information System Access Policy.
Response: Concur. Password settings have been enabled to the extent that the systems allow. In the cases where systems do not directly comply with the ICSD Information System Access Policy, either a workaround solution has been put in place or an exception will be approved.

Person Responsible Michael Domai, DAGS ETS IT Manager

Anticipated Completion Date June 30, 2018

DoTax

- **Finding:** User access rights on the ITPS were not reviewed on at least an annual basis.
Response: Concur. IT controls for logical security, including annual reviews of user access rights, are being implemented.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2018

- **Finding:** Weak password security for the ITPS.
Response: Concur. The user password policy was strengthened in 2005. In addition, as part of the Information Security improvement effort, policies, procedures and user training are being developed and implemented.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2018

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Change Management

ETS

- **Finding:** There was no evidence that mainframe security patches and software releases were tested prior to transferring into production.
Response: Concur. A written procedure to deploy mainframe security patches and software releases has been developed and verified by the auditors.

Person Responsible Michael Domai, DAGS ETS IT Manager

Anticipated Completion Date: June 30, 2018

DoTax

- **Finding:** Developers have access to the production environment in the ITPS and a shared account is used.
Response: Concur. IT controls to further constrain access to the ITPS production environment, including physical security improvements, are currently being developed and implemented.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2018

- **Finding:** Developers had the ability to promote their own changes within the GenTax system through October 26, 2017.
Response: Concur. To clarify, GenTax architects, not developers, had the ability to develop and promote changes into production. The policy was changed in October 2017, as noted by the auditors. In addition, the management of the GenTax application is being transitioned to the DoTAX ITSO staff in preparation of the project's completion.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2019

- **Finding:** Monitoring of unauthorized changes to the GenTax database is not performed.
Response: Concur. DoTAX ITSO staff have been assigned to engage in the database management, including monitoring all changes made to the GenTax database.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2018

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- **Finding:** Development personnel for the GenTax system have access to administrative functions causing a segregation of duties concern.
Response: Concur. DoTAX ITSO staff will be taking over the management of the user administration functions.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date June 30, 2018

DAGS System Accounting

- **Finding:** Prior to October 5, 2016, developers and DAGS end users had access to the Statewide Inventory System production environment causing a segregation of duties issue.
Response: Concur. Developers and DAGS end users' access to the Statewide Inventory System production environment was removed on March 31, 2016 and October 5, 2016, respectively.

Person Responsible Glenn Segawa, Data Processing Systems Manager

Anticipated Completion Date October 5, 2016

IT Operations

DoTAX

- **Finding:** There is currently no Disaster Recovery Plan in place for GenTax and application recovery procedures were not performed.
Response: Not concur. There is a working draft Disaster Recovery Plan in place for the GenTax application that is being finalized and verified prior to the close of the project. In the meantime, the system architecture and processes are in place to protect the GenTax environment.

Person Responsible Rona Suzuki, DoTAX TSM Project Manager

Anticipated Completion Date July 31, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-004 – Schedule of Expenditures of Federal Awards (Significant Deficiency)

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Corrective Action Plan

Concur. Beginning in fiscal year 2014, the State Department of Budget and Finance (B&F) instructed executive departments to utilize one appropriation account for each federal grant instead of grouping multiple grants within a single appropriation account. All departments within the State's SEFA have been converted. Together with DAGS' review, these changes have facilitated the accurate reporting of federal grants expenditures and reduced the number of

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material misstatements identified in the audits. DAGS will continue to work with the departments to ensure information reported is accurate and correct.

Person Responsible Wayne Horie, Administrator
DAGS Accounting Division

Anticipated Completion Date June 30, 2019

2017-005 – Cash Management (Material Weakness) (Page 25) **State Department of Business, Economic Development and Tourism – HITDC**

CFDA No. 12.114: Collaborative Research and Development (R&D Cluster)
Direct award from the U.S. Department of Defense (Award FA8650-15-2-5601)

Corrective Action Plan

Concur. The program will continue to modify its methodology and processes in the cash draw process. The program will also continue to educate contractors on the process in obtaining funds from the federal government and processing through the State. They will be informed of what a realistic timeline is for payment for completed work.

Person Responsible Ray Gomez, Controller
Hawaii Technology Development Corporation

Anticipated Completion Date June 30, 2018, ongoing refinement

2017-006 – Reporting (Significant Deficiency) (Page 27) **State Department of Business, Economic Development and Tourism – HITDC**

CFDA No. 12.114: Collaborative Research and Development Program (R&D Cluster)
Direct award from the U.S. Department of Defense (Award FA8650-15-2-5601)

Corrective Action Plan

Concur. The program will work diligently in completing and filing technical performance reports in a timely manner. They will work with the contractors as well as the sub-contractors in submitting information to complete these reports. The program also will inform them of the urgency and importance of these reports and that tardiness will risk the loss of funding.

In addition, the program will also communicate with the grant authority and document any issues with the timeliness of the reports.

Person Responsible Stanley Osserman Jr., Director
Hawaii Center for Advanced Transportation Technologies

Anticipated Completion Date June 30, 2018, ongoing refinement

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2017-007 – Cash Management (Material Weakness)

(Page 28)

State Department of Defense and Department of Budget and Finance

CFDA No. 12.401: National Guard Military Operations and Maintenance Projects
Direct award from the U.S. Department of Defense (Awards W912J6-15-2-1000, W912J6-16-2-1000, W912J6-17-2-1000)

Corrective Action Plan

B&F concurs. B&F has negotiated and executed a Treasury-State Agreement with the U.S. Treasury for State fiscal years 2016 and 2017. These agreements are posted at www.federalawards.hawaii.gov.

Person Responsible Mark Anderson, OFAM Administrator

Anticipated Completion Date June 30, 2018

2017-008 – Allowable Costs (Significant Deficiency)

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State Department of Defense

CFDA No.12.401: National Guard Military Operations and Maintenance Projects
Direct award from the U.S. Department of Defense (Award W912J6-17-2-1000)

Corrective Action Plan

Concur. Since May 15, 2017, upon the hiring of a new payroll clerk, the Human Resources technician has been sending electronic copies of the Employee Personnel Action Reports (EPARs) to the new payroll clerk to avoid lost or misplaced EPARs.

Person Responsible Colonel William Rusty Spray (RET)
Administrative Services Officer

Anticipated Completion Date May 15, 2017

2017-009 – Cash Management (Material Weakness)

(Page 30)

State Department of Business, Economic Development and Tourism – HITDC

CFDA No. 12.800: Air Force Defense Research Sciences Program (R&D Cluster)
Direct award from the U.S. Department of Defense (Award FA8650-11-2-5605)

Corrective Action Plan

Concur. The program will continue to modify its methodology and processes in the cash draw process. The program will also continue to educate contractors on the process in obtaining funds from the federal government and processing through the State. They will be informed of what a realistic timeline is for payment for completed work.

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Person Responsible Ray Gomez, Controller
Hawaii Technology Development Corporation

Anticipated Completion Date June 30, 2018, ongoing refinement

2017-010 – Reporting (Significant Deficiency) (Page 32) **State Department of Business, Economic Development and Tourism – HITDC**

CFDA No. 12.800: Air Force Defense Research Sciences Program (R&D Cluster)
Direct award from the U.S. Department of Defense (Award FA8650-11-2-5605)

Corrective Action Plan

Concur. The program will work diligently in completing and filing technical performance reports in a timely manner. They will work with the contractors as well as the sub-contractors in submitting information to complete these reports. The program also will inform them of the urgency and importance of these reports and that tardiness will risk the loss of funding.

In addition, the program will also communicate with the grant authority and document any issues with the timeliness of the reports.

Person Responsible Stanley Osserman Jr., Director
Hawaii Center for Advanced Transportation Technologies

Anticipated Completion Date June 30, 2018, ongoing refinement

2017-011 – Cash Management (Significant Deficiency) (Page 33) **State Department of Land and Natural Resources**

CFDA No. 15.615: Cooperative Endangered Species Conservation Fund (R&D Cluster)
Direct award from the U.S. Department of Interior (Awards F14AF00878, F15AF00594, F15AF00595, F15AF00596, F16AF00883)

Corrective Action Plan

Concur. The Division of Forestry and Wildlife (DOFAW) implemented a tracking system to monitor the drawdown to the time the treasury deposit receipt is posted in Datamart. The Division also developed a Federal Cash flow worksheet to monitor cash balances. The Division is attaching a transmittal memo for all Federal funded invoices sent to the Fiscal Office for their immediate processing/payment. In addition, cash drawdowns are processed at least two to three times per month.

Person Responsible Judy Garo, DOFAW Accountant
Michelle Del Rosario, Program Specialist

Anticipated Completion Date June 30, 2018

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2017-012 – Earmarking (Material Weakness) **State Department of Land and Natural Resources**

(Page 34)

CFDA No. 15.904: Historic Preservation Fund Grants-In-Aid
Direct award from the U.S. Department of Interior (Awards P17AF00003 and P17AF00042)

Corrective Action Plan

Concur. The State DLNR agency will work with the National Park Service to effectuate timely communication regarding the receipt of the federal funding through the Historic Preservation Grants-in-aid program, and to obligate the ten percent pass through to certified local governments within the first year of the two-year grant award. In addition, the agency will provide updated training with staff to ensure that all grant reporting requirements are conducted accurately.

Person Responsible Alan S. Downer, Ph.D., Administrator

Anticipated Completion Date June 30, 2018

2017-013 – Special Tests and Provisions (Significant Deficiency) **State Department of Land and Natural Resources**

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CFDA No. 15.904: Historic Preservation Fund Grants-In-Aid
Direct award from the U.S. Department of Interior (Awards P15AF00130, P17AF00003, P17AF00042)

Corrective Action Plan

Concur. Although the National Park Service has acknowledged that it has no procedures, guidelines, standards or guidance of any kind for this special condition, the State DLNR agency is working with the National Park Service to ensure that proper procedures and controls are in place to meet all requirements for consulting Native Hawaiian organizations in accordance with grant awards and Section 101(d) of the National Historic Preservation Act. In addition, the agency is currently negotiating with the Office of Hawaiian Affairs to implement a memorandum of agreement with Native Hawaiian organizations for the assessment of the cultural significance of the nominated properties.

Person Responsible Alan S. Downer, Ph.D., Administrator

Anticipated Completion Date June 30, 2018

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2017-014 – Cash Management (Material Weakness) (Page 37) **State Department of Labor and Industrial Relations and State Department of Budget and Finance**

CFDA No. 17.225: Unemployment Insurance
Direct award from the U.S. Department of Labor (Award UI-29837-17-55-A-15)

Corrective Action Plan

B&F concurs. B&F has negotiated and executed a Treasury-State Agreement with the U.S. Treasury for State fiscal years 2016 and 2017. These agreements are posted at www.federalawards.hawaii.gov.

Person Responsible Mark Anderson, OFAM Administrator

Anticipated Completion Date June 30, 2018

2017-015 – Eligibility (Significant Deficiency) (Page 38) **State Department of Labor and Industrial Relations**

CFDA No. 17.225: Unemployment Insurance
Direct award from the U.S. Department of Labor (Award UI-29892-17-55-A-15)

Corrective Action Plan

Concur. The Trade Adjustment Assistance (TAA) program specialist, with the supervisor's assistance, have made improvements to the recordkeeping of participants to ensure that payments are accurately made to only eligible individuals. Workflow improvements have also been implemented.

Person Responsible Anne Eustaquio, Program Development Officer

Anticipated Completion Date June 30, 2018

2017-016 – Reporting (Significant Deficiency) (Page 39) **State Department of Labor and Industrial Relations**

CFDA No. 17.225: Unemployment Insurance
Direct award from the U.S. Department of Labor (Award UI-28046-16-55-A-15)

Corrective Action Plan

Concur. The delay in filing the Trade Act Participation Report (TAPR) was due to several factors, including a transition of responsibilities from the Research and Statistics Office to the Workforce Development Division (WDD), and a WDD staff retiring. A WDD staff has since been

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hired and familiarized with the federal reporting system. In addition, an additional staff will be trained on the TAPR requirements to ensure timely report submissions.

Person Responsible Elaine Young, Administrator

Anticipated Completion Date August 31, 2018

2017-017 – Special Tests and Provisions (Significant Deficiency) **State Department of Labor and Industrial Relations**

(Page 40)

CFDA No. 17.225: Unemployment Insurance
Direct award from the U.S. Department of Labor (Award UI-29837-17-55-A-15)

Corrective Action Plan

Concur. The unemployment division supervisor is monitoring each investigator's caseload and sending weekly emails to remind investigators of cases which are approaching the 60-day deadline.

Person Responsible Anne Eustaquio, Program Development Officer

Anticipated Completion Date June 30, 2018

2017-018 – Reporting (Significant Deficiency) **State Department of Labor and Industrial Relations**

(Page 42)

CFDA Nos. 17.801: Disabled Veterans' Outreach Program
17.804: Local Veterans' Employment Representative Program (Employment Services Cluster)
Direct award from the U.S. Department of Labor (Awards DV-30010-17-55-5-15, DV-26579-15-55-5-15)

Corrective Action Plan

Concur. The primary reason for the delays was due to WDD staffing shortages. Staff has since been hired and responsibilities redistributed. Timeliness of reporting will be emphasized.

Person Responsible Elaine Young, Administrator

Anticipated Completion Date June 30, 2018