

# STATE OF HAWAII

## SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019



**CURT T. OTAGURO**  
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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CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2019, 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 19, 2019.

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; and the Hawaii Public Housing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2019-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2019-001 and 2019-002 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 19, 2019

**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, 2019. 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 \$3,536,347,185 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2019. 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, 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. 2019-005 through 2019-007, 2019-010, and 2019-014 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding:

<b>Finding No.</b>	<b>CFDA No.*</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2019-005	12.404	National Guard ChalleNGe Program	Allowable Costs
2019-006	12.404	National Guard ChalleNGe Program	Period of Performance
2019-007	12.404	National Guard ChalleNGe Program	Reporting
2019-010	15.904	Historic Preservation Fund Grants-in-Aid	Earmarking
2019-014	97.042	Emergency Management Performance Grants	Subrecipient Monitoring

\* *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, 2019.

**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, 2019.

### **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. 2019-004, 2019-008, 2019-009, and 2019-011 through 2019-013. 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. 2019-005 through 2019-007, 2019-010, and 2019-014 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. 2019-004, 2019-008, 2019-009, and 2019-011 through 2019-013 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, 2019, 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 19, 2019, 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 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 13, 2020

**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

<b>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
U.S. Department of Agriculture Direct Programs			
Plant and Animal Disease, Pest Control and Animal Care	10.025	\$ 280,428	\$ -
Wildlife Services – Plant and Animal Disease, Pest Control, and Animal Care	10.028	1,742	-
Conservation Reserve Program	10.069	39,789	-
Inspection Grading and Standardization	10.162	14,148	-
Market Protection and Promotion	10.163	24,400	-
Specialty Crop Block Grant Program – Farm Bill	10.170	390,425	-
Trade Mitigation Program Eligible Recipient Agency Operational Fund	10.178	452,403	452,403
Senior Farmers Market Nutrition Program	10.576	453,683	427,547
Cooperative Forestry Assistance	10.664	792,237	-
Wood Utilization Assistance	10.674	55,599	-
Urban and Community Forestry Program	10.675	123,467	41,246
Forest Legacy Program	10.676	5,030,301	-
Forest Stewardship Program	10.678	53,835	-
Forest Health Protection	10.680	329,259	-
Soil and Water Conservation	10.902	22,101	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	1,302,450	1,266,860
Emergency Food Assistance Program (Administrative Costs)	10.568	230,935	189,013
Emergency Food Assistance Program (Food Commodities)	10.569	1,092,608	1,092,608
Total Food Distribution Cluster		2,625,993	2,548,481
Total U.S. Department of Agriculture Direct Programs		10,689,810	3,469,677
Pass-through from the State Department of Education			
Child Nutrition Cluster			
School Breakfast Program (1420-C)	10.553	58,595	-
National School Lunch Program (1420-C)	10.555	91,476	-
		150,071	-
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster) (DHS-18-SNAP-5074)			
Total U.S. Department of Agriculture Pass-through Programs	10.561	181,760	-
<b>Total U.S. Department of Agriculture</b>		11,021,641	3,469,677
<b>U.S. DEPARTMENT OF COMMERCE</b>			
U.S. Department of Commerce Direct Programs			
National Oceanic and Atmosphere Administration – Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement			
	11.U01	639,228	-
Cluster Grants	11.020	208,333	-
Interjurisdictional Fisheries Act of 1986	11.407	53,766	-
Fishery Products Inspection and Certification	11.413	11,063	-
Coastal Zone Management Administration Awards	11.419	2,381,318	1,448,513
Marine Sanctuary Program	11.429	159,245	-
Pacific Fisheries Data Program	11.437	596,283	-
Meteorologic and Hydrologic Modernization Development	11.467	441,710	-
Unallied Science Program	11.472	313,746	-
Office for Coastal Management	11.473	38,858	-
Coral Reef Conservation Program	11.482	651,950	-
State and Local Implementation Grant Program	11.549	17,475	-
Manufacturing Extension Partnership	11.611	800,830	-

(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, 2019**

<b>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
Economic Development Cluster			
Investments for Public Works and Economic Development Facilities	11.300	2,700,000	-
Economic Adjustment Assistance	11.307	177,174	68,313
Total Economic Development Cluster		2,877,174	68,313
<b>Total U.S. Department of Commerce</b>		9,190,979	1,516,826
<b>U.S. DEPARTMENT OF DEFENSE</b>			
U.S. Department of Defense Direct Programs			
Collaborative Research and Development	12.114	901,759	-
National Guard Military Operations and Maintenance Projects	12.401	20,879,879	-
National Guard ChalleNGe Program	12.404	5,125,729	-
Air Force Defense Research Sciences Program	12.800	436,537	-
<b>Total U.S. Department of Defense</b>		27,343,904	-
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
U.S. Department of Housing and Urban Development Direct Program			
Fair Housing Assistance Program – State and Local	14.401	91,343	-
<b>Total U.S. Department of Housing and Urban Development</b>		91,343	-
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
U.S. Department of the Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	33,029	-
Coastal Wetlands Planning, Protection and Restoration	15.614	221,632	-
Cooperative Endangered Species Conservation Fund	15.615	4,609,489	-
Sportfishing and Boating Safety Act	15.622	134,687	-
Enhanced Hunter Education and Safety	15.626	62,023	-
Coastal Program	15.630	12,220	-
Partners for Fish and Wildlife	15.631	156,898	-
State Wildlife Grants	15.634	798,645	-
National Wildlife Refuge System Enhancements	15.654	988	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	528,104	-
Economic, Social and Political Development of the Territories	15.875	119,903	-
Historic Preservation Fund Grants-In-Aid	15.904	469,862	-
National Maritime Heritage Grants	15.925	45,899	45,899
Natural Resource Stewardship	15.944	19,720	-
Fish and Wildlife Cluster			
Sport Fish Restoration	15.605	3,344,440	283,859
Wildlife Restoration and Basic Hunter Education	15.611	5,248,089	-
Total Fish and Wildlife Cluster		8,592,529	283,859
<b>Total U.S. Department of the Interior</b>		15,805,628	329,758
<b>U.S. DEPARTMENT OF JUSTICE</b>			
U.S. Department of Justice Direct Programs			
Domestic Cannabis Eradication Suppression Program	16.U01	167,595	-
Services for Trafficking Victims	16.320	165,753	153,227
Crime Victim Compensation	16.576	91,000	-
Equitable Sharing Program	16.922	55,924	-
Total U.S. Department of Justice Direct Programs		480,272	153,227

(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, 2019**

<b>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
Pass-through from the State Department of the Attorney General			
Crime Victim Assistance (15-VA-24 and 16-VA-23)	16.575	216,805	-
Crime Victim Assistance/Discretionary Grants (16-XT-01)	16.582	17,449	-
Violence Against Women Formula Grants (15-WF-10)	16.588	35,653	-
Residential Substance Abuse Treatment for State Prisoners (13-RT-01, 14-RT-01, 15-RT-01 and 16-RT-01)	16.593	126,369	-
Edward Byrne Memorial Justice Assistance Grant Program (16-DJ-05)	16.738	37,719	-
Total U.S. Department of Justice Pass-through Programs		433,995	-
<b>Total U.S. Department of Justice</b>		<b>914,267</b>	<b>153,227</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	654,431	-
Compensation and Working Conditions	17.005	94,794	-
Unemployment Insurance	17.225	182,295,118	-
Senior Community Service Employment Program	17.235	1,551,079	1,512,773
Trade Adjustment Assistance	17.245	574,661	-
H-1B Job Training Grants	17.268	341,840	-
Work Opportunity Tax Credit Program	17.271	72,900	-
Temporary Labor Certification for Foreign Workers	17.273	56,287	-
WIOA National Dislocated Workers Grants / WIA National Emergency Grants	17.277	379,924	-
WIA / WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281	64,913	-
Apprenticeship USA Grants	17.285	767,601	-
Occupational Safety and Health – State Program	17.503	1,591,013	-
Consultation Agreements	17.504	507,047	-
Employment Service Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207	3,731,275	-
Disabled Veterans' Outreach Program	17.801	507,959	-
Local Veterans' Employment Representative Program	17.804	293,514	-
Total Employment Service Cluster		4,532,748	-
WIOA Cluster			
WIOA Adult Program	17.258	1,937,980	1,296,564
WIOA Youth Activities	17.259	1,511,849	1,307,549
WIOA Dislocated Worker Formula Grants	17.278	1,014,048	768,646
Total WIOA Cluster		4,463,877	3,372,759
<b>Total U.S. Department of Labor</b>		<b>197,948,233</b>	<b>4,885,532</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
U.S. Department of Transportation Direct Program			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	645,287	-
Pass-through from the State Department of Transportation			
Federal Transit Administration			
Federal Transit – Capital Investment Grants (Federal Transit Cluster) (HI-03-0038-00)	20.500	117,678	-
<b>Total U.S. Department of Transportation</b>		<b>762,965</b>	<b>-</b>

(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, 2019**

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. DEPARTMENT OF THE TREASURY</b>			
U.S. Department of Treasury Direct Program State Small Business Credit Initiative	21.U01	6,024,005	-
<b>Total U.S. Department of the Treasury</b>		<u>6,024,005</u>	<u>-</u>
<b>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>			
U.S. Equal Employment Opportunity Commission Direct Program Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	78,419	-
<b>Total U.S. Equal Employment Opportunity Commission</b>		<u>78,419</u>	<u>-</u>
<b>U.S. GENERAL SERVICES ADMINISTRATION</b>			
U.S. General Services Administration Direct Program Donation of Federal Surplus Personal Property	39.003	2,194,225	-
<b>Total U.S. General Services Administration</b>		<u>2,194,225</u>	<u>-</u>
<b>U.S. NATIONAL ENDOWMENT FOR THE ARTS</b>			
U.S. National Endowment for the Arts Direct Program Promotion of the Arts – Partnership Agreements	45.025	625,164	258,098
<b>Total U.S. National Endowment for the Arts</b>		<u>625,164</u>	<u>258,098</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
U.S. Small Business Administration Direct Program Federal and State Technology Partnership Program	59.058	45,302	-
State Trade Expansion	59.061	474,580	-
<b>Total U.S. Small Business Administration</b>		<u>519,882</u>	<u>-</u>
<b>U.S. DEPARTMENT OF VETERANS AFFAIRS</b>			
U.S. Department of Veterans Affairs Direct Program Veterans Cemetery Grants Program	64.203	1,590,876	-
<b>Total U.S. Department of Veterans Affairs</b>		<u>1,590,876</u>	<u>-</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
U.S. Environmental Protection Agency Direct Programs Healthy Watersheds Consortium Grant Program / Soil and Water Conservation	66.441	15,655	-
Performance Partnership Grants	66.605	292,846	-
<b>Total U.S. Environmental Protection Agency Direct Programs</b>		<u>308,501</u>	<u>-</u>
Pass-through from the State Department of Health Capitalization Grant for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster) (HDOH/SDWB-CWRM)	66.468	145,655	-
<b>Total U.S. Environmental Protection Agency</b>		<u>454,156</u>	<u>-</u>
<b>U.S. DEPARTMENT OF ENERGY</b>			
U.S. Department of Energy Direct Programs State Energy Program	81.041	254,280	-
Weatherization Assistance for Low-Income Persons	81.042	185,440	165,770
State Energy Program Special Projects	81.119	46,871	23,390
<b>Total U.S. Department of Energy</b>		<u>486,591</u>	<u>189,160</u>

(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, 2019**

<b>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Pass-through from the State Department of Education Title I State Agency Program for Neglected and Delinquent Children and Youth (S013A150011)	84.013A	3,109	-
Pass-through from the State Department of Human Services Rehabilitation Services Vocational Rehabilitation Grants to States (DHS 16VR-3107 and 18VR-4262)	84.126	386,590	-
Pass-through from the University of Hawaii Career and Technical Education – Basic Grants to States (V048A40011)	84.048A	42,954	-
Total U.S. Department of Education Pass-through Programs		432,653	-
<b>Total U.S. Department of Education</b>		432,653	-
<b>U.S. ELECTION ASSISTANCE COMMISSION</b>			
U.S. Election Assistance Commission Direct Program Help America Vote Act Requirements Payments	90.401	845,657	-
<b>Total U.S. Election Assistance Commission</b>		845,657	-
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
U.S. Department of Health and Human Services Direct Programs Food and Drug Administration Research	93.103	165,689	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	2,011,846	-
Refugee and Entrant Assistance – State Administered Programs	93.566	81,688	74,365
Community Services Block Grant	93.569	3,837,802	3,645,058
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations & Evaluations	93.779	96,585	-
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881	334,954	-
Total U.S. Department of Health and Human Services Direct Programs		6,528,564	3,719,423
Pass-through from the State Department of Human Services Temporary Assistance for Needy Families (TANF Cluster) (DHS-16-ETPO-3064 and DHS-17-ETPO-4031)	93.558	883,448	180,514
Low-Income Home Energy Assistance (G-18B1HILIEA and G-1901HILIEA)	93.568	366,478	342,553
Total U.S. Department of Health and Human Services Pass-through Programs		1,249,926	523,067
<b>Total U.S. Department of Health and Human Services</b>		7,778,490	4,242,490

(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, 2019**

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<u>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
U.S. Department of Homeland Security Direct Programs			
Boating Safety Financial Assistance	97.012	749,216	-
Community Assistance Program State Support Services Element	97.023	63,647	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	5,174,803	3,605,510
National Dam Safety Program	97.041	82,663	-
Emergency Management Performance Grants	97.042	3,594,926	658,489
Cooperating Technical Partners	97.045	17,608	-
Pre-Disaster Mitigation	97.047	108,023	56,250
Port Security Grant Program	97.056	483,595	483,595
Homeland Security Grant Program	97.067	3,428,564	2,641,715
Preparing for Emerging Threats and Hazards	97.133	179,983	-
<b>Total U.S. Department of Homeland Security</b>		<b>13,883,028</b>	<b>7,445,559</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 297,992,106</b>	<b>\$ 22,490,327</b>

(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, 2019

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#### 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, 2019**

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**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 CFDA No. 39.003, *Donation of Federal Surplus Personal Property Program*, and food commodities received under CFDA 10.553, *School Breakfast Program*, CFDA No. 10.555, *National School Lunch Program*, and CFDA No. 10.569, *Emergency Food Assistance Program*, are 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 \$182,295,118 reported as expenditures for CFDA No. 17.225, *Unemployment Insurance Program*, \$167,193,338 represented expenditures of the State.

**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 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, 2019**

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**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		
Urban and Community Forestry Program	10.675	\$ 123,467
Forest Stewardship Program	10.678	53,835
Total U.S. Department of Agriculture		<u>177,302</u>
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	53,766
Marine Sanctuary Program	11.429	159,245
Pacific Fisheries Data Program	11.437	596,283
Coral Reef Conservation Program	11.482	651,950
Total U.S. Department of Commerce		<u>1,461,244</u>
U.S. Department of Defense Direct Programs		
Collaborative Research and Development	12.114	901,759
Air Force Defense Research Sciences Program	12.800	436,537
Total U.S. Department of Defense		<u>1,338,296</u>
U.S. Department of the Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	33,029
Cooperative Endangered Species Conservation Fund	15.615	4,609,489
State Wildlife Grants	15.634	798,645
National Wildlife Refuge System Enhancements	15.654	988
Economic, Social and Political Development of the Territories	15.875	119,903
Natural Resource Stewardship	15.944	19,720
Total U.S. Department of the Interior		<u>5,581,774</u>
Total Research and Development Cluster		<u>\$ 8,558,616</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• 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
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

An unmodified opinion was issued on the State of Hawaii’s compliance with its major federal programs for the year ended June 30, 2019, except for the requirements regarding allowable costs, period of performance, and reporting for CFDA No. 12.404, *National Guard Challenge Program*, earmarking requirements for CFDA No. 15.904, *Historic Preservation Fund Grants-in-Aid*, and subrecipient monitoring for CFDA No. 97.042, *Emergency Management Performance Grants*, for which the opinion on compliance was qualified.

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
Dollar threshold used to distinguish between type A and type B program	\$ 3,000,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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**Identification of Major Programs**

<b>Federal CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
10.676	Forest Legacy Program
12.404	National Guard ChalleNGe Program
15.904	Historic Preservation Fund Grants-In-Aid
17.225	Unemployment Insurance
21.U01	State Small Business Credit Initiative
93.569	Community Services Block Grant
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.042	Emergency Management Performance Grants
	<b>WIOA Cluster</b>
17.258	WIOA Adult Program
17.259	WIOA Youth Activities
17.278	WIOA Dislocated Worker Formula Grants
	<b>Research and Development (R&amp;D) Cluster</b>
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
11.482	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
15.634	State Wildlife Grants
15.654	National Wildlife Refuge System Enhancements
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, 2019**

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**Section II – Financial Statement Findings**

**Finding No. 2019-001: 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 2019 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 2019, 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. 2018-001.

**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 generally accepted accounting principles 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 2019 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, 2019**

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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 projects are properly classified as in-progress, transferred to the proper depreciable asset class when placed in service, or written off as expenses if abandoned or otherwise not capitalized. Departments should ensure capital assets schedules provided to DAGS are complete and accurate.

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, 2019**

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**Finding No. 2019-002: 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, 2019 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, 2019 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. 2018-002.

**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, 2019**

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**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>
<b>Discretely presented component units</b>			
Stadium Authority	\$ 10.9	\$ 13.2	\$ 97.3
Hawaii Strategic Development Corporation	1.5	10.0	0.5
Hawaii Technology Development Corporation	5.8	13.7	4.3
Natural Energy Laboratory of Hawaii	4.9	6.0	9.2
Agribusiness Development Corporation	2.9	4.3	73.2
<b>Nonmajor proprietary funds</b>			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 3.9	\$ 3.5	\$ 15.1
Department of Accounting and General Services – State Motor Pool Fund	2.4	2.8	2.8
Department of Public Safety – Correctional Industries Fund	4.0	4.3	0.1
Department of Labor and Industrial Relations – Disability Compensation Fund	14.8	15.5	14.4

**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. 34 and 61, 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. 34 and 61 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, 2019**

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**Finding No. 2019-003: IT General Control Deficiencies (Material Weakness)**

**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, 2019, we performed an IT general controls review of selected State departments’ systems, including the following systems operated by the Department of Taxation (DoTAX), Department of Labor and Industrial Relations (DLIR), and DAGS:

<b>DoTAX</b>	<b>DLIR</b>	<b>DAGS</b>
ITIMS Tax Processing System (“ITPS”)	UI BPS	FAMIS
eFile (as it relates to data received from Hawaii Information Consortium)	UI Tax	HawaiiPay
GenTax	QWRS	Legacy Payroll

Our review resulted in IT control deficiencies in the areas of logical security, change management, and IT Operations.

Logical security

*DoTAX*

- There is weak password security on the ITPS.
- ITPS user access reviews are not performed on an annual basis.
- GenTax user access reviews are not performed on an annual basis.
- Monitoring of unauthorized changes to the GenTax database is not performed.

*DLIR*

- Terminated users are not consistently removed in a timely manner.
- QWRS user access review was not performed on an annual basis.
- There is no evidence to support that network security is in place to restrict access to the UI Employer Website and detect unauthorized activity.

*DAGS*

- Temporary administrator accounts were not reset in accordance with Office of Enterprise Technology Services (ETS) policies and procedures, resulting in unauthorized changes to the FAMIS production environment.
- An annual user access review of permissions assigned to security roles within HawaiiPay was not performed.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2019

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#### Change management

##### *DoTAX*

- Developers have access to the production environment in the ITPS and a shared account is used.

##### *DLIR*

- Developers have access to the production environment.
- There is no evidence to support that developers are properly segregated from the production environment for the UI Employer Website and no monitoring control in place to detect unauthorized changes.

##### *DAGS*

- ETS 101 S1 Request Forms for the Legacy Payroll system were not properly tracked to completion and evidence to support testing and user acceptance for implemented changes were not retained.
- Promotion to production request forms were approved without verification that testing was completed and accepted as required in the current change management procedures.

#### IT Operations

##### *DoTAX*

- Batch processes and interfaces for the ITPS system are not monitored to detect and follow up on errors or failures.

##### *DLIR*

- There is no evidence to support that the UI Employer Website is being backed up and monitored for successful completion.
- There is no evidence to support that backups for the UI Employer Website is stored offsite.
- There is no evidence to support that the UI Employer Website can be recovered in the event of a disaster.

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

A similar finding was reported as a significant deficiency in the prior year as Finding No. 2018-003.

#### **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.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2019

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#### **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.

#### IT Operations

Internal controls in the area of IT operations address the risk that the Department may be unable to correct or recover from data loss, corruption, or data integrity issues.

#### **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 DoTAX, DLIR and DAGS perform the following:

#### Logical security

##### *DoTAX*

- As ITPS has been decommissioned in October 2019, no further action is required to remediate logical security deficiencies.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the GenTax system.
- Implement monitoring procedures to detect unauthorized changes to the GenTax database.

##### *DLIR*

- Implement periodic terminated user reviews.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the QWRS system.
- Ensure there is documented evidence to support that network security is in place to restrict access to the UI Employer Website and detect unauthorized activity.

##### *DAGS*

- Reset temporary administrator accounts in accordance with ETS policies and procedures.
- Ensure user access rights are commensurate with job responsibilities for the HawaiiPay system.

# State of Hawaii

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2019

---

#### Change management

##### *DoTAX*

- As ITPS has been decommissioned in October 2019, no further action is required to remediate change management deficiencies.

##### *DLIR*

- Remove developers' access to the UI BPS, UI Tax, and QWRS production environment.
- Ensure there is documented evidence to support that developer access to the UI Employer Website is properly restricted from the production environment.

##### *DAGS*

- As the Legacy Payroll system was replaced with HawaiiPay, no further action is required to remediate this deficiency.
- Ensure ETS change management policies and procedures are consistently followed.

#### IT Operations

##### *DoTAX*

- As ITPS was decommissioned in October 2019, no further action is required to remediate IT operation deficiencies.

##### *DLIR*

- Ensure there is documented evidence to support that data for the UI Employer Website is backed up regularly, monitored for completion, and replicated to an offsite location.
- Perform documented test restorations from backups or disaster recovery exercises to ensure the UI Employer Website is able to recover from a disaster.

**FEDERAL AWARD FINDINGS  
AND QUESTIONED COSTS**

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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**Section III – Federal Award Findings and Questioned Costs**

**Finding No. 2019-004: Schedule of Expenditures of Federal Awards (SEFA)**  
**(Significant Deficiency)**

**Condition**

The State's current accounting process for certain departments 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. 2018-004.

**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, there were misstatements in the SEFA for the year ended June 30, 2019 that were not detected by management's internal controls, but were subsequently identified and corrected as part of our auditing procedures.

- For CFDA No. 10.553, *School Breakfast Program*, and CFDA No. 10.555, *National School Lunch Program*, amounts received from a pass-through entity were initially understated by approximately \$59,000 and \$91,000, respectively, due to misclassification.
- For CFDA No. 15.904, *Historic Preservation Fund Grants-In-Aid*, amounts expended were initially overstated by approximately \$286,000.
- For CFDA No. 16.U01, *Domestic Cannabis Eradication Suppression Program*, amounts expended were understated by \$63,000 due to misclassification.
- For CFDA No. 21.U01, *State Small Business Credit Initiative*, amounts reported as provided to subrecipients were overstated by approximately \$6,024,000.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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**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, 2019, 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, including reporting expenditures funded by pass-through entities.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-005:</b>	<b>Allowable Costs (Material Weakness)</b>	<b><u>\$ 3,617,688</u></b>
<b>State Agency:</b>	Department of Defense (DOD)	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.404 – National Guard ChalleNGe Program	
<b>Award Number and Award Year:</b>	W912-J6-18-2-4001      2019 W912-J6-18-2-400K      2019	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined a non-statistical sample of 15 payroll expenditures and identified there were no certifications for any of the 15 employees selected for testing.

**Criteria**

In accordance to the Office of Management and Budget (OMB) Circular A-87, when employees work on a single federal award or cost objective, the entity is required to provide at least semi-annually certifications that employees worked solely on the assigned program. Certifications must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

**Effect**

Failure to obtain certifications or other equivalent employee compensation support resulted in noncompliance with federal grant requirements. Without such support, it is unclear whether the employees worked solely on the federal program.

**Cause and View of Responsible Officials**

Due to an unexpected vacancy in the budget officer position, department personnel were unable to fully perform the budget officer's duties, which included the certifications.

**Recommendation**

We recommend that management ensure that program personnel are familiar with all grant requirements, including the requirements in OMB Circular A-87. Management should develop procedures to ensure payroll expenditures charged to federal awards are adequately supported.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-006:</b>	<b>Period of Performance (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DOD	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.404 – National Guard ChalleNGe Program	
<b>Award Number and Award Year:</b>	W912-J6-16-2-4001      2017	
	W912-J6-16-2-400K      2017	
	W912-J6-17-2-4001      2018	
	W912-J6-17-2-400K      2018	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we noted four instances where there was no available evidence to verify the award closeout reports were prepared. While there were no expenditures under the awards during fiscal year 2019, it does not appear the State closed the awards in a timely matter.

**Criteria**

National Guard Regulation (NGR) 5-1, Section 11-10 requires final accounting and settlement within 90 days after the end of the federal fiscal year, or upon termination or closeout of an award, whichever is earlier.

**Effect**

Failure to submit 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**

Due to an unexpected vacancy in the budget officer position, department personnel were unable to fully perform the budget officer’s duties, which included the close-out of agreements.

**Recommendation**

We recommend that the State department follow the policies and procedures established to comply with period of performance requirements.

**State of Hawaii  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-007:</b>	<b>Reporting (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DOD	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	12.404 – National Guard ChalleNGe Program	
<b>Award Number and Award Year:</b>	W912-J6-18-2-4001      2019 W912-J6-18-2-400K      2019	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we selected a non-statistical sample of four Quarterly Budget Summary Reports to examine and identified three instances where there was no available evidence to verify the reports were prepared.

**Criteria**

The National Guard Master Youth Program Cooperative Agreement requires Quarterly Budget Summary Reports to be submitted within 30 days after the end of each quarter.

**Effect**

The failure to file required reports reduces transparency on the use of program funds hindering monitoring by the awarding agency.

**Cause and View of Responsible Officials**

Due to an unexpected vacancy in the budget officer position, department personnel were unable to fully perform the budget officer’s duties, which included report preparation.

**Recommendation**

We recommend the State department implement adequate review of reports and ensure that individuals responsible for preparing and reviewing reports have adequate knowledge of reporting requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-008:</b>	<b>Cash Management (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	Department of Land and Natural Resources (DLNR)	
<b>Federal Agency:</b>	Department of the Interior	
<b>CFDA Number and Title:</b>	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
<b>Award Number and Award Year:</b>	F17AF01091                      2017	
<b>Repeat Finding?</b>	Yes, Finding No. 2018-009	

**Condition**

During our audit, we examined 14 haphazardly selected cash disbursements and identified two instances totaling approximately \$52,000 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 two instances, the time elapsed was 26 and 74 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 the Department of Budget and Finance (B&F) and payments through DAGS resulting in processing delays.

**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, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-009:</b>	<b>Suspension and Debarment (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of the Interior	
<b>CFDA Number and Title:</b>	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
<b>Award Number and Award Year:</b>	F18AF01203                      2019	
<b>Repeat Finding?</b>	Yes, Finding No. 2018-010	

**Condition**

During our audit, we examined one contract executed in fiscal year 2019 but found no evidence indicating that DLNR verified whether the contractor was not federally suspended or debarred. We verified that the vendor was not suspended or debarred in the System for Award Management (SAM), an official website for the U.S. Government.

**Criteria**

According to 2 CFR 200.213, regulations restrict awards, subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from, ineligible from, or ineligible for participation in federal assistance programs or activities. Therefore, verification is required that either checks the SAM, collects a certification from the contractor, or adds a clause or condition to the contract.

**Effect**

Without performing a verification as noted in the above criteria, there is a possibility the contractor is suspended or debarred from receiving federal funds which could result in the State losing future federal funding.

**Cause and View of Responsible Officials**

The personnel responsible for procurement indicated that a review of the federal SAM website was performed prior to the execution of the contract extension; however, no formal documentation of the review was retained in the contract file.

**Recommendation**

The State department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for procurement of contracts, including requirements to ensure that vendors for federally funded contracts are checked against the federal SAM website to ensure the contractor is not suspended or debarred from receiving federal funds. Evidence of verification checks should also be maintained in the contract file and reviewed by the responsible person(s).

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-010:</b>	<b>Earmarking (Material Weakness)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of the Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	P17AF00042                      2017 P18AF00101                      2018	
<b>Repeat Finding?</b>	Yes, Finding No. 2018-012	

**Condition**

During our audit, we noted 10% of federal funds awarded were not obligated to certified local governments (CLGs) within the first year of the award P18AF00101, and 10% of the federal funds were not expended for transfers to local governments by the end of the second year for award P17AF00042.

**Criteria**

Recipients are required to pass through at least 10% of each year’s award as subgrants to CLGs or they will be 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 CLGs for historic preservation projects or programs of the CLGs.

**Effect**

Failure to comply with the awards earmarking requirements results in noncompliance with the terms of the award and may result in the recapture of funds by the awarding agency.

**Cause and View of Responsible Officials**

NPS funding of the Historic Preservation Fund Grants-in-Aid program to the State Historic Preservation Division (SHPD) was not awarded until late in the grant years. Award P18AF00101, with a grant period of October 1, 2017 through September 30, 2020, was issued on August 26, 2019, after the end of the first year of the award. In addition, the second and final modification to Award P17AF00042 extended the grant through September 30, 2018 and included the final increment of federal funds but was not received until August 15, 2018, which left only one month left in the grant period.

**Recommendation**

The State department should continue to work with the federal awarding agency and seek guidance on how it can meet earmarking requirements when there are delays in the awarding of the federal grants.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		Questioned Cost
<b>Finding No. 2019-011:</b>	<b>Special Tests and Provisions (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DLNR	
<b>Federal Agency:</b>	Department of the Interior	
<b>CFDA Number and Title:</b>	15.904 – Historic Preservation Fund Grants-In-Aid	
<b>Award Number and Award Year:</b>	P17AF00042                      2017 P17AF00003                      2016	
<b>Repeat Finding?</b>	Yes, Finding No. 2018-013	

**Condition**

During our audit, we examined six National Register property nominations and noted there was no available evidence to verify that 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.

**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 SHPD 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. For award year 2018, memorandums of understanding or agreement with Native Hawaiian organizations in assessing the cultural significance of the nominated properties is no longer a grant requirement.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		Questioned Cost
<b>Finding No. 2019-012:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<u>\$</u> _____ <b>–</b>
<b>State Agency:</b>	DLIR	
<b>Federal Agency:</b>	Department of Health and Human Services	
<b>CFDA Number and Title:</b>	93.569 – Community Services Block Grant	
<b>Award Number and Award Year:</b>	75-17-1536                      2017 75-18-1536                      2018 75-19-1536                      2019	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined a non-statistical sample of three subawards but found no evidence of evaluation of the subrecipients' risk of noncompliance at the time of the subaward.

**Criteria**

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

**Effect**

Without evaluating the subrecipient's risk of noncompliance and determining the appropriate subrecipient monitoring procedures necessary, the State department may not be providing the appropriate level of monitoring over its subrecipients.

**Cause and View of Responsible Officials**

The failure to evaluate each subrecipient's risk of noncompliance at the time of subaward was due to a change in program personnel at the time of the subrecipient contract's execution. As such, program personnel were unaware of the risk assessment requirement.

**Recommendation**

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200 which requires the reporting of all necessary federal award information to subrecipients and risk assessments of subrecipients. Management should work with the federal agency to develop procedures that ensure the State department's responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient's risk of noncompliance with each of the respective subaward requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-013:</b>	<b>Subrecipient Monitoring (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>State Agency:</b>	DOD	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	97.036 – Disaster Grants – Public Assistance (Presidential Declared Disasters)	
<b>Award Number and Award Year:</b>	FEMA-4365-DR-HI      2019 FEMA-4366-DR-HI      2019 FEMA-4282-DR-HI      2019	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined a non-statistical sample of four subawards but found no evidence of evaluation of the subrecipients' risk of noncompliance at the time of the subaward.

**Criteria**

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

**Effect**

Without evaluating the subrecipient's risk of noncompliance and determining the appropriate subrecipient monitoring procedures necessary, the State department may not be providing the appropriate level of monitoring over its subrecipients.

**Cause and View of Responsible Officials**

Due to lack of formal procedures, program management was unaware of the subrecipient monitoring requirements.

**Recommendation**

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200 which requires the reporting of all necessary federal award information to subrecipients and risk assessments of subrecipients. Management should work with the federal agency to develop procedures that ensure the State department's responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient's risk of noncompliance with each of the respective subaward requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring.

Starting award year 2020, program management will utilize a formal risk assessment form when determining the appropriate subrecipient monitoring related to the subaward.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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		<b>Questioned Cost</b>
<b>Finding No. 2019-014:</b>	<b>Subrecipient Monitoring (Material Weakness)</b>	<b>\$ _____ –</b>
<b>State Agencies:</b>	DOD	
<b>Federal Agency:</b>	Department of Defense	
<b>CFDA Number and Title:</b>	97.042 – Emergency Management Performance Grants	
<b>Award Number and Award Year:</b>	EMF-2018-EP-00006-S-01 2019	
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we tested a non-statistical sample of three subawards for two subrecipients and determined that in all three instances the State department did not comply with subrecipient monitoring requirements:

- The State department did not provide all required federal award information in the subaward contracts.
- The State department also did not evaluate the subrecipients' risk of noncompliance at the time of the subaward.

**Criteria**

2 CFR Section 200.331(a) requires subawards to clearly identify information, such as the Federal Award Identification Number, identification of whether the award is R&D, and indirect cost rate.

2 CFR Section 200.331(b) requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

**Effect**

By not including the required information in the subaward, subrecipients may have trouble complying with federal grant requirements.

Without evaluating the subrecipient's risk of noncompliance and determining the appropriate subrecipient monitoring procedures necessary, the State department may not be providing the appropriate level of monitoring over its subrecipients.

**Cause and View of Responsible Officials**

Due to lack of formal policies and procedures and personnel training, program management was unaware of the monitoring requirements.

**State of Hawaii**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

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**Recommendation**

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200 which requires the reporting of all necessary federal award information to subrecipients and risk assessments of subrecipients. Management should work with the federal agency to develop procedures that ensure the State department's responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient's risk of noncompliance with each of the respective subaward requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring.

DAVID Y. IGE  
GOVERNOR



CURT T. OTAGURO  
COMPTROLLER  
AUDREY HIDANO  
DEPUTY COMPTROLLER

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

March 13, 2020

ACC 20.U006

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

Gentlemen:

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, 2019. 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 Ms. Lenora D. Fisher, Accounting Division at 586-0600.

Sincerely,

A handwritten signature in black ink, appearing to read "Curt T. Otaguro".

CURT T. OTAGURO  
Comptroller

Attachments

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2019**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2018-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2019-001
2018-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2019-002
2018-003	IT General Control Deficiencies	DLIR; DoTAX	Significant Deficiency		X	2019-003
2018-004	Schedule of Expenditures of Federal Awards	DAGS	Significant Deficiency		X	2019-004
2018-005	Cash Management	Department of Business, Economic Development and Tourism (DBEDT)	Material Weakness	X		
2018-006	Cash Management	DLNR	Significant Deficiency	X		
2018-007	Suspension and Debarment	DLNR	Significant Deficiency		X	
2018-008	Equipment Management	DLNR	Significant Deficiency		X	
2018-009	Cash Management	DLNR	Significant Deficiency		X	2019-008
2018-010	Suspension and Debarment	DLNR	Significant Deficiency		X	2019-009
2018-011	Reporting	DLNR	Significant Deficiency	X		
2018-012	Earmarking	DLNR	Material Weakness		X	2019-010
2018-013	Special Tests and Provisions	DLNR	Significant Deficiency		X	2019-011
2018-014	Cash Management	DLIR and B&F	Material Weakness	X		

(continued)

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2019**

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Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2018-015	Cash Management	DLIR	Significant Deficiency	X		
2018-016	Earmarking	DLIR	Material Weakness	X		
2018-017	Subrecipient Monitoring	DLIR	Significant Deficiency	X		
2017-006	Reporting	DBEDT	Significant Deficiency	X		
2017-010	Reporting	DBEDT	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, 2019

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#### Corrective Actions Taken for Unresolved Findings

##### **Finding No. 2018-001: Internal Control Over Financial Reporting**

In fiscal year 2019, DAGS requested formal reporting information packages from State departments but did not receive timely and accurate responses from some departments. As a current year finding (Finding No. 2019-001) is reported, Finding No. 2018-001 will not be carried forward.

##### **Finding No. 2018-002: Accounting for Component Units and Proprietary Funds**

No corrective action was taken in fiscal year 2019. As a current year finding (Finding No. 2019-002) is reported, Finding No. 2018-002 will not be carried forward.

##### **Finding No. 2018-003: IT General Control Deficiencies**

Corrective actions were taken in fiscal year 2019 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2019-003) is reported, Finding No. 2018-003 will not be carried forward.

##### **Finding No. 2018-004: 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, 2019. As a current year finding (Finding No. 2019-004) is reported, Finding No. 2018-004 will not be carried forward.

##### **Finding No. 2018-007: Suspension and Debarment**

DLNR has implemented stronger internal controls and is working on improving additional processes to be compliant with suspension and debarment requirements.

##### **Finding No. 2018-008: Equipment Management**

DLNR has implemented stronger internal controls and is working on improving additional processes to be compliant with equipment management requirements.

##### **Finding No. 2018-009: Cash Management**

DLNR continues to improve its internal controls to be in compliance with cash management requirements. As a current year finding (Finding No. 2019-008) is reported, Finding No. 2018-009 will not be carried forward.

##### **Finding No. 2018-010: Suspension and Debarment**

DLNR has been working with the Federal Agency to clarify the memorandum of understanding/agreement requirements. As a current year finding (Finding No. 2019-009) is reported, Finding No. 2018-010 will not be carried forward.

##### **Finding No. 2018-012: Earmarking**

DLNR continues to improve its internal controls to be in compliance with earmarking requirements. As a current year finding (Finding No. 2019-010) is reported, Finding No. 2018-012 will not be carried forward.

##### **Finding No. 2018-013: Special Tests and Provisions**

DLNR has been working with the Federal Agency to clarify the memorandum of understanding/agreement requirements. As a current year finding (Finding No. 2019-011) is reported, Finding No. 2018-013 will not be carried forward.

##### **Finding No. 2014-025: Reporting**

DOD has been working with the Federal Agency to be in compliance with the Federal Accountability and Transparency Act (FFATA) reporting requirements.

**State of Hawaii**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2019**

---

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

DLNR has implemented stronger internal controls and is working on enforcing the process to ensure that new equipment purchases are reported in a timely matter.

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

DPS has implemented stronger internal controls and is working on improving processes to minimize the unrecorded and untimely recording of equipment purchases.

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

Additional funding to assist the programs in addressing Inmate Accounts issues was requested but not approved. Thus, no corrective action was taken in fiscal year 2019. Implementation of the corrective action is anticipated to be completed by December 2020 pending budget approval.

# **CORRECTIVE ACTION PLAN**



**STATE OF HAWAII**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2019**

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**2019-003 – IT General Control Deficiencies (Material Weakness) (Page 22)**

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

***DLIR:***

**Logical security**

Terminated users are not consistently removed in a timely manner

Corrective Action Plan

Concur. DLIR is developing a process to have Human Resources notify the IT Department of any terminated employees.

Person Responsible                      Bennett Yap, DLIR IT Chief

Anticipated Date of Completion      June 30, 2020

QWRS user access was not performed on annual basis

Corrective Action Plan

Concur. DLIR-IT will schedule annual user access review.

Person Responsible                      Wendy Maher, DLIR-UI Specialist Supervisor

Anticipated Date of Completion      June 30, 2020

No evidence to support that network security is in place to restrict access to the UI Employer Website and detect unauthorized activity

Corrective Action Plan

Concur. DLIR is working with the vendor to understand controls and/or have access to a SOC-1 report.

Person Responsible                      Bennett Yap, DLIR IT Chief

Anticipated Date of Completion      June 30, 2020



**STATE OF HAWAII**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2019**

---

No evidence to support that backups for the UI Employer Website is stored offsite

Corrective Action Plan

Concur. DLIR is working with the vendor to understand controls and/or have access to a SOC-1 report.

Person Responsible                      Bennett Yap, DLIR IT Chief

Anticipated Date of Completion      June 30, 2020

No evidence to support that the UI Employer Website can be recovered in the event of a disaster

Corrective Action Plan

Concur. DLIR is working with the vendor to understand controls and/or have access to a SOC-1 report.

Person Responsible                      Bennett Yap, DLIR IT Chief

Anticipated Date of Completion      June 30, 2020

***DOTAX:***

**Logical security**

Weak password security on the ITPS

Corrective Action Plan

Concur. ITPS was decommissioned on 11/1/19. Thus, this risk was mitigated.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Completed

ITPS user access reviews are not performed on an annual basis

Corrective Action Plan

Concur. ITPS was decommissioned on 11/1/19. Thus, this risk was mitigated.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Completed

**STATE OF HAWAII**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2019**

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GenTax user access reviews are not performed on an annual basis

Corrective Action Plan

Not Concur. As indicated in our June 30, 2018 response, the Department does not concur with this finding. User access in GenTax was reviewed in February 2018 and 2019.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Not applicable

Monitoring of unauthorized changes to the GenTax database is not performed

Corrective Action Plan

Concur. As indicated in our June 30, 2018 Corrective Action Plan, the Department has resolved this issue as described in the FY18 Corrective Action Plan.

The GenTax SQL Server databases have auditing configured following IRS 1075 guidelines (SQLGEN-14). The GenTax SQL Server database audit logs are reviewed daily.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Completed

**Change management**

Developers have access to the production environment in the ITPS and a shared account is used

Corrective Action Plan

Concur. ITPS was decommissioned on 11/1/19. Thus, this risk was mitigated.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Completed

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**IT Operations**

Batch processes and interfaces for the ITPS system are not monitored to detect and follow up on errors or failures

Corrective Action Plan

Concur. ITPS was decommissioned on 11/1/19. Thus, this risk was mitigated.

Person Responsible                      Michael Otsuji, IT Project Manager

Anticipated Date of Completion      Completed

***DAGS:***

**Logical security**

Temporary administrator accounts were not reset in accordance with ETS policies and procedures, resulting in unauthorized changes to the FAMIS production environment

Corrective Action Plan

Concur. The temporary administrator account also refers to the RACF Special User Account being used by project managers/staff to access applications on the mainframe for specific purpose or activity. The RACF Special User Account will be immediately revoked upon completion of activity. The project managers/staff will notify the RACF Administrator of the completion of activity. This additional control has been tested and implemented subject for review by the Auditors.

Person Responsible                      Mario Othello Rigor, ETS SSB-AMC Section Chief

Anticipated Date of Completion      Completed, February 2020

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Annual user access review of permissions assigned to security roles within HawaiiPay not performed

Corrective Action Plan

Not Concur. Annual user access review is completed annually (including 2019). Annual review for 2020 was completed on 02/2020. DAGS HR and DAGS Payroll sign off on their respective areas. All other agencies are provided with an annual listing that they confirm and submit a Security Access Request for any changes.

Person Responsible                      Shane Arakaki, Enterprise Systems Branch Chief

Anticipated Date of Completion      Not applicable

**Change management**

ETS 101 S1 Request Forms for the Legacy Payroll system were not properly tracked to completion and evidence to support testing and user acceptance for implemented changes were not retained

Corrective Action Plan

Concur. S1 will no longer be used for HIP Payroll changes. All requests will be tracked through the Salesforce online system.

Person Responsible                      Shane Arakaki, Enterprise Systems Branch Chief

Anticipated Date of Completion      Completed.

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Promotion to production request forms were approved without verification that testing was completed and accepted as required in the current change management procedures.

Corrective Action Plan

Concur/Not concur. Permanent project groups within the ETS Client Services Branch, composed of information technology specialists have been established to provide application support for each of the following applications: FAMIS, CWWS (Central Warrant Writer) and Recon (Warrant Reconciliation).

Formal procedures have been established for the processing of user department-initiated system modifications, including the use of request forms and analysis sheets, the use of a tracking database, and the implementation of reviews and approvals.

Person Responsible                      Kyle Muranaka, IT Specialist  
                                                                                 Shirley Lee, IT Specialist

Anticipated Date of Completion      Completed.



# STATE OF HAWAII

## CORRECTIVE ACTION PLAN JUNE 30, 2019

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### **2019-006 – Period of Performance (Material Weakness) State Department of Defense**

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CFDA No. 12.404 – National Guard ChalleNGe Program  
Direct award from the U.S. Department of Defense (Award nos. W912-12J6-16-2-4001 2017, W912-12J6-16-2400K 2017, W912-12J6-17-2-4001 2018 and W912-12J6-17-2-400K 2018)

#### Corrective Action Plan

Concur. The Youth Challenge Program, going forward, will be including the required instructions and processes of the required National Guard Bureau, closeout procedures and deadlines, in the Program's amended Financial Standard Operating Procedures (SOP). Grant years 2017 and 2018 are being currently addressed for closing between the program's Budget Officer and the federal Grants Officer Representative (GOR). Apart from the lack of instructions and guidelines originally provided for closing said years and the sudden, unforeseen change of the program's Budget Officer, the program has been unable to close out said grants due to Federal cashflow related discrepancies and suspense issues. The YCA federal funds (cashflow) are awarded to the program as monthly pre-approved advances. The National Guard Bureau has thus far and continues to be inconsistent on providing the programs advances in an adequate and timely manner. Due to this, the program has on-going issues sustaining sufficient cash funds to pay its current obligated expenditures. Insufficiency has left the program unable to process a timely and proper close out. Program is actively collaborating with its federal contacts at the United States Property and Fiscal Office of Hawaii to correct cashflow discrepancies and closeout said grant years.

Person Responsible                      Ariel Matsumoto, Hawaii Youth Challenge Academy Budget Officer

Anticipated Date of Completion      March 30, 2020

### **2019-007 – Reporting (Material Weakness) State Department of Defense**

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CFDA No. 12.404 – National Guard ChalleNGe Program  
Direct award from the U.S. Department of Defense (Award nos. W912-12J6-18-2-4001 2019 and W912-12J6-18-2-400K 2019)

#### Corrective Action Plan

Concur. The Youth Challenge Program, going forward, will be including the required instructions and processes of the required National Guard Bureau, Quarterly Reports, in the Program's amended Financial Standard Operating Procedures (SOP). Beyond such, no further corrective action plan may be required as the responsible program staff member, Budget Officer, has been creating and submitting the correlating Quarterly Reports for State fiscal year 2020 and will ensure such required reports are completed and submitted going forward.







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**CORRECTIVE ACTION PLAN  
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**2019-014 – Subrecipient Monitoring (Material Weakness)  
State Department of Defense**

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CFDA No. 97.042 – Emergency Management Performance Grants  
Direct award from the U.S. Department of Defense (Award no. EMF-2018-EP-00006-S-01 2019)

Corrective Action Plan

Concur. HI-EMA revised the Subrecipient Grant Agreement Articles and Special Conditions for all Hawaii counties for the FY 2019 Emergency Management Performance Grant (EMPG) grant. This new document includes all required federal information. This was completed in the fall of 2019 as part of an improvement to document processes and procedures to support the management and administration of the EMPG program.

HI-EMA also conducted technical assistance site visits in the fall of 2019 with each county's emergency management leadership and grants management staff to discuss changes in programmatic and financial processes to be implemented with the FY2019 EMPG award.

HI-EMA began to document process and procedures in a "HI-EMA Business Function Guide – Grants", dated November 2019 and is being used in conjunction with the Hawaii Office of Homeland Security's 2018 Homeland Security Grant Program Procedural Manual to support the management and administration of EMPG program.

For the FY2019 EMPG Award, HI-EMA is leveraging the Hawaii Office of Homeland Security business process for evaluation of subrecipients' risk of non-compliance. Risk assessments were conducted for each county and the information was shared with HI-EMA. Moving forward for FY2020 EMPG, HI-EMA will be standardizing a process for a common risk assessment form for the multiple federal grant funds that are managed and administered.

Person Responsible                      Luke Meyers, Executive Officer

Anticipated Date of Completion      May 31, 2020