STATE OF HAWAI'I

OAHU METROPOLITAN PLANNING ORGANIZATION

FINANCIAL AND COMPLIANCE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH INDEPENDENT AUDITOR'S REPORT

Submitted by
The Auditor
State of Hawai'i

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
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PART I – TRANSMITTAL LETTER

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PHONE (808) 942-8868 FAX (808) 947-3628

January 12, 2016

Office of the Auditor
State of Hawai'i

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

Dear Mr. Gibson:

We have completed our financial audit of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the fiscal year ended June 30, 2015. The audit was performed in accordance with terms of our contract with the Office of the Auditor, State of Hawai'i, and with the requirements of auditing standards generally accepted in the United States of America, the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), and *Government Auditing Standards* issued by the Comptroller General of the United States.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fair presentation of OahuMPO's financial statements as of and for the fiscal year ended June 30, 2015, and to comply with the requirements of OMB Circular A-133. The objectives of our audit were as follows:

1. To provide a basis for an opinion on the fair presentation of OahuMPO's financial statements.

2. To ascertain whether expenditures have been made, and all revenues to which OahuMPO is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawai'i and the federal government.

3. To ascertain whether OahuMPO has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.

4. To ascertain whether OahuMPO has complied with the laws and regulations that may have a material effect on the financial statements and on its major federal financial assistance program.

5. To satisfy the audit requirements of the federal grantor agency.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of OahuMPO as of and for the fiscal year ended June 30, 2015.

Organization of the Report

This report is presented in five parts as follows:

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

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

Very truly yours,

Gilford Sato & Associates, CPAs, Inc.

Honolulu, Hawaii

PART II – FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Office of the Auditor
State of Hawai'i

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities of OahuMPO, as of June 30, 2015, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

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

Schedule of Federal Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OahuMPO's basic financial statement. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016, on our consideration of OahuMPO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OahuMPO's internal control over financial reporting and compliance.

Gilford Sakai Associates, CPAs, Inc.

Honolulu, Hawai'i
January 12, 2016

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

This section of the annual financial report presents an analysis of OahuMPO's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the financial statements which follows this section.

Financial Highlights

- OahuMPO's net position decreased by $4,000.
- During the fiscal year, OahuMPO's revenues increased by $670,100, and expenditures/expenses increased by $693,600.

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

Overview of Annual Report

This annual report consists of the transmittal letter; management's discussion and analysis; financial statements, notes to the financial statements, and supplementary information that explain in more detail some of the information in the financial statements; the reports on internal controls and compliance; schedule of findings and questioned costs; summary schedule of prior audit findings; and corrective action plan.

Required Financial Statements

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

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

Tables 1 and 2 present a comparative view of net position and changes in net position as of and for the fiscal years ending June 30, 2015 and June 30, 2014, respectively.

TABLE 1
CONDENSED SUMMARY OF NET POSITION

(Rounded to nearest $100)

	2015	2014
ASSETS:		
Current assets	$ 905,500	$ 657,600
Capital assets, net of accumulated depreciation	5,500	7,400
Total assets	$ 911,000	$ 665,000
LIABILITIES:		
Current liabilities	$ 845,100	$ 599,000
Long-term liabilities	16,800	12,900
Total liabilities	$ 861,900	$ 611,900
NET POSITION:		
Invested in capital assets	$ 5,500	$ 7,400
Unrestricted	43,600	45,700
Total net position	$ 49,100	$ 53,100

OahuMPO's net position decreased 7.53% ($49,100 as compared to $53,100) between June 30, 2015 and June 30, 2014. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased 4.60% ($43,600 as compared to $45,700) between June 30, 2015 and June 30, 2014.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TABLE 2
CONDENSED SUMMARY OF CHANGES IN NET POSITION
(Rounded to nearest $100)

	2015	2014
EXPENDITURES:		
Regional transportation forecasting and long-range planning	$ 557,500	$ 23,300
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	640,500	553,900
Regional transportation monitoring and analysis	199,000	205,800
Planning review and systems management	73,000	133,600
Coordination of the planning program	731,900	591,700
Total expenditures	2,201,900	1,508,300
REVENUES:		
Federal grant contributions	1,758,000	1,222,200
State and City contributions	439,900	305,600
Interest income and other	-	-
Total revenues	2,197,900	1,527,800
(Decrease) increase in net position	$ (4,000)	$ 19,500

OahuMPO's expenditures/expenses increased by 45.99% between the fiscal years ended June 30, 2015 and 2014 in all expenditure/expense categories. OahuMPO's revenues increased by 43.86% between the fiscal years ended June 30, 2015 and 2014. The changes in revenues were attributed largely to the correlating increase in Federal grant and State and City contributions.

Capital Asset and Debt Administration

Capital Assets:

As of June 30, 2015 and 2014, OahuMPO had capital assets net of accumulated depreciation of approximately $5,500 and $7,400, respectively. OahuMPO did not have any capital acquisitions or dispositions for both the fiscal years ended June 30, 2015 and 2014.

Debt:

OahuMPO did not have any outstanding debt as of June 30, 2015 and 2014.

Request for Information

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

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2015

	Special Revenue	Adjustments (Note 2)	Statement of Net Position
CURRENT ASSETS:			
Cash and cash equivalents	$ 470,236	$ -	$ 470,236
Receivables from federal government	429,246	-	429,246
Other current assets	5,993	-	5,993
Total current assets	905,475	-	905,475
NONCURRENT ASSETS:			
Capital assets, net of accumulated depreciation	-	5,477	5,477
Total assets	$ 905,475	$ 5,477	$ 910,952
CURRENT LIABILITIES:			
Vouchers payable	$ 266,211	$ -	$ 266,211
Advances from other agencies	529,748	-	529,748
Accrued liabilities	27,123	21,980	49,103
Total current liabilities	823,082	21,980	845,062
NONCURRENT LIABILITIES:			
Accrued liabilities	-	16,822	16,822
Total noncurrent liabilities	-	16,822	16,822
Total liabilities	823,082	38,802	861,884
FUND BALANCES/NET POSITION:			
Restricted fund balance	82,393	(82,393)	-
Net position:			
Invested in capital assets	-	5,477	5,477
Unrestricted	-	43,591	43,591
Total net position	-	49,068	49,068
Total liabilities and fund balance/net position	$ 905,475	$ 5,477	$ 910,952

See accompanying notes to financial statements.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
STATEMENT OF ACTIVITY AND GOVERNMENTAL
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue	Adjustments (Note 2)	Statement of Activity
EXPENDITURES:			
Regional transportation forecasting and long-range planning	$ 674,887	$ -	$ 674,887
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	640,556	-	640,556
Regional transportation monitoring and analysis	81,657	-	81,657
Planning review and system management	72,980	-	72,980
Coordination of the planning program	727,827	4,050	731,877
Total expenditures	2,197,907	4,050	2,201,957
REVENUES:			
Federal grant contributions	1,757,991	-	1,757,991
Local contributions:			
City and County of Honolulu	359,124	-	359,124
State of Hawai'i	80,792	-	80,792
Total revenues	2,197,907	-	2,197,907
Change in fund balance/net position	-	(4,050)	(4,050)
FUND BALANCE/NET POSITION:			
Beginning of the year	82,393	(29,275)	53,118
End of the year	$ 82,393	$ (33,325)	$ 49,068

See accompanying notes to financial statements.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. Reporting Entity

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

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

2. Summary of Significant Accounting Policies

a. Financial Statement Presentation

OahuMPO's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements. The more significant accounting policies used by OahuMPO are discussed below.

Basis of Accounting

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

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

Government-Wide

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

a. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Government Fund

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

Special Revenue Fund

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

Governmental Fund Balance

OahuMPO implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal year ended June 30, 2011. The guidance provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new fund balance structure is based primarily on the extent to which OahuMPO is bound to follow constraints on how the resources can be spent. Due to the specific revenue sources and restricted expenditures for specified purposes, OahuMPO's fund balance was classified as restricted as of June 30, 2015.

Net Position

OahuMPO implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* for the fiscal year ended June 30, 2013, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net position throughout the financial statements. There were no deferred inflows or outflows that required reporting on the statement of net position as of June 30, 2015.

Reconciliation

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

2. Summary of Significant Accounting Policies (continued)

a. Financial Statement Presentation (continued)

Reconciling items include the following:

Statement of net position:		
Capital assets, net of accumulated depreciation	$	5,477
Accrued liabilities - current	$	21,980
Accrued liabilities - non current		16,822
	$	38,802
Restricted fund balance	$	(82,393)
Net position		49,068
	$	(33,325)
Statement of activity:		
Depreciation	$	1,962
Accrued vacation	$	2,088
	$	4,050

b. Use of Estimates

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

c. Cash and Cash Equivalents

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

d. Receivables From Federal Government

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

2. Summary of Significant Accounting Policies (continued)

e. Capital Assets

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

Furniture and equipment	5 – 7 years

f. Accumulated Vacation and Sick Leave

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

g. Encumbrance

OahuMPO's accounting procedures provide for the recording of commitments as encumbrances at the time contracts and other commitments are awarded and executed. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is generally employed as an extension of formal budgetary integration in governmental fund types. Encumbrances outstanding at fiscal year end are generally reported as reservations of fund balances since they do not constitute expenditures or liabilities. Although OahuMPO does not receive appropriations, the State Comptroller allows for the encumbrance of federally funded contracts. As of June 30, 2015, OahuMPO recorded encumbrances of approximately $202,400.

h. Pensions

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

2. Summary of Significant Accounting Policies (continued)

i. GASB Statements No. 68 and 71

During fiscal year, 2015, the State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures – an amendment of GASB Statement No. 25 and No, 27*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 71 is required to be implemented simultaneously with Statement No. 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and non-employer contributing entities.

The adoption of Statements No. 68 and 71 has no impact on the State's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, adoption has resulted in the restatement of the State's fiscal year 2014 government-wide financial statements to reflect the reporting in net pension liability in accordance with the provisions of Statement No. 68 and deferred outflows of resources related to pensions in accordance with Statement No. 71. Net pension liability for government activities and business type activities of $4,296,634,000 and $150,840,000, respectively, and deferred outflows of resources related to pensions for governmental activities and business type activities of $319,827,000 and $11,301,000, respectively, were reported as of July 1, 2014. Refer to Note 8 for more information regarding the State's pension.

3. Federal Grants

Federal Highway Administration (FHWA) Grants

The FHWA-PL grants represent apportionments under 23 USC Section 104(f) made to the OahuMPO through the State Department of Transportation – Highways Division. The FHWA-PL grants reimburse 80% of allowable expenditures claimed by OahuMPO, and the remaining 20% is contributed by the participating State and County agencies. Allowable expenditures to the FHWA-PL grants include labor and non-labor expenditures incurred that are recorded based on the approved Overall Work Program (OWP).

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

Federal Transit Administration (FTA) Grants

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

The FTA grants provide for the undertaking of (1) metropolitan planning activities pursuant to 49 USC Section 5303 (previously known as Section 8 of the Federal Transit Act), and (2) state planning and research activities pursuant to 49 USC Section 5304 (previously known as Section 5313(b) of the Federal Transit Act). Under Sections 5303 and 5304 grants, FTA participates in 80% of allowable costs claimed by the OahuMPO. The remaining 20% is contributed by the participating State and County agencies. Allowable expenditures to the FTA grants include labor and non-labor expenditures incurred that are recorded based on the approved Overall Work Program (OWP).

OahuMPO has the following FTA grants outstanding as of June 30, 2015, HI-80-0024 (fiscal year 2015) and HI-80-0023 (fiscal year 2014). The following FTA grants were closed during the fiscal year ended June 30, 2015, HI-80-0022 (fiscal year 2013) and HI-80-0020 (fiscal year 2011). There were no available funds related to the following grants, HI-80-0021 (fiscal year 2012) and HI-80-0019 (fiscal year 2009).

4. Budgeting and Budgetary Control

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

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

4. Budgeting and Budgetary Control (continued)

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

The amount of unexpended FHWA obligated funds amounted to approximately $3,200,700 related to the fiscal year 2015 and approximately $76,500 related to the fiscal year 2014, for a total amount of approximately $3,277,200 as of June 30, 2015.

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

The amount of unexpended FTA funds amounted to $76,100 as of June 30, 2015.

5. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Petty cash	$ 400	$ 400
Amounts held in State Treasury	469,836	191,539
Total cash	$ 470,236	$ 191,939

Amounts Held in State Treasury

As of June 30, 2015 and 2014, the amounts held in State Treasury amounted to $470,236 and $191,939, respectively.

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

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

5. Cash and Cash Equivalents (continued)

Amount Held in State Treasury (continued)

Cash

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

Investments

The risks related to the State investments are as follows:

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

For bank accounts, custodial risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

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

Concentration of Credit Risk

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

5. Cash and Cash Equivalents (continued)

Amount Held in State Treasury (continued)

For further information related to the amount held in State Treasury, refer to the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

6. Capital Assets

Changes in capital assets during the fiscal year ended June 30, 2015 were as follows:

	Beginning July 1, 2014	Increases	Decreases	Ending June 30, 2015
Capital assets:				
Furniture and equipment	$ 16,509	$ -	$ -	$ 16,509
Total capital assets	16,509	-	-	16,509
Less accumulated depreciation:				
Furniture and equipment	9,070	1,962	-	11,032
Total accumulated depreciation	9,070	1,962	-	11,032
Capital assets, net of depreciation	$ 7,439	$ (1,962)	$ -	$ 5,477

7. Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the fiscal year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Accrued liabilities	$ 12,936	12,230	8,344	$ 16,822
Total noncurrent liabilities	$ 12,936	12,230	8,344	$ 16,822

8. Retirement Benefits

Employees' Retirement System of the State of Hawai'i

General Information on the Pension Plan

Plan Description

All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS' website: http://ers.ehawaii.gov/.

Benefits Provided

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Benefits Provided - Noncontributory Class

Retirement Benefits:

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

8. Retirement Benefits (continued)

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

Benefits Provided - Noncontributory Class (continued)

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

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Benefits Provided – Contributory Class for Employees Hired Prior to July 1, 2012

Retirement Benefits:

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

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80% Police and firefighters with five years of credited service are eligible to retire at age 55.

Disability Benefits:

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

Death Benefits:

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

8. Retirement Benefits (continued)

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

Benefits Provided – Contributory Class for Employees Hired Prior to July 1, 2012 (continued)

Death Benefits (continued):

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

Benefits Provided – Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits:

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

Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80% Police and firefighters with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Benefits Provided – Hybrid Class for Employees Hired Prior to July 1, 2012

Retirement Benefits:

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

8. Retirement Benefits (continued)

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

Benefits Provided – Hybrid Class for Employees Hired Prior to July 1, 2012 (continued)

Disability Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits:

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

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Benefits Provided – Hybrid Plan for Employees Hired After June 30, 2012

Retirement Benefits:

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Disability and Death Benefits:

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 120%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with a least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary or if less than ten years of service, return of member's contributions and accrued interest.

8. Retirement Benefits (continued)

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 were 24.00% for police and firefighters and 16.50% for all other employees. Contributions to the pension plan from the State were $350,350,000 for the fiscal year ended June 30, 2015.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

OahuMPO contributions for the fiscal year ended June 30, 2015 was approximately $66,500 at the pension accumulation rate of 16.50% of annual covered payroll, which were equal to the annual required contribution.

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

At June 30, 2015, the State reported a liability of $4, billion for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2014, the State's proportion was 58.4835% which was an increase of .8459% from its proportion measured as of June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the State recognized pension expense of $438,288,000. At June 30, 2015, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

8. Retirement Benefits (continued)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 51,071	$ (1,151)
Net difference between projected and actual earnings on pension plan investments	-	(472,758)
Changes in proportion and differences between State contributions and proportionate share of contributions	7,352	-
State contributions subsequent to the measurement date	445,933	-
Total	$ 504,356	$ (473,909)

The $445,933,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ended June 30:	
2016	$ (122,715)
2017	(122,715)
2018	(122,715)
2019	(122,715)
2020	10,640
Thereafter	-
	$ (480,220)

8. Retirement Benefits (continued)

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

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

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.5%
Investment rate of return	7.75% per year, compounded annual including inflation

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

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.50%
International equity	26.0%	9.00%
Total fixed-income	20.0%	3.10%
Real estate	7.0% *	8.50%
Private equity	7.0% *	11.80%
Real return	5.0% *	6.10%
Covered calls	5.0%	7.70%
Total Investments	100.0%	

8. Retirement Benefits (continued)

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

Actuarial Assumptions (continued)

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

Discount Rate

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

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

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate (amounts expressed in thousands):

	Decrease (6.75%)	Rate (7.75%)	Increase (8.75%)
State's proportionate share of the net pension liability	$ 5,144,453	$ 4,047,882	$ 2,968,816

Pension Plan Fiduciary Net Position

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

8. Retirement Benefits (continued)

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

Pension Plan Fiduciary Net Position (continued)

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

Payables to the Pension Plan

At June 30, 2015, the amount payable to the ERS was $14,937,000.

Post-Retirement Health Care and Life Insurance Benefits:

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

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

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

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the Hawaii Revised Statutes.

8. Retirement Benefits (continued)

Post-Retirement Health Care and Life Insurance Benefits (continued):

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

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

The actuarial valuation of the EUTF does not provide other postemployment healthcare and life insurance benefits information by department or agency. Accordingly, the State policy on the accounting and reporting for postemployment healthcare and life insurance benefits is to allocate a portion of the State's ARC, to component units and proprietary funds that are reported separately in stand-alone department financial statements or in the State's CAFR. The basis of the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits. With respect to OahuMPO, the State Department of Accounting and General Services did not allocate any other postemployment healthcare and life insurance benefits to OahuMPO for the fiscal year ended June 30, 2015.

Contributions:

OahuMPO contributions for postemployment benefits for the fiscal years ended June 30, 2015, 2014, and 2013, were approximately $40,900, $38,700, and $44,000, respectively.

9. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an OahuMPO employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The accumulated sick leave is based on the employee's current salary rate including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2015, accumulated sick leave was approximately $122,800.

10. Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the deferred compensation plan are not reflected in the accompanying's financial statements.

11. Leases

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

OahuMPO also leased equipment under a 5-year operating lease agreement that expired on October 25, 2015. Subsequent to this lease expiring OahuMPO entered into a new 3-year operating lease. In addition to the base rent, OahuMPO is responsible for all operating costs related to the use of this equipment.

At June 30, 2015, the minimum lease payments due under the new office space lease agreement and under the equipment agreement will be approximately $25,600, $4,400, $4,400, and $1,500 for the fiscal years ended June 30, 2016, 2017, 2018, and 2019, respectively.

The total rental expenditures incurred on the office space lease, including common area fees and on the equipment lease, including operating costs were approximately $74,000 and $7,600 for the fiscal year ended June 30, 2015, respectively.

12. Risk Management

The State, including OahuMPO is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. OahuMPO is insured under the State's insurance policies. The State generally retains the first $1,000,000 per occurrence of property losses, which includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage, the first $4,000,000 with respect to general liability claims, which includes personal injury and property damage liability, including automobile and public errors and omissions, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $50,000,000 per occurrence and a $10,000 deductible. The annual aggregate limit for general liability losses is $15,000,000 per occurrence and for crime loss, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for automobile claims and workers' compensation losses. Automobile losses below $15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, non-incremental estimates (based on projections of historical developments) of claims incurred but not reported, and non-incremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

13. Related Party Transactions

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

The State and the City and County of Honolulu each contribute 10% of funding to OahuMPO's projects based on the budget for the Overall Work Program. For the fiscal year ended June 30, 2015, the State and the City and County of Honolulu each paid $155,687 to OahuMPO for those projects.

As discussed in Note 4, the Overall Work Program includes projects for the State and the City and County of Honolulu. OahuMPO serves as the fiscal agent in processing the federal reimbursements to the State and the City and County of Honolulu. In these instances, the entity requesting the project pays for the entire cost of the project and is reimbursed 80% through federal grant monies. The remaining 20% is the local match as established in Federal regulations for these projects. For the fiscal year ended June 30, 2015, the amount of local share contributed by the City and County of Honolulu and the State was $359,124 and $80,792, respectively.

OahuMPO processed $1,391,661 of federal reimbursement claims for City and County of Honolulu (C&C) consultant contract costs incurred on projects included in the approved OWP for the fiscal year ended June 30, 2015.

As of June 30, 2015, OahuMPO had a payable $246,782 to the City and County of Honolulu for federal grant monies to be received by OahuMPO, which will be paid to the City and County of Honolulu.

14. Transportation Management Area (TMA) Certification Review

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

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

15. Subsequent Events

Act 132 SLH 2015

On June 19, 2015, the Governor signed into law Act 132 Session Law of Hawaii (SLH) 2015, which pertains to metropolitan planning organizations (MPOs) in Hawaii. Among other provisions, Act 132, 1) establishes that Transportation Management Area (TMA) MPOs shall be attached to the State of Hawaii Department of Transportation for administrative purposes only; 2) establishes a revolving fund for OahuMPO which shall be administered by the State of Hawaii Department of Transportation, and appropriates $500,000 for the fund; 3) establishes that the MPO Policy Board shall identify member financial dues to sustain the MPO, and it shall also allocate the collective financial resources in the annual work program; 4) establishes that any conflict between Act 132 SLH 2015 and federal law or regulation shall be construed in favor of federal law; 5) require MPO's to submit an annual report to the legislature of all activities conducted during the preceding year; and 6) transfers the balance of OahuMPO's old revolving fund into the new revolving fund, along with any expenses and liabilities incurred by OahuMPO. Act 132, SLH 2015 will impact OahuMPO for the fiscal year ending June 30, 2016.

During the fiscal year ending June 30, 2016, OahuMPO's management and Policy Board will work with the State Department of Transportation regarding the transfer of balances in the old revolving fund into the new revolving fund, as it implements Act 132, SLH 2015.

Honolulu Authority for Rapid Transportation

Public Law 112-141, required representation by providers of public transportation in each MPO that serves an area designated as a TMA by October 1, 2014. As a result, in 2014, HRS 279E was changed to add the Honolulu Authority for Rapid Transportation (HART) Executive Director to the OahuMPO Policy Committee. With the passage of Act 132 SLH 2015 and the development of the OahuMPO Comprehensive Agreement, Finance Agreement, and Policy Board By-Laws, HART became a dues-paying member of the OahuMPO, with representation on the Policy Board and the Technical Advisory Committee. HART will impact OahuMPO for the fiscal year ending June 30, 2016.

SCHEDULE 1

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES BY AGENCY
FOR THE YEAR ENDED JUNE 30, 2015

	W.E.	CITY	HWY	OMPO	TOTAL
Regional Transportation Forecasting and Long-Range Planning:	202				
Roadway Surface Condition Assessment and Repair Plan	202.01	$ 628,025	-	-	$ 628,025
Central Oahu Transportation Study	202.02	-	-	1,138	1,138
Farrington Highway Realignment Feasibility Study	202.04	-	-	544	544
Waikiki Regional Circulator Study	202.84	45,180	-	-	45,180
		673,205	-	1,682	674,887
Short-Range TSM/TDM Planning:	203				
Complete Street Implementation Study	203.05	355,171	-	-	355,171
Short-range Transit Service Open Plan	203.77	2,200	-	-	2,200
Honolulu Urban Core Parking Master Plan	203.79	12,241	-	-	12,241
Makakilo Traffic Study	203.80	10,500	-	-	10,500
Village Park - Kupuna Loop Corridor Study	203.83	34,550	-	-	34,550
Contra-flow Update Study	203.84	117,500	-	-	117,500
Emergency Evacuation Plan	206.01	108,394	-	-	108,394
		640,556	-	-	640,556
Regional Transportation Monitoring and Analysis:	201				
Traffic Signal Prioritization Methodology Study	201.01	77,900	-	-	77,900
OahuMPO Participation Planning Evaluation	201.02	-	-	3,214	3,214
Title VI & Environmental Justice Monitoring	201.04	-	-	543	543
		77,900	-	3,757	81,657
Planning Review and System Management:	205				
OahuMPO Planning Process Review	205.01	-	-	72,980	72,980
		-	-	72,980	72,980
Coordination of the Planning Program:	301				
Program Administration & Support	301.01	-	-	227,619	227,619
General Technical Assistance and Planning Support	301.02	-	-	27,656	27,656
Overall Work Programs	301.03	-	-	73,163	73,163
Support for Citizen Advisory Committee & Additional Public Outreach	301.04	-	-	56,661	56,661
Single Audit	301.05	-	-	37,522	37,522
Disadvantaged Business Enterprise Program	301.08	-	-	1,325	1,325
Professional Development	301.09	-	-	3,736	3,736
Computer and Network Maintenance	301.10	-	-	6,397	6,397
Census and Other Data	301.13	-	-	12,615	12,615
Computer Model Operation Support	301.15	-	-	12,611	12,611
Oahu Regional Transportation Plan	301.16	-	-	47,882	47,882
Transportation Improvement Program	301.17	-	-	70,672	70,672
Transportation Alternatives Program	301.18	-	-	7,474	7,474
Overhead (Indirect Costs)	302.01	-	-	142,494	142,494
		-	-	727,827	727,827
Total expenditures by agency		$ 1,391,661	$ -	$ 806,246	$ 2,197,907

See accompanying notes to financial statements.

SCHEDULE 2

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Grant Number	Rounded FY 2015 Expenditures
U.S. Department of Transportation			
Passed Through State Department of Transportation -			
Highway Planning and Construction: *			
OahuMPO Work Program	20.205	PL-0052(36)	$ 211,430
OahuMPO Work Program	20.205	PL-0052(37)	1,091,562
			1,302,992
Federal Transit Technical Studies Grant: *			
FTA, Section 5303	20.505	HI-80-0023	178,430
FTA, Section 5303	20.505	HI-80-0024	276,569
			454,999
Total Federal Expenditures			$ 1,757,991

* Major Program

See accompanying notes to schedule of expenditures of federal awards.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. Basis of presentation

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

2. Major programs

   The Organization's major programs are identified in the Schedule of Expenditures of Federal Awards.

3. Relationship to the financial statements

   The expenditures reported in the accompanying Schedule of Expenditures of Federal Awards have been reconciled to the accounting records underlying OahuMPO's financial statements.

4. Amount of Reimbursement Claims by the City and County of Honolulu

   OahuMPO processed $1,391,661 of federal reimbursement claims for City and County of Honolulu (C&C) consultant contract costs incurred on projects included in the approved OWP for the fiscal year ended June 30, 2015.

5. Local share

   The FHWA and FTA grants reimburse 80% of the allowable expenditures claims by OahuMPO and the remaining 20% is contributed by the participating State and County agencies. For the fiscal year ended June 30, 2015, the amount of local share contributed by the City and County of Honolulu and the State was $359,124 and $80,792 respectively.

PART III – INTERNAL CONTROL AND COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State of Hawai'i
Office of the Auditor
Honolulu, Hawaii

We have audited in accordance with the standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* used by the Comptroller General of the United States of America, the financial statements of the governmental activities of Oahu Metropolitan Planning Organization, State of Hawai'i, (OahuMPO) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, and have issued our report thereon dated January 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OahuMPO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OahuMPO's internal control. Accordingly, we do not express an opinion on the effectiveness of OahuMPO's internal control.

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

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 *significant deficiency* is a deficiency, or 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 schedule of findings and questioned costs to be significant deficiencies (2015-001 through 2015-007).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OahuMPO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-008. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other mattes may have been identified and reported herein.

OahuMPO's Responses to Findings

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

Purpose of this Report

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

Gilford Sato & Associates, CPAs, Inc.

Honolulu, Hawai'i
January 12, 2016

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

State of Hawai'i
Office of the Auditor
Honolulu, Hawaii

Report on Compliance for Each Major Program

We have audited Oahu Metropolitan Planning Organization, State of Hawai'i (OahuMPO)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the fiscal year ended June 30, 2015. OahuMPO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirement of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of OahuMPO's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OahuMPO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OahuMPO's compliance.

Basis for Qualified Opinion on Major Programs

As described in the accompanying schedule of findings and questioned costs, OahuMPO did not comply with requirements regarding CFDA 20.205 – *Highway Planning and Construction, U.S. Department of Transportation* and CDFA 20.505 – *Federal Transit Technical Studies, U.S. Department of Transportation* as described in finding numbers 2015-008 regarding the sub-recipient monitoring requirement. Compliance with that requirement is necessary, in our opinion, for OahuMPO to comply with the requirements applicable to those programs.

Qualified Opinion on Major Programs

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion on Major Programs paragraph, OahuMPO complied, in all material aspects, with the requirements referred to above that could have a direct and material effect on CFDA 20.205 – *Highway Planning and Construction, U.S. Department of Transportation* and CDFA 20.505 – *Federal Transit Technical Studies, U.S. Department of Transportation* for the year ended June 30, 2015.

Reporting on Internal Control Over Compliance

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

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 were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-008 to be a material weakness.

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

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

Gilfnch Sato & Associates, CPAs, Inc.

Honolulu, Hawai'i
January 12, 2016

PART IV: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes__X__no
• Significant deficiencies identified?	__X__ yes_____none reported
Noncompliance material to financial statements noted?	_____ yes__X__no

Federal Awards

Internal control over major reporting:	
• Material weakness(es) identified?	__X__ yes _____no
• Significant deficiencies identified?	_____ yes__X__none reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	__X__ yes_____no
Identification of major program:	

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

Dollar threshold used to distinguish between type A and type B programs?	$300,000
Auditee qualified as low-risk auditee?	_____ yes__X__no

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Summary of Financial Statement Findings

Finding Number	Finding
2015-001	Improve Commitment to Integrity and Ethical Values
2015-002	Formalize Risk Assessment Procedures
2015-003	Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures
2015-004	Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets
2015-005	Timely Closing and Preparation of Financial Statements for June 30, 2015
2015-006	Lack of Periodic Financial Reports
2015-007	Inadequate Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Criteria:

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

Condition:

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

Cause:

OahuMPO started work on a code of conduct and conflict of interest policy during the fiscal year ended June 30, 2015, but the draft was not approved by the Policy Committee until after the end of the fiscal year.

Effect:

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

Recommendation:

We recommend that OahuMPO develop and implement a code of conduct policy and a conflict of interest policy to ensure that integrity and ethical values are maintain at the control environment level.

Auditee Response and Corrective Action Plan:

The Executive Director concurs and appreciates the recommendation. In the fiscal year 2016, OahuMPO staff has developed a draft code of conduct and conflict of interest policies which was approved by the Policy Board on July 20, 2015 subject to review by the State Attorney General's office and the City's Corporation Counsel and the State Ethics Commission's attorney.

Auditee Contact Person:

Brian Gibson, Executive Director

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Criteria:

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

Condition:

During our examination, we noted that management stated that it considered the risk associated with the accounting, grants management, and financial reporting areas, but did not formalize procedures to assess the risk associated with each area, including the documentation of the results of its risk assessments.

Cause:

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

Effect:

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

Recommendation:

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

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

Finding Number: **2015-002**
Area: **Formalize Risk Assessment Procedures (continued)**

Auditee Response and Corrective Action Plan:

The OahuMPO Policy Board budgeted resources in the fiscal year 2016 to evaluate the applicability of the Committee of Sponsoring Organization of the Treadway Commission (COSO) Internal Control Framework document dated May 2013 and to evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

Auditee Contact Person:

Brian Gibson, Executive Director

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

Criteria:

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

Condition:

During our examination, we noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not documented or were outdated related to these areas.

Specific areas identified were as follows:

1) Updating the Overall Work Plan Process and Procedures Document

   We noted that the most recently approved Overall Work Plan Process and Procedure Document was dated October 2008. In recent years, OahuMPO proposed some process and procedure revisions, which were reflected in the draft Overall Work Plan Process and Procedure Document dated October 2010. According to OahuMPO, discussions with the Technical Advisory Committee (TAC) were held regarding the revisions incorporated into the document dated October 2010.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Condition (continued):

1) Updating the Overall Work Plan Process and Procedures Document (continued)

As of the date of this memorandum, the draft Overall Work Plan Process and Procedure Document was revised and has been approved by the Policy Board subsequent to the fiscal year ended June 30, 2015 on September 21, 2015.

2) Approved Overall Work Plan Projects Open for Multiple Fiscal Years

We noted that the State of Hawaii, Department of Transportation – Highways Division (SOH DOT HWY), the City and County of Honolulu, Department of Transportation Services (C&C DTS), and OahuMPO originated projects that are approved in a fiscal year's Overall Work Plan may start one to three years after the time the projects were first approved. Since many of these projects are based on anticipated needs for a future period, there could be instances where the rationale for these projects may have changed and the scope of the project must be revised or even removed in a subsequent Overall Work Program. While OahuMPO prepares a new Overall Work Plan before the beginning of each fiscal year, it does not periodically review the viability of previously approved projects that have not been started during the fiscal year. There is a lack of written procedures to address this issue. As of the date of this memorandum, the draft Overall Work Plan Process and Procedure Document was revised and has been approved by the Policy Board subsequent to the fiscal year ended June 30, 2015 on September 21, 2015.

Cause:

There appears to be weak internal controls related to written policies and procedures over the accounting, grants management, and financial reporting areas. There is also a lack of adequate evaluation and monitoring of these policies and procedures on a timely basis.

Effect:

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

Recommendation:

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

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SCHEDULE OF FINDINGS AND QUESTIONED COST
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Finding Number: **2015-003**
Area: **Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures (continued)**

Recommendation (continued):

In regards with open project for multiple fiscal year, we recommend that OahuMPO incorporate the policies and procedures into the Overall Work Plan Process and Procedures Document Policies and Procedures Document to address the review of all previously approved projects on a periodic basis, particularly those projects that have not started for over two years. Projects that are not deemed viable after two years should be removed on a timely basis through an amended Overall Work Plan or through the next fiscal year's Overall Work Plan. This will ensure that OahuMPO only works on viable transportation projects. This will also allow for the timely release of federal and local share funds related to projects that are not deemed viable.

Auditee Response and Corrective Action Plan:

OahuMPO staff will recommend the budgeting of resources in the fiscal year 2016 to evaluate the applicability of the COSO Internal Control Framework document dated May 2013 and evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

Also, the Executive Director agrees that periodic review and updating of the Overall Work Plan Process and Procedures Document is sound management practice. The Federal Highway Administration's Transportation Management Area Certification Review dated September 17, 2014, included a corrective action to identify and document procedures for the development and approval of key planning products, e.g. Oahu Regional Transportation Plan, Overall Work Plan, and Transportation Improvement Plan. The deadline for this task is September 17, 2015. This corrective action mirrors your procedural comment to develop a framework related to the evaluation of the existing Overall Work Plan Process and Procedures Document, proposed revisions, evaluation of the revisions, and approval of the revised document. As of the date of this memorandum, the draft Overall Work Plan Process and Procedures Document was revised and has been approved by the Policy Board subsequent to the fiscal year ended June 30, 2015 on September 21, 2015.

In addition, the Executive Director agrees that periodic review of previously approved, but unencumbered, work elements in the Overall Work Plan is sound management practice. Following the development and approval of procedures to develop and approve the Overall Work Plan Process and Procedures Document, OahuMPO staff will propose a revision to the Overall Work Plan Process and Procedures Document to include policies and procedures to review all previously approved, but unencumbered projects for which funding was obligated more than two years prior. As of the date of this memorandum, the draft Overall Work Plan Process and Procedure Document was revised and has been approved by the Policy Board subsequent to the fiscal year ended June 30, 2015 on September 21, 2015.

Auditee Contact Person:

Brian Gibson, Executive Director

STATE OF HAWAI'I
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Finding Number: **2015-004**
Area: **Lack of Complete Documentation and Testing of Key Cost Allocation Summary Worksheets**

Criteria:

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

Condition:

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

During our testing of major program expenditures, we conducted tests on the allocation worksheets and reviewed the percentages used to allocate labor and non-labor expenditures on a monthly basis. There were no material discrepancies noted with the allocation worksheets used to allocate expenditures to the various grants on a monthly basis for the fiscal year ended June 30, 2015.

Cause:

There appears to be weak internal controls regarding the appropriate documentation over a key spreadsheet that allocates and summarizes costs to the various grants.

Effect:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

The Executive Director will work to document the process used to summarize the allocation of OahuMPO's administrative labor and non-labor costs by June 30, 2016.

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

Auditee Contact Person:

Brian Gibson, Executive Director

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

Criteria:

OahuMPO should have a financial reporting process capable of providing complete and accurate financial information on a timely basis to meet the financial reporting requirement of the State, the Federal government, and the management of OahuMPO.

Condition:

During our examination, we noted that OahuMPO did not close its books on a timely manner. OahuMPO closed its books and issued its internal financial statements as of and for the year ended June 30, 2015 during the first week in December 2015.

Cause:

The retirement of the Financial Specialist and other staff members of OahuMPO after the end of the fiscal year ended June 30, 2015, caused delays in generating information required to close the books of account as of and for the fiscal year ended June 30, 2015 on a timely basis.

Effect:

Due to lack of staffing, financial statements were not available until the first week in December 2015.

Recommendation:

We recommend that OahuMPO continue its efforts to establish formal, written policies and procedures to ensure that it meets the financial reporting requirements of the State, the Federal government, and management of OahuMPO, including (1) procedures for the year-end closing and reporting process, (2) identification of work papers and templates required to support certain financial statement amounts and disclosures, (3) related time lines and staff assignments. In doing so, the loss of knowledge due to staff turnover will be minimized and allow OahuMPO to continue operations uninterrupted.

Auditee Response and Corrective Action Plan:

The Executive Director concurs and appreciates the recommendation. A new accountant joined OahuMPO staff in November 2016. This individual will work with State of Hawai'i, Department of Transportation – Business Management Office (SOH DOT BUS) on processing of monthly transactions and the year-end closing process, reconciliation and preparation of audit schedules and reports.

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

Auditee Contact Person:

Brian Gibson, Executive Director

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

Criteria:

OahuMPO should have a financial reporting process capable of providing complete and accurate financial information on a timely basis to meet the financial reporting requirement of the State, the Federal government, and the management of OahuMPO.

Condition:

During our examination, we noted that internally generated financial statements (statement of net position and governmental fund balance sheet and statement of activity and governmental fund revenues, expenditures, and changes in fund balance) were generated only at the end of the fiscal year by the SOH DOT BUS. SOH DOT BUS works with OahuMPO to generate the OahuMPO internally generated financial statements.

Cause:

The OahuMPO internally generated financial statements was only generated at the end of the fiscal year for audit purposes by SOH DOT BUS. There were no other requests by OahuMPO for periodic internally generated financial statements.

Effect:

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

Recommendation:

We recommend that OahuMPO works with SOH DOT BUS to generate more periodic financial statements. This will provide the Executive Director and the Policy Board with financial reports that can be monitored on a periodic basis. In addition to monitoring these reports, the Executive Director and the Policy Board should also document their review as indication that the monitor process took place.

Finding Number: **2015-006**
Area: **Lack of Periodic Financial Reports (continued)**

Auditee Response and Corrective Action Plan:

OahuMPO staff will work with staff from SOH DOT BUS to generate quarterly financial statements, or as often as that information can be provided by SOH DOT BUS, if it cannot be provided on a quarterly basis. OahuMPO staff will also work with staff from the Federal Highway Administration, Hawaii Division Office to obtain viewing access to TEAM to assist OahuMPO staff in the tracking and reporting of financial information. The quarterly reports will be provided to OahuMPO's management and the Policy Board. As of the date of this memorandum, OahuMPO staff has been meeting with SOH DOT BUS staff to ensure timely financial reporting.

Auditee Contact Person:

Brian Gibson, Executive Director

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

Criteria:

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

Condition:

During our examination, we noted that OahuMPO's policies and procedures for the accounting, grants management, and financial reporting were not formally established or reviewed and updated on a periodic basis for changes in the respective area's processes and procedures. OahuMPO also lacked a process to appropriately monitor the internal controls over these areas.

Cause:

There appears to be weak internal controls over the monitoring of internal controls over the accounting, grants management, and financial reporting areas.

Effect:

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

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

OahuMPO staff will use the COSO Internal Control Framework document dated May 2013 to evaluate and design the internal controls over the accounting, grants management, and financial reporting areas and to develop a process to monitor the effectiveness of the internal controls implemented. OahuMPO anticipates the need to rely on outside accounting and/or auditing expertise to assist OahuMPO staff to accomplish this task. The Policy Board will be kept informed of any deficiencies found and any policies or procedures that result from this effort.

Auditee Contact Person:

Brian Gibson, Executive Director

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

Summary of Federal Award Findings and Questioned Cost

Finding Number	Finding	Questioned Cost
2015-008	Improve Sub-Recipient Monitoring Process	None

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Finding Number:	**2015-008**
Federal Agency:	**U.S. Department of Transportation**
CFDA Program Number:	**20.205 and 20.505**
CFDA Program Name:	**Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303**
Area:	**Improve Sub-Recipient Monitoring Process**
Questioned Cost:	**None**

Criteria:

OahuMPO's sub-recipient monitoring process is a key component of internal control in the grants management area. Sub-recipient monitoring is a critical process to ensure that OahuMPO is in compliance with regulations such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements,* OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments,* terms and conditions of the respective grant agreements, and the State Procurement Office (SPO Guidelines).

Condition:

During our examination, we noted that OahuMPO did not have a formalized documented sub-recipient monitoring process to address key compliance areas with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements,* the terms and conditions of the respective grant agreements, and SPO Guidelines. It should be noted that OahuMPO conducted some monitoring, but improvements in their monitoring process with respect to OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements* is required. It should also be noted that OahuMPO did not conduct any procedures to ensure that the sub-recipients State of Hawaii Department of Transportation and City and County Department of Transportation Services (SOH DOT HWY and C&C DTS) complied with the SPO Guidelines with respect to consulting contracts produced by SOH DOT HWY and C&C DTS for various approved projects.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. We also did not note any consultants that were either suspended or debarred. Therefore, there will be no questioned costs related to the major programs. However, OahuMPO must address this issue of proper sub-recipient monitoring to ensure compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements.*

Cause:

There appears to be weak internal control in the grants management process regarding OahuMPO's sub-recipient monitoring process for those receiving federal funds from the Organization. In addition, OahuMPO does not have a formalized documented sub-recipient monitoring process.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COST
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Finding Number:	**2015-008**
Federal Agency:	**Department of Transportation**
CFDA Program Number:	**20.205 and 20.505**
CFDA Program Name:	**Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303**
Area:	**Improve Sub-Recipient Monitoring Process**
Questioned Cost:	**None**

Effect:

The effect of the above condition is a weak component of internal control in the grants management area, regarding whether the sub-recipients that received federal funds from OahuMPO were properly monitored prior to awarding the federal funds, during the award period, and at the end of the grant period. Weak internal controls in this area could result in non-compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, the respective grant agreements, and with SPO Guidelines. Non-compliance with these guidelines may result in unallowable costs being incurred, which will lead to questioned costs, return of funds by OahuMPO and possible loss of funding in the future.

Recommendation:

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

The process should include a risk assessment of each sub-recipient. The risk assessment should be based on a review of the grant agreement, review of OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements,* OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and OMB Circular *2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Grants*, when applicable; understanding of the sub-recipient that will receive federal funds from OahuMPO, including the results of other projects performed by the sub-recipient, and other checks by OahuMPO, such as compliance with SPO Guidelines. This assessment will determine the approach and extent of the monitoring of the sub-recipient.

Based on the approach and extent of the monitoring of the sub-recipient, OahuMPO can determine the level of documentation required. Documentation should include checklists, certifications, including certifications from the sub-recipients that they complied with the SPO Guidelines, narratives related to understanding the sub-recipient and results of desk audits or site visits, establishment of timelines, correspondence with the sub-recipients, timelines of submissions, analysis of the amount of federal funds received by the sub-recipient from all sources, standards for submitting costs for reimbursements, and review of progress and final project reports.

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SCHEDULE OF FINDINGS AND QUESTIONED COST
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Finding Number:	**2015-008**
Federal Agency:	**Department of Transportation**
CFDA Program Number:	**20.205 and 20.505**
CFDA Program Name:	**Highway Planning and Construction – OahuMPO Work Program and Federal Transit Technical Studies Grant – FTA, Section 5303**
Area:	**Improve Sub-Recipient Monitoring Process**
Questioned Cost:	**None**

Auditee Response and Corrective Action Plan:

The OahuMPO Policy Board budgeted resources in the fiscal year 2016 to evaluate the applicability of the COSO Internal Control Framework document dated May 2013 and evaluate the five components of internal control, which are 1) control environment, 2) risk assessment, 3) control activities, 4) information and communications, and 5) monitoring activities and the seventeen principles associated with the five components of internal control and determine which ones are applicable to OahuMPO. OahuMPO will evaluate the framework, and make recommendations for improvement, including making specific recommendations with regard to processes, policies, and procedures.

OahuMPO will also review OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular 2 *CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Grants*, when applicable, as it relates to the sub-recipient monitoring requirements and incorporate those requirements into its internal control over the sub-recipient monitoring process.

Auditee Contact Person:

Brian Gibson, Executive Director

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

Prior Audit Findings for the Year Ended June 30, 2014

Finding Number	Finding
2014-001	Improve Oversight of the Accounting, Grants Management, and Financial Reporting Functions

During our examination we noted that the Policy Board did not have quorum for a majority of its meetings held during the period July 1, 2013 through June 30, 2014.

Status:

Completed: Since October 2014, there has been 10 Policy Board meetings held and a quorum was achieved at 10 of those meetings. In addition, the Bylaws of the Executive Committee was approved by the Policy Board on July 20, 2015 which includes rules and procedures for members in regards with quorum, how the meetings are held and the roles and responsibilities of the officers. This comment is no longer applicable.

2014-002 Improve Commitment to Integrity and Ethical Values

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

Status:

In Progress: The draft code of conduct and conflict of interest policy was developed based upon the State of Hawaii code of ethics. This corrective action plan will be completed by the fiscal year ending June 30, 2016. Refer to current year finding number 2015-001.

2014-003 Proper Risk Assessment

During our examination, we noted that management did not complete an assessment of its accounting, grants management, and financial reporting areas in terms of the related risks associated with each area.

Status:

In Progress: OahuMPO hired and accountant to assist with the development of the documentation of the internal control framework. This corrective action plan is estimated to be completed by March 31, 2016. Refer to current year finding number 2015-002.

STATE OF HAWAI'I
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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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Financial Statement Findings (continued)

Prior Audit Findings for the Year Ended June 30, 2014 (continued)

Finding Number	Finding
2014-004	Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

During our examination, we noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not specific or undocumented related to these areas. Some of the decisions on how to handle accounting and grants management issues were made without consideration of internal control to prevent or detect material misstatements to the financial statements on a timely basis and to ensure compliance with federal regulations and grant agreements.

Status:

In Progress: OahuMPO hired an accountant to assist with the development of the documentation of the internal control framework. This corrective action plan is estimated to be completed by the fiscal year ending June 30, 2016. Refer to current year finding number 2015-003.

2014-005 Lack of Documentation of Key Cost Allocation Summary Worksheets

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

During our testing of major program expenditures, we did not note any instances of unallowable costs or misstatements related to the Financial Specialist's allocation worksheets.

Status:

In Progress: OahuMPO hired an accountant to work on the documentation of the process used to summarize the allocation of costs to the appropriate grants. This corrective action plan is estimated to be completed by March 31, 2016. Refer to current year finding number 2015-004.

STATE OF HAWAI'I
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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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Financial Statement Findings (continued)

Prior Audit Findings for the Year Ended June 30, 2014 (continued)

Finding Number	Finding
2014-006	Inadequate Monitoring of Internal Control over the Accounting, Grants Management, and Financial Reporting Areas During our examination, we noted that OahuMPO's policies and procedures for the accounting, grants management, and financial reporting were not formally established or reviewed and updated on a periodic basis for changes in the respective area's processes and procedures. OahuMPO also lacked a process to appropriately monitor the internal controls over these areas. Status: In Progress: The funding for a consultant has been approved as part of OahuMPO's fiscal year 2016 work plans. OahuMPO staff is beginning the procurement process. This corrective action plan is estimated to be completed by the fiscal year ending June 30, 2016. Refer to current year finding number 2015-007.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Award Findings and Questioned Costs

Prior Audit Findings for the Year Ended June 30, 2014

Finding Number	Finding	Questioned Cost
2014-007	Implement Federal Cost Principle Training	None

During our examination, we noted that OahuMPO did not conduct any training on federal cost principles for key personnel involved with the grants management area. Appropriate training on federal cost principles is important to ensure compliance with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments,* and compliance with the respective grant agreements. We also noted that OahuMPO did not have any formalized training plan to ensure that its key personnel receives the appropriate training that will ensure compliance with OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments,* and compliance with the respective grant agreements.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. Therefore, there will be no question costs related to the major programs. However, OahuMPO must address this issue of proper training of federal allowable/cost principles to ensure compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments,* and compliance with the respective grant agreements.

Status:

Completed: On June 18, 2015, all OahuMPO staff (except for the office manager) participated in a training session on federal cost principles. During the two hour training session, a webinar was shown entitled "Cost Allowability 2.0 – OMB's New Federal Award Cost Principles' which was produced by Federal Fund Management Advisor. OMPO developed, in cooperation of Mr. John Turner, (LEAD finance manager, FHWA, Hawaii Division) a series of power point slides that summarized the information on the webinar so that staff members could use them as a reference guide. The training presented the current and proposed changes to the cost principles. A sign-in sheets and certifications were provided for the training session. This comment is no longer applicable.

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Award Findings and Questioned Costs (continued)

Prior Audit Findings for the Year Ended June 30, 2014 (continued)

Finding Number	Finding	Questioned Cost
2014-008	Improve Sub-Recipient Monitoring Process	None

During our examination, we noted that OahuMPO did not have a formalized documented sub-recipient monitoring process to address key compliance areas with respect to regulations, such as the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements,* the terms and conditions of the respective grant agreements, and SPO Guidelines. It should be noted that OahuMPO conducted some monitoring, but improvements in their monitoring process with respect to OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements* is required. It should also be noted that OahuMPO did not conduct any procedures to ensure that the sub-recipients SOH DOT HWY and C&C DTS complied with the SPO Guidelines with respect to consulting contracts produced by SOH DOT HWY and C&C DTS for various approved projects.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by OahuMPO. We also did not note any consultants that were either suspended or debarred. Therefore, there will be no question costs related to the major programs. However, OahuMPO must address this issue of proper sub-recipient monitoring to ensure compliance with the OMB Circular A-133 *Compliance Supplement – Part 3 Compliance Requirements.*

Status:

In Progress: OahuMPO is in the process of formally documenting its sub-recipient monitoring process. This corrective action plan is estimated to be completed by the fiscal year ending June 30, 2016. Refer to current year finding number 2015-008.

PART V: CORRECTIVE ACTION PLAN

STATE OF HAWAI'I
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CORRECTIVE ACTION PLAN

Management's correction action plan related to the findings noted in this report for the year ended June 30, 2015 are summarized in Section II, Financial Statement Findings and in Section III, Federal Awards Finding and Questioned Cost under the heading "Auditee Response and Corrective Action" of this report.