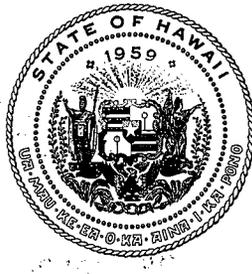


STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917



LESLIE H. KONDO
State Auditor

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

DEPT. COMM. NO. 377

April 20, 2018

VIA HAND DELIVERY

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

RE: Financial and Compliance Audit of the O'ahu Metropolitan Planning Organization

Dear President Kouchi:

The financial and compliance audit report of the O'ahu Metropolitan Planning Organization for the fiscal year ended June 30, 2017, was issued on March 28, 2018. The Office of the Auditor retained N&K CPAs, Inc. to perform the financial and compliance audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the financial and compliance audit report.

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

http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_OMPO2017.pdf

http://files.hawaii.gov/auditor/Reports/2017_Audit/OMPO_Summary_2017.pdf

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

Auditor's Summary

Financial and Compliance Audit of the O'ahu Metropolitan Planning Organization

Financial Statements, Fiscal Year Ended June 30, 2017



PHOTO: O'AHU METROPOLITAN PLANNING ORGANIZATION

THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the O'ahu Metropolitan Planning Organization (OMPO) as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by N&K CPAs, Inc.

About the Organization

OMPO WAS ESTABLISHED by agreement between the Governor of the State of Hawai'i and the Chairperson of the City Council of the City and County of Honolulu to serve as the decision making body responsible to carry out the continuing comprehensive and cooperative transportation planning and programming for the island of Oahu as required by federal law.

Financial Highlights

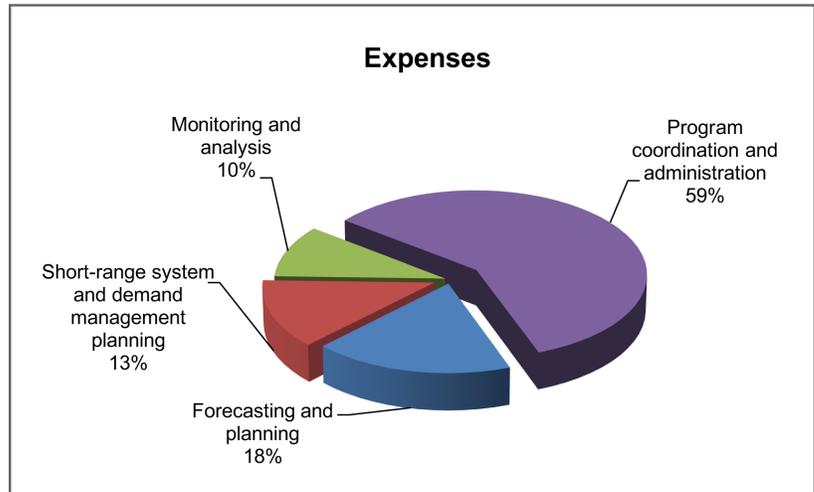
FOR THE FISCAL YEAR ended June 30, 2017, OMPO reported total revenues of approximately \$1.4 million and total expenses of approximately \$1.4 million, resulting in no change in net position. Revenues consisted of \$1.1 million from federal grants and \$280,000 from state and city contributions.

Total expenses consisted of \$255,000 for transportation forecasting and long-range planning, \$185,000 for short-range transportation system and demand management planning, \$144,000 for transportation monitoring and analysis, and \$821,000 for program coordination and administration.

As of June 30, 2017, total assets exceeded total liabilities by \$70,000. Total assets of approximately \$1.5 million included cash of \$729,000, receivables and other assets of \$794,000, and net capital assets of \$2,000. Total liabilities totaled approximately \$1.4 million.

Auditors' Opinions

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



Findings

THERE WERE FIVE SIGNIFICANT DEFICIENCIES in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*, and none of which were considered to be material weaknesses.

- Lack of formal procedures to assess risk associated with the accounting, grants management, and financial reporting areas;
- Lack of formal procedures over its financial reporting process;
- Appropriate documentation over a key spreadsheet used to summarize the allocation of costs to the appropriate grants was not maintained;
- Accounting, grants management, and financial reporting policies and procedures were not specific or not documented; and
- Recordkeeping to maintain accounts on accrual basis of accounting needs improvement.

The auditors identified one material weakness and two significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Material Weakness

- Failure to perform and document subrecipient monitoring.

Significant Deficiencies

- Lack of written policies and procedures over cost principles and terms of federal awards; and
- Untimely submission of the Single Audit reporting package to the Federal Audit Clearinghouse.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_OMPO2017.pdf

**FINANCIAL AUDIT OF THE
OAHU METROPOLITAN PLANNING ORGANIZATION
STATE OF HAWAII**

Fiscal Year Ended June 30, 2017



AMERICAN SAVINGS BANK TOWER | 1001 BISHOP STREET, SUITE 1700 | HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

March 28, 2018

Mr. Leslie Kondo, State Auditor
Office of the Auditor
State of Hawaii
Policy Board
State of Hawaii, Oahu Metropolitan Planning Organization

Dear Mr. Kondo and the Policy Board:

This is our report on the financial audit of Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO) as of and for the fiscal year ended June 30, 2017. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of OahuMPO's basic financial statements as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of the Uniform Guidance, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of OahuMPO's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2017.
2. To consider OahuMPO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of OahuMPO's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider OahuMPO's internal control over compliance with requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

5. To provide an opinion on OahuMPO's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

SCOPE OF THE AUDIT

Our audit was conducted 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 Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of OahuMPO for the fiscal year ended June 30, 2017.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I - The basic financial statements and related notes of OahuMPO as of and for the fiscal year ended June 30, 2017, and our opinions on the basic financial statements and supplementary information.
- Part II - Our report on internal control over financial reporting and on compliance and other matters.
- Part III - 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.
- Part V - Corrective action plan as provided by OahuMPO.
- Part VI - The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of OahuMPO.

Sincerely,

N & K CPAs, Inc.

**OAHU METROPOLITAN PLANNING ORGANIZATION
STATE OF HAWAII**

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**OAHU METROPOLITAN PLANNING ORGANIZATION
STATE OF HAWAII**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Policy Board
Oahu Metropolitan Planning Organization

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the OahuMPO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of OahuMPO, as of June 30, 2017, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of OahuMPO are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the special revenue fund of the State of Hawaii that is attributable to the transactions of OahuMPO. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 - 10 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 certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018 on our consideration of OahuMPO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OahuMPO's 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.

N & K CPAs, Inc.

Honolulu, Hawaii
March 28, 2018

**Oahu Metropolitan Planning Organization
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2017**

This section of the annual financial report presents an analysis of OahuMPO's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements which follows this section.

Financial Highlights

Key government-wide financial highlights for the fiscal year ended June 30, 2017 compared to the prior fiscal year ended June 30, 2016 are as follows:

- OahuMPO's net position decreased by \$5,949.
- During the fiscal year, OahuMPO's revenues increased by \$175,596, and expenses increased by \$209,235.

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.

Introduction to Basic 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 Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance reports the organization's activities and the changes in its net position as a result of its activities.

Financial Analysis

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, 2017 and 2016, respectively.

**Oahu Metropolitan Planning Organization
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2017**

**Table 1
Condensed Statements of Net Position**

	2017	2016
Assets		
Current assets	\$ 1,523,687	\$ 1,370,771
Capital assets	<u>2,347</u>	<u>3,912</u>
Total assets	<u>1,526,034</u>	<u>1,374,683</u>
Liabilities		
Current liabilities	1,447,719	1,293,658
Long-term liabilities	<u>7,506</u>	<u>4,267</u>
Total liabilities	<u>1,455,225</u>	<u>1,297,925</u>
Net position		
Invested in capital assets	2,347	3,912
Restricted	<u>68,462</u>	<u>72,846</u>
Total net position	\$ <u>70,809</u>	\$ <u>76,758</u>

OahuMPO's net position decreased by \$5,949, or 7.75%, between June 30, 2017 and 2016. Restricted net position, the part of net position that can be used to finance day-to-day operations, decreased \$4,384, or 6.02% between June 30, 2017 and 2016.

**Table 2
Condensed Statements of Activities**

	2017	2016
Expenses		
Regional transportation monitoring and analysis	\$ 144,452	\$ 116,495
Regional transportation forecasting and long-range planning	254,642	34,622
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	185,357	139,062
Planning review and systems management	--	49,744
Coordination of the planning program	<u>821,106</u>	<u>856,399</u>
Total expenses	<u>1,405,557</u>	<u>1,196,322</u>
Revenues		
Federal grant contribution	1,119,681	979,210
State and City contributions	<u>279,927</u>	<u>244,802</u>
Total revenues	<u>1,399,608</u>	<u>1,224,012</u>
Change in net position	(5,949)	27,690
Beginning net position	<u>76,758</u>	<u>49,068</u>
Ending net position	\$ <u>70,809</u>	\$ <u>76,758</u>

**Oahu Metropolitan Planning Organization
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2017**

OahuMPO's total expenses increased by \$209,235 or 17.49% between the fiscal years ended June 30, 2017 and 2016. OahuMPO's revenues increased by \$175,596, or 14.35% between the fiscal years ended June 30, 2017 and 2016. The changes in revenues were attributed largely to the correlating increase in Federal grant and State and City contributions.

Financial Analysis of the Special Revenue Fund

Net change in fund balance was zero for the fiscal years ended June 30, 2017 and 2016 as a reflection that all its activities are on a cost reimbursement arrangement. Revenues for the special revenue fund is the same amount as revenues on the government-wide financial statements.

Capital Assets

As of June 30, 2017 and 2016, OahuMPO had capital assets net of accumulated depreciation of approximately \$2,300 and \$3,900, respectively. OahuMPO did not have any capital acquisitions or dispositions for both the fiscal years ended June 30, 2017 and 2016.

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 Alvin Au, Executive Director, Oahu Metropolitan Planning Organization, 707 Richards Street, Suite 200, Honolulu, HI 96813.

**Oahu Metropolitan Planning Organization
State of Hawaii
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2017**

	Special Revenue Fund	Adjustments (Note C)	Statement of Net Position
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 729,403	\$ --	\$ 729,403
Receivables from federal government	760,893	--	760,893
Other receivables	<u>33,391</u>	<u>--</u>	<u>33,391</u>
Total current assets	<u>1,523,687</u>	<u>--</u>	<u>1,523,687</u>
NONCURRENT ASSETS			
Capital assets, net of depreciation	<u>--</u>	<u>2,347</u>	<u>2,347</u>
Total noncurrent assets	<u>--</u>	<u>2,347</u>	<u>2,347</u>
Total assets	<u>\$ 1,523,687</u>	<u>\$ 2,347</u>	<u>\$ 1,526,034</u>
LIABILITIES			
CURRENT LIABILITIES			
Vouchers payable	\$ 135,566	\$ --	\$ 135,566
Advances from other agencies	1,253,794	--	1,253,794
Accrued liabilities	<u>51,934</u>	<u>6,425</u>	<u>58,359</u>
Total current liabilities	<u>1,441,294</u>	<u>6,425</u>	<u>1,447,719</u>
NONCURRENT LIABILITIES			
Accrued liabilities	<u>--</u>	<u>7,506</u>	<u>7,506</u>
Total noncurrent liabilities	<u>--</u>	<u>7,506</u>	<u>7,506</u>
Total liabilities	<u>1,441,294</u>	<u>13,931</u>	<u>1,455,225</u>
FUND BALANCE/NET POSITION			
Restricted fund balance	<u>82,393</u>	(82,393)	--
Total liabilities and fund balance	<u>\$ 1,523,687</u>		
Net position			
Invested in capital assets		2,347	2,347
Restricted		<u>68,462</u>	<u>68,462</u>
Total net position		<u>\$ 70,809</u>	<u>\$ 70,809</u>

See accompanying notes to the basic financial statements.

Oahu Metropolitan Planning Organization
State of Hawaii
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2017

	Special Revenue Fund	Adjustments (Note D)	Statement of Activities
EXPENDITURES/EXPENSES			
Regional transportation monitoring and analysis	\$ 144,452	\$ --	\$ 144,452
Regional transportation forecasting and long-range planning	254,642	--	254,642
Short-range transportation system management (TSM)/ transportation demand management (TDM) planning	185,357	--	185,357
Coordination of the planning program	815,157	5,949	821,106
Total expenditures	1,399,608	5,949	1,405,557
REVENUES			
Federal grant contributions	1,119,681	--	1,119,681
Local contributions			
City and County of Honolulu	124,383	--	124,383
State of Hawaii	77,772	--	77,772
Honolulu Authority for Rapid Transportation (HART)	77,772	--	77,772
Total revenues	1,399,608	--	1,399,608
Excess of revenues over expenditures	--	(5,949)	(5,949)
Change in net position		(5,949)	(5,949)
Fund balances/net position			
Beginning of the fiscal year	82,393	(5,635)	76,758
End of the fiscal year	\$ 82,393	\$ (11,584)	\$ 70,809

See accompanying notes to the basic financial statements.

Oahu Metropolitan Planning Organization
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE A - FINANCIAL REPORTING ENTITY

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

The financial statements of OahuMPO are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the special revenue fund of the State of Hawaii that is attributable to the transactions of OahuMPO. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State of Hawaii (State) annually, which includes OahuMPO's financial activities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

OahuMPO's financial statements are prepared in accordance with U.S. GAAP, as prescribed by the Governmental Accounting Standards Board (GASB). The significant accounting policies used by OahuMPO are described below.

(1) ***Measurement Focus, Basis of Accounting, and Financial Presentation***

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Oahu Metropolitan Planning Organization
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (2) **Fund Accounting** - The financial transactions of the OahuMPO are recorded in a fund. A fund is considered a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

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

- (3) **Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- (4) **Cash and Cash Equivalents** - Cash and cash equivalents consists of petty cash and amounts held in State Treasury as discussed in Note G.
- (5) **Receivables from Federal Government** - Revenues for all federal reimbursement-type grants are recorded as a receivable from federal government when costs are incurred.
- (6) **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, improvements, 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	7 years
-------------------------	---------

Oahu Metropolitan Planning Organization
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (7) **Compensated Absences** - OahuMPO permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide financial statements. A liability for these amounts is reported in the Governmental Fund only if they have matured, for example, as a result of employee resignations and retirements.
- (8) **Fund Balance** - Fund balance is classified using a hierarchy based on the extent to which the OahuMPO is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable - Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

Restricted - Restricted fund balances are restricted to specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State Legislature.

Assigned - Assigned fund balance includes amounts that are constrained by the Policy Board or management for specific purposes, but are neither restricted nor committed.

Unassigned - This classification includes any negative residual balance when actual expenditures exceed available resources of the fund.

The OahuMPO has only a restricted fund balance.

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

NOTE C - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION

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.

**Oahu Metropolitan Planning Organization
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NOTE C - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION (Continued)

Reconciling items include the following:

- (1) Capital-related items. When furniture and equipment that are to be used in governmental activities are purchased, the costs of those activities are reported as expenditures in the governmental fund. However, the statement of net assets includes those capital assets among the assets of OahuMPO as a whole.

	<u>Amount</u>
Cost of equipment	\$ 16,509
Less accumulated depreciation	<u>14,162</u>
	\$ <u>2,347</u>

- (2) Long-term liabilities. Long-term liabilities applicable to OahuMPO's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Long-term liabilities, which comprised of compensated absences payable, was \$13,931 at June 30, 2017.

NOTE D - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND OPERATING STATEMENT AND THE STATEMENT OF ACTIVITIES

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

Reconciling items include the following:

- (1) Capital-related items. When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in the governmental fund. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas, net assets decreased by the amount of depreciation expense charged for the fiscal year. As of June 30, 2017, the Agency had \$2,347 invested in capital assets. There was a net decrease of \$1,565 from the end of the prior fiscal year. During the fiscal year, there were no capital outlays that met the requirements to be capitalized.
- (2) Long-term liability transactions. Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. For the Agency, this difference is due to a net adjustment resulting from a net change in compensated absences of \$4,384.

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NOTE E - 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, 2017; PL-0052(39) for the fiscal year 2017; PL-0052(38) for the fiscal year 2016; 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, 2017; HI-2016-005 (fiscal year 2017), HI-80-0025 (fiscal year 2016), and HI-80-0024 (fiscal year 2015). FTA grant no. HI-80-0023 (fiscal year 2014) closed during the fiscal year ended June 30, 2017.

NOTE F - BUDGETING AND BUDGETARY CONTROL

A budget, known as the Overall Work Program (OWP) is prepared by OahuMPO on an annual basis. The budget and any additions thereto, are approved by OahuMPO's Policy Board and subsequently and jointly by FHWA and the FTA. The OWP encompasses various projects (work elements), in which work performed is specifically for OahuMPO, the State, the City and County of Honolulu (C&C) or the Honolulu Authority for Rapid Transportation (HART), and are worked on over a multi-year period.

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NOTE F - BUDGETING AND BUDGETARY CONTROL (Continued)

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

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

The amount of unexpended FHWA obligated funds amounted to approximately \$3,945,000, \$1,410,000, and \$147,000, related to the fiscal years 2017, 2016, and 2015, respectively, for a total amount of approximately \$5,502,000 as of June 30, 2017.

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

The amount of unexpended FTA funds amounted to approximately \$441,000 as of June 30, 2017.

NOTE G - CASH AND CASH EQUIVALENTS

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

The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

**Oahu Metropolitan Planning Organization
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NOTE G - CASH AND CASH EQUIVALENTS (Continued)

GASB Statement No. 40, Deposit and Invest Risk Disclosures, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by OahuMPO. However, as all of the OahuMPO's monies are held in the State cash pool, OahuMPO does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the organization level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the State Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

OahuMPO also maintains cash in bank which is held separately from cash in the State Treasury. As of June 30, 2017, the carrying amount of total bank balance was approximately \$400, which is insured by the Federal Deposit Insurance Corporation.

NOTE H - CAPITAL ASSETS

The changes in capital assets were as follows:

	Balance <u>July 1, 2016</u>	Additions	Deductions	Balance <u>June 30, 2017</u>
Governmental activities:				
Equipment and furniture at cost	\$ 16,509	\$ --	\$ --	\$ 16,509
Less accumulated depreciation	<u>12,597</u>	<u>1,565</u>	<u>--</u>	<u>14,162</u>
Governmental activities capital assets, net	\$ <u>3,912</u>	\$ <u>(1,565)</u>	\$ <u>--</u>	\$ <u>2,347</u>

Depreciation expense of \$1,565 was charged to coordination of the planning program function.

NOTE I - LONG-TERM LIABILITY

The only long-term liability for governmental activities is compensated absences. Long-term liability activity during the fiscal year ended June 30, 2017, was as follows:

	<u>Amount</u>
Balance at July 1, 2016	\$ 9,547
Additions	28,228
Deductions	<u>(23,844)</u>
Balance at June 30, 2017	13,931
Less: current portion	<u>(6,425)</u>
Noncurrent portion	\$ <u>7,506</u>

**Oahu Metropolitan Planning Organization
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NOTE J - RETIREMENT BENEFITS

Plan Description

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

Benefits Provided

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

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

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

Noncontributory Class

Retirement Benefits:

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

**Oahu Metropolitan Planning Organization
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE J - RETIREMENT BENEFITS (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. 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.

Death Benefits:

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

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

Contributory Class for Members Hired prior to July 1, 2012

Retirement Benefits:

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

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

Disability Benefits:

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

**Oahu Metropolitan Planning Organization
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE J - RETIREMENT BENEFITS (Continued)

Death Benefits:

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

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

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits:

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

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

Disability and Death Benefits:

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

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

**Oahu Metropolitan Planning Organization
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NOTE J - RETIREMENT BENEFITS (Continued)

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits:

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

Disability Benefits:

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

Death Benefits:

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

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

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits:

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

Oahu Metropolitan Planning Organization
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE J - RETIREMENT BENEFITS (Continued)

Disability and Death Benefits:

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2017 were 25.00% for police officers and firefighters and 17.00% for all other employees. The OahuMPO's contribution requirement as of June 30, 2017 was approximately \$59,300.

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

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the OahuMPO. It is the State's policy to recognize the proportionate share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension for only component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension for the OahuMPO are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plans.

Pension expenditures included in the statement of revenues, expenditures, and changes in fund balance for the OahuMPO's special revenue fund totaled approximately \$59,300 for the fiscal year ended June 30, 2017.

**Oahu Metropolitan Planning Organization
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE K - 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 Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

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

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the OahuMPO. The State has only computed the allocation of the other postemployment benefit (OPEB) costs to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the OPEB costs for the OahuMPO was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

The OahuMPO's contributions made to the plan were approximately \$28,200 for the fiscal year ended June 30, 2017.

**Oahu Metropolitan Planning Organization
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June 30, 2017**

NOTE L - 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, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an 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 investments of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

NOTE M - COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances totaled approximately \$1,669,000 as of June 30, 2017.

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. Accumulated sick leave as of June 30, 2017 approximated \$24,300.

Leases

OahuMPO's is leasing its office space situated at The Block-Richards Building, 707 Richards Street, Suite 200, Honolulu, Hawaii under a lease agreement entered into in January 2016, which expires on January 31, 2021. Under the terms and conditions of the lease agreement, OahuMPO is responsible for the monthly base rent and a share of operating costs.

OahuMPO is also leasing copier equipment under a 3-year operating lease agreement that expires on October 5, 2018. In addition to the base rent, OahuMPO is responsible for all operating costs related to the use of this equipment.

At June 30, 2017, future minimum lease payments, not including common area fees or operating expenses were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 38,900
2019	36,000
2020	36,100
2021	<u>21,300</u>
Total	\$ <u>132,300</u>

**Oahu Metropolitan Planning Organization
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June 30, 2017**

NOTE M - COMMITMENTS AND CONTINGENCIES (Continued)

The total rental expenditures incurred on the office space lease, including common area fees and on the equipment lease, for the fiscal year ended June 30, 2017, was as follows:

	<u>Amount</u>
Minimum rentals under cancelable operating leases	\$ 38,210
Common area fees and other	<u>35,279</u>
Total	\$ <u>73,489</u>

NOTE N - RISK MANAGEMENT

Insurance Coverage

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

Property Insurance

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

Crime Insurance

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

General Liability (Including Torts)

Liability claims up to \$10,000 and automobile claims up to \$15,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is \$7,500,000 and for crime loss, \$10,000,000 with no aggregate limit.

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

Oahu Metropolitan Planning Organization
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE N - RISK MANAGEMENT (Continued)

Self-Insured Risks

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

The OahuMPO is covered by the State's self-insured workers' compensation program for medical expenses of its insured employees. However, temporary wage loss replacement benefits are paid to those employees by the OahuMPO. There were no benefits paid by the OahuMPO for the fiscal year ended June 30, 2017.

NOTE O - RELATED PARTY TRANSACTIONS

OahuMPO uses the State Department of Transportation, for staff support, accounting, information technology, human resources, and other services as per an Administrative Agreement between OahuMPO and HDOT. The Code of Federal Regulations requires that there be an agreement between the State, the transit operator, and OahuMPO specifying the cooperative procedures for carrying out transportation planning. A Comprehensive Agreement between the State, the C&C, the Honolulu Authority for Rapid Transportation (HART), and OahuMPO was executed on July 20, 2015.

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

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

For the fiscal year ended June 30, 2017, the amount of local share contributed by the State, the C&C, and HART was approximately \$77,800, \$124,400 and \$77,800, respectively.

OahuMPO processed approximately \$186,000 of federal reimbursement claims for C&C consultant contract costs incurred on projects included in the approved OWP for the fiscal year ended June 30, 2017.

As of June 30, 2017, OahuMPO had a payable of approximately \$9,500 to the C&C for federal grant monies to be received by OahuMPO, which will be paid to the C&C.

**Oahu Metropolitan Planning Organization
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE P - TRANSPORTATION MANAGEMENT AREA (TMA) CERTIFICATION REVIEW

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

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

SUPPLEMENTARY INFORMATION

Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF EXPENDITURES BY AGENCY
Fiscal Year Ended June 30, 2017

	W.E.	CITY	HWY	OMPO	TOTAL
Regional Transportation Monitoring and Analysis:					
	201				
OahuMPO Participation Plan Evaluation	201.02	\$ --	\$ --	\$ 33,681	\$ 33,681
Title IV & Environmental Justice	201.04	--	--	107,447	107,447
2000 Census Data	201.05	--	--	3,314	3,314
Tantalus & Round Top Drive Boundary Identification	201.65	10	--	--	10
		<u>10</u>		<u>144,442</u>	<u>144,452</u>
Regional Transportation Forecasting and Long-Range Planning:					
	202				
Central Oahu Transportation Station	202.02	--	--	205,065	205,065
Transportation Revenue Forecast & Alternative Revenue Exploration	202.03	--	--	166	166
Farrington Highway Realignment Study	202.04	--	--	1,710	1,710
Kapalama Sub-Area Multimodal Circulation & Mobility Study	202.05	47,701	--	--	47,701
		<u>47,701</u>		<u>206,941</u>	<u>254,642</u>
Short-range TSM/TDM Planning:					
	203				
Complete Streets Implementation Plan	203.05	10,966	--	--	10,966
Ewa Impact Fees for Traffic & Roadway	203.75	29,726	--	--	29,726
Honolulu Urban Core Parking Master Plan	203.79	15,545	--	--	15,545
Makakilo Traffic Study	203.80	118,620	--	--	118,620
Separate Left-Turn Phase Alternatives Study	203.82	6,000	--	--	6,000
Village Park-Kupuna Loop Corridor Study	203.83	2,000	--	--	2,000
Contra-flow Update Study	203.84	2,500	--	--	2,500
		<u>185,357</u>			<u>185,357</u>

Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF EXPENDITURES BY AGENCY (Continued)
Fiscal Year Ended June 30, 2017

	W.E.	CITY	HWY	OMPO	TOTAL
Coordination of the Planning Program:					
Program Support & Administration	\$	--	\$	\$ 306,939	\$ 306,939
General Technical Assistance & Support		--	--	9,451	9,451
Overall Work Program		--	--	94,235	94,235
Support for Citizen Advisory Committee		--	--	35,064	35,064
Single Audit		--	--	45,878	45,878
Public Participation Plan		--	--	1,568	1,568
Disadvantage Business Enterprise Program		--	--	4,361	4,361
Professional Development		--	--	16,914	16,914
Computer Network Maintenance		--	--	5,850	5,850
Subrecipient Monitoring		--	--	25,518	25,518
Performance-Based Planning		--	--	6,272	6,272
Federal Planning Requirements		--	--	15,526	15,526
Computer Model Operations & Support		--	--	97,982	97,982
Oahu Regional Transportation Plan		--	--	26,852	26,852
Transportation Improvement Program		--	--	68,874	68,874
Transportation Alternatives Program		--	--	7,052	7,052
OahuMPO Staff Support of Consultant Projects		--	--	794	794
Overhead (Indirect Costs)		--	--	46,027	46,027
		--	--	<u>815,157</u>	<u>815,157</u>
Total Expenditures by Agency	\$	<u>233,068</u>	\$	<u>1,166,540</u>	\$ <u>1,399,608</u>

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation				
Passed Through State Department of Transportation				
Highway Planning and Construction				
OahuMPO Work Program	20.205	PL-0052(36)	\$ 10,023	\$ --
OahuMPO Work Program	20.205	PL-0052(38)	499,438	148,294
OahuMPO Work Program	20.205	PL-0052(39)	486,338	38,161
			<u>995,799</u>	<u>186,455</u>
Federal Transit Technical Studies Grant				
FTA, Section 5303	20.505	HI-80-0025	30,010	--
FTA, Section 5303	20.505	HI-2016-005	93,872	--
			<u>123,882</u>	<u>--</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>1,119,681</u>	\$ <u>186,455</u>

Oahu Metropolitan Planning Organization
State of Hawaii
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Oahu Metropolitan Planning Organization, State of Hawaii, (OahuMPO).

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the OahuMPO, it is not intended to and does not present the financial position, changes in net position, or cash flows of the OahuMPO.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following as applicable, either the cost principles in the Office of Management and Budget Circular A-87 *Cost Principles for State, Local and Indian Tribe Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The OahuMPO has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - LOCAL SHARE

The FHWA and FTA grants reimburse 80% of the allowable expenditures claims by OahuMPO and the remaining 20% is contributed by the State, City and County of Honolulu, and the Honolulu Authority for Rapid Transportation. For the fiscal year ended June 30, 2017, the amounts contributed by the State, City and County of Honolulu, and the Honolulu Authority for Rapid Transportation were approximately \$77,800, \$124,400, and \$77,800, respectively.

PART II

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Policy Board
Oahu Metropolitan Planning Organization

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the special revenue fund of Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OahuMPO's basic financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-005 that we consider to be significant deficiencies.

Compliance and Other Matters

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

OahuMPO's Response to Findings

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

Purpose of this Report

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

N&K CPAs, Inc.

Honolulu, Hawaii
March 28, 2018

PART III

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

**REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Policy Board
Oahu Metropolitan Planning Organization

Report on Compliance for Each Major Federal Program

We have audited the Oahu Metropolitan Planning Organization, State of Hawaii (OahuMPO)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on OahuMPO's major federal program for the fiscal year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for OahuMPO's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of OahuMPO's compliance.

Basis for Qualified Opinion on Highway Planning and Construction

As described in the accompanying schedule of findings and questioned costs, OahuMPO did not comply with requirements regarding CFDA 20.205 Highway Planning and Construction as described in finding number 2017-008 for subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for OahuMPO to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, OahuMPO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.205 Highway Planning and Construction for the fiscal year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-007. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-008 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-007 to be significant deficiencies.

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

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

N&K CPAs, Inc.

Honolulu, Hawaii
March 28, 2018

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:
Material weakness(es) identified?
Significant deficiency(ies) identified?

yes no
 yes none reported

Noncompliance material to the financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified?
Significant deficiency(ies) identified?

yes no
 yes none reported

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

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.205

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

yes no

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. Internal Control Findings

2017-001 Formalize Risk Assessment Procedures

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

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

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.

Identification as a Repeat Finding, if applicable:

See finding 2016-002 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

OahuMPO should 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.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 54.

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

Ref. No. Internal Control Findings (Continued)

2017-002 Prepare Financial Accounting Policies and Procedures Manual

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

Condition: During our audit, we noted that OahuMPO's accounting, grants management, and financial reporting policies and procedures were not specific or undocumented related to these areas. Some of the decisions on how to handle accounting and grants management issues were not documented. OahuMPO is currently working with a consultant to prepare a Financial Accounting Policies and Procedures manual.

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

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

Identification as a Repeat Finding, if applicable:

See finding 2016-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

OahuMPO should continue to prepare a Financial Accounting Policies and Procedures manual to ensure its written policies and procedures over accounting, grants management and financial report are current and complete.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 55.

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

Ref. No. Internal Control Findings (Continued)

2017-003 Document and Test Key Cost Allocation Summary Worksheet

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

Condition: During our audit, we noted that the Accountant maintains a spreadsheet that is used to allocate and summarize costs charged to specific grants. At the beginning of each fiscal year, the Accountant modifies the spreadsheet to add new grants and to remove expired grants. However, the Accountant does not maintain documentation on 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 did not note any material discrepancies related to the allocation of expenditures on the allocation worksheets.

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

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

Identification as a Repeat Finding, if applicable:

See finding 2016-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

OahuMPO should prepare documentation of the process for a key spreadsheet used to summarize the allocation of costs to the appropriate grants.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 55.

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

Ref. No. Internal Control Findings (Continued)

2017-004 Improve Monitoring of Internal Controls over the Accounting, Grants Management, and Financial Reporting Areas

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

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

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

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

Identification as a Repeat Finding, if applicable:

See finding 2016-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

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

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 56.

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2017**

Ref. No. Internal Control Findings (Continued)

2017-005 Improve Recordkeeping to Maintain Accounts on Accrual Basis of Accounting

Criteria: Accounting principles generally accepted in the United States of America require government-wide financial statements to be prepared on an accrual basis and the governmental fund financial statements to be prepared on a modified accrual basis.

Condition: During our audit we reviewed various accounts that disclosed the following errors in the accounts and balances that required audit adjustments as of and for the fiscal year ended June 30, 2017:

1. During our review of the vouchers payable, we noted that \$29,849 of services received during the fiscal year ended June 30, 2017 paid subsequent to the balance sheet date were not accrued. As a result, receivable from federal government, advances from other agencies, vouchers payable, federal grant contributions, local contributions, and expenditures/expenses were understated. An adjustment to these accounts as of and for the fiscal year ended June 30, 2017 was made.
2. During our review of accrued payroll, we noted \$20,918 for a payroll period was not accrued although it was a valid payable as of June 30, 2017. As a result, receivable from federal government, advances from other agencies, accrued payroll, federal grant contributions, local contributions, and expenditures/expenses were understated. An adjustment to these accounts as of and for the fiscal year ended June 30, 2017 was made.

Cause: The fiscal agent used cutoff dates for vouchers payable and payroll accrual recognition that did not consider all accruals for financial reporting purpose. There is also a lack of coordination between the OahuMPO accountant and the fiscal agent to ensure all accruals are identified and recognized.

Effect: Without complete and accurate financial information on an accrual basis, management is unable to make fully informed decisions. In addition, reports submitted to external parties such as grantors may be misstated.

Recommendation:

OahuMPO should improve its coordination with its fiscal agent in its recordkeeping by reviewing and reconciling its accounts in a timely manner to identify unrecorded transactions to be recorded and resolve accounting errors. Accounting records should be maintained on an accrual basis to provide complete and accurate financial information that will enable the fiscal agent to prepare financial statements on an accrual basis and modified accrual basis of accounting appropriate for governmental entities.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 56.

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2017**

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

<u>Ref. No.</u>	<u>Compliance and Internal Control Finding</u>	<u>Questioned Costs</u>
2017-006	<p>Establish Written Policies and Procedures as Required by 2 CFR 200</p> <p>Federal agency: U.S. Department of Transportation CFDA No.: 25.205 Program: Highway Planning and Construction Federal award no.: PL-0052(36), PL-0052(38), PL-0052(39)</p> <p>Criteria: 2 CFR 200 requires written policies and procedures in various matters such as cash management, personnel compensation, and determination of allowability of costs in accordance with cost principles and terms of the federal awards, not all inclusive.</p> <p>Condition: The OahuMPO is aware of the need for written policies and procedures over accounting, grants management, and financial reporting areas to ensure compliance with federal laws, regulations and grant agreements. The OahuMPO is currently drafting its Financial Accounting Policies and Procedures manual with the assistance of a consultant. Until the manual is completed and approved, the need for written policies and procedures that meets the requirement of 2 CFR 200 remains.</p> <p>Cause: The OahuMPO is in the process of drafting its Financial Accounting Policies and Procedures manual and expects compliance with the existence of written policies and procedures as required by 2 CFR 200 upon completion and approval of the manual.</p> <p>Effect: Without the written policies and procedures required by 2 CFR 200, OahuMPO has insufficient internal controls over compliance with federal laws, regulations and grant agreements related to the federal awards it receives and expends.</p> <p>Recommendation: The OahuMPO should continue to work with its consultant in completing its Financial Accounting Policies and Procedures to, at minimum, address the requirements of 2 CFR 200 for written policies and procedures.</p> <p>Views of Responsible Official(s) and Planned Corrective Action: Management agrees with the finding and recommendation. See Corrective Action Plan on page 57.</p>	<p>\$ <u> --</u></p>

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2017**

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS (Continued)

<u>Ref. No.</u>	<u>Compliance and Internal Control Finding</u>	<u>Questioned Costs</u>
2017-007	<p>Strengthen Controls to Ensure Timely Submission of the Single Audit to the Federal Audit Clearinghouse</p> <p>Federal agency: U.S. Department of Transportation CFDA No.: 25.205 Program: Highway Planning and Construction Federal award no.: PL-0052(36), PL-0052(37), PL-0052(38)</p> <p>Criteria: 2 CFR 200.512 states that the auditee must electronically submit to the Federal Audit Clearinghouse the data collection form and the Single Audit reporting package within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.</p> <p>Condition: As of February 2018, the submission of the data collection form and Single Audit reporting package for the fiscal year ended June 30, 2016 did not appear on the website of the Federal Audit Clearinghouse. This is past the latest due date of nine months after the end of the audit period.</p> <p>Cause: There was an unresolved breakdown in communication between the OahuMPO and the engagement auditor during the submission to the Federal Audit Clearinghouse. In addition, no follow up procedures were performed to ascertain that the required submission was completed.</p> <p>Effect: The OahuMPO was not in compliance with the data collection form and Single Audit reporting submission requirement.</p> <p>Recommendation:</p> <p>The OahuMPO should strengthen its monitoring and communication controls to ensure that the data collection form and Single Audit reporting package is electronically submitted to the Federal Audit Clearinghouse in a timely manner.</p> <p>Views of Responsible Official(s) and Planned Corrective Action: Management agrees with the finding and recommendation. See Corrective Action Plan on page 57.</p>	\$ <u> --</u>

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2017**

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS (Continued)

<u>Ref. No.</u>	<u>Compliance and Internal Control Finding</u>	<u>Questioned Costs</u>
2017-008	<p>Perform and Document Subrecipient Monitoring</p> <p>Federal agency: U.S. Department of Transportation CFDA No.: 25.205 Program: Highway Planning and Construction Federal award no.: PL-0052(38), PL-0052(39)</p> <p>Criteria: 2 CFR 200.331 states the requirements that pass-through entities must comply with including the following:</p> <ol style="list-style-type: none"> 1. Ensure every subaward is clearly identified to the subrecipient as a subaward and includes certain information detailed in 2 CFR 200.331(1)(a). 2. Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward. 3. Consider imposing specific subaward conditions on a subrecipient if appropriate as described in 2 CFR 200.207. 4. Monitor activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward goals are achieved. 5. Verify that every subrecipient is audited as required by Subpart F of the 2 CFR 200. 6. Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records. 7. Consider taking enforcement action against noncompliant subrecipients as described in 2 CFR 200.338. <p>Condition: The OahuMPO has one subrecipient. The Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2017 reported approximately \$186,000 expended to the subrecipient. We were informed that no subrecipient monitoring was performed during the fiscal year ended June 30, 2017.</p>	

**Oahu Metropolitan Planning Organization
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2017**

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS (Continued)

<u>Ref. No.</u>	<u>Compliance and Internal Control Finding</u>	<u>Questioned Costs</u>
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2017-008 Perform and Document Subrecipient Monitoring (Continued)

Cause: We were informed that the subrecipient monitoring procedures were not performed due to significant personnel turnover and absences during the fiscal year. Three out of eight positions were vacant within the first half of the fiscal year.

Effect: By not monitoring the subrecipient in a timely manner, the OahuMPO cannot be assured in a timely manner that subawards were used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; that subaward goals are achieved; that the subrecipient was audited as required by Subpart F of the 2 CFR 200; and that OahuMPO's records did not require adjustments as a result of its subrecipient's audits or from discoveries had monitoring procedures been performed. Continued noncompliance may result in the following actions taken by the grantor on OahuMPO: additional conditions imposed on OahuMPO by the grantor; temporary withholding of cash payments pending correction of the deficiency; questioned costs that may lead to return of funds by OahuMPO; wholly or partly suspension or termination of federal award; withhold further federal awards; or initiation of debarment or suspension proceedings.

Identification as a Repeat Finding, if applicable:

See finding 2016-006 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

The OahuMPO should perform and document its performance of the subrecipient monitoring procedures required by 2 CFR 200.331. This may be in the form of sign-offs with dates on standardized checklists with comments to demonstrate appropriate procedures were performed in a timely manner.

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Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 58.

PART V
CORRECTIVE ACTION PLAN



**OAHU METROPOLITAN PLANNING ORGANIZATION
STATE OF HAWAII
CORRECTIVE ACTION PLAN
FISCAL YEAR ENDED JUNE 30, 2017**

Financial Statement Findings

2017-001 Formalize Risk Assessment Procedures

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

The OahuMPO Policy Board budgeted resources in the fiscal year 2017 Overall Work Program (OWP) 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 communication, 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 about processes, policies, and procedures.

OahuMPO engaged Spire Hawaii LLP to provide consulting services necessary to satisfy both the outstanding audit findings from our FY2015 and FY2016 single audit as well as provide additional resources so that OahuMPO can meet the requirements of the 2014 Federal Certification Review.

Anticipated completion date

The project is currently underway. The consultant has provided a draft of the accounting-related policies and procedures that is being reviewed by OahuMPO staff, an accounting system selection process is underway, and it is anticipated that the completion date will be approximately December 2019.

**Oahu Metropolitan Planning Organization
State Of Hawaii
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

2017-002 Prepare Financial Accounting Policies and Procedures Manual

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

OahuMPO is working with Spire Hawaii LLP to develop the Financial Accounting Policies and Procedures Manual.

Anticipated completion date

December 31, 2019

2017-003 Document and Test Key Cost Allocation Summary Worksheet

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

The work done by the Fiscal Agent and OahuMPO is being developed by Spire Hawaii LLP. Spire is preparing documentation for the Key Cost Allocation Worksheet.

Anticipated completion date

December 31, 2019

**Oahu Metropolitan Planning Organization
State Of Hawaii
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

2017-004 Improve Monitoring of Internal Controls over the Accounting, Grants Management and Financial Reporting Areas

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

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.

The firm hired to assist OahuMPO in this regard is Spire Hawaii LLP. OahuMPO and its consultant will consult closely with its Fiscal Agent to ensure that there is a clear understanding of both the roles and responsibilities of each along with requisite responsibility for associated internal controls.

Anticipated completion date

December 31, 2019

2017-005 Improve Recordkeeping to Maintain Accounts on Accrual Basis Accounting

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

OahuMPO accounting staff will work closely with our Fiscal Agent in reconciling accounts on schedule. We will maintain records on an accrual basis.

Anticipated completion date:

December 31, 2018

**Oahu Metropolitan Planning Organization
State Of Hawaii
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

2017-006 Establish Written Policies and Procedures as Required by 2 CFR 200

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

OahuMPO is working with Spire Hawaii LLP to develop the requisite procedures. OahuMPO will further make it a priority to meet the requirements of 2 CFR 200.

Anticipated completion date

December 31, 2019

2017-007 Strengthen Controls to Ensure Timely Submission of the Single Audit to the
Federal Audit Clearinghouse.

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

OahuMPO staff will coordinate with the Executive Director to ensure submission of the audit to the Federal Audit Clearinghouse is on time.

Anticipated completion date

March 31, 2018

**Oahu Metropolitan Planning Organization
State Of Hawaii
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

2017-008 Perform and Document Subrecipient Monitoring

Contact person

Alvin Au, Executive Director

View of Responsible Officials

Management agrees with the finding and recommendation.

Corrective action plan

OahuMPO will perform and document its performance of the subrecipient monitoring procedures required by 2 CFR 200.331. This will be by way of sign-offs with dates on standardized checklists with comments to demonstrate appropriate procedures are performed in a timely manner.

Anticipated completion date

December 31, 2019

PART VI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Oahu Metropolitan Planning Organization
State of Hawaii
STATUS REPORT
Fiscal Year Ended June 30, 2017**

This section contains the current status of the prior audit recommendations. The recommendations are referenced to the page of the prior audit report for the fiscal year ended June 30, 2016, dated March 31, 2017.

Recommendations	CFDA Number	Status
SECTION II - FINANCIAL STATEMENT FINDINGS		
<p>2016-001 Improve Commitment to Integrity and Ethical Values (page 44)</p> <p>OahuMPO should finalize the code of conduct and conflict of interest policies.</p>		Accomplished.
<p>2016-002 Formalize Risk Assessment Procedures (page 45)</p> <p>OahuMPO should 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.</p>		Not accomplished. OahuMPO has contracted with a consultant to assist in the preparation of written policies and procedures to formalize its risk assessment procedures. Refer to Finding 2017-001.
<p>2016-003 Review and Update Policies and Procedures Over Accounting, Grants Management, and Financial Reporting (page 47)</p> <p>OahuMPO should 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 appropriate policies and procedures as required.</p>		Not accomplished. OahuMPO has contracted with a consultant to assist in the preparation of its Financial Accounting Policies and Procedures manual. Refer to Finding 2017-002.
<p>2016-004 Document and Test Key Cost Allocation Summary Worksheets (page 48)</p> <p>OahuMPO should prepare documentation over the key spreadsheet used to summarize the allocation of costs to the appropriate grants.</p>		Not accomplished. OahuMPO has contracted with a consultant to assist in documenting the preparation of and check controls in the cost allocation summary worksheet. Refer to Finding 2017-003.

**Oahu Metropolitan Planning Organization
State of Hawaii
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2017**

<u>Recommendations</u>	<u>CFDA Number</u>	<u>Status</u>
SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)		
2016-005 Improve Monitoring of Internal Controls Over the Accounting, Grants Management, and Financial Reporting Areas (page 49)		
<p>OahuMPO should 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.</p>		Not accomplished. OahuMPO has contracted with a consultant to establish a monitoring process of its internal controls over accounting, grants management and financial reporting. Refer to Finding 2017-004.
SECTION III - FEDERAL AWARD FINDINGS		
2016-006 Improve Subrecipient Monitoring Process (page 52)	20.205	
<p>OahuMPO should review its grants management process to ensure that subrecipients 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.</p> <p>OahuMPO should have the subrecipients sign a sub-award agreement for each award that has been awarded in the previous fiscal years. OahuMPO should also request periodic progress reports to monitor the status of the outstanding sub-awards and to ensure the subrecipient is in compliance with Federal statutes, regulations, and the terms and conditions of the sub-award.</p>		Partially accomplished. OahuMPO received consensus from the FHWA that the combined existence of various documents governing its federal award relationship with its subrecipient fulfills the subaward agreement terms requirement. Periodic progress reports are received from the subrecipient for monitoring purpose. However, subrecipient monitoring procedures were not performed during the fiscal year ended June 30, 2017. Refer to Finding 2017-008.