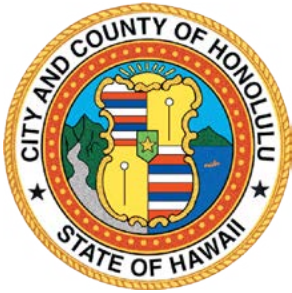




Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Financial Audit of the
City and County of Honolulu,
State of Hawai`i**

**For the Fiscal Year Ended
June 30, 2018**

**Single Audit of Federal Financial
Assistance Programs**

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INTRODUCTION



A Hawaii Limited Liability Partnership

March 20, 2019

The Chair and Members of the City Council
City and County of Honolulu

Dear Chair and Members of the City Council:

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii (the City) as of and for the fiscal year ended June 30, 2018. Our report containing our opinion on those basic financial statements is included in the City's *Comprehensive Annual Financial Report*. We have also audited the City's compliance with requirements applicable to its major federal financial programs. We submit herein our reports on compliance and internal control over financial reporting and over federal awards, the schedule of expenditures of federal awards, and the schedule of findings and questioned costs. Our audit was performed in accordance with the terms of our contract with the City and with the requirements of the 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

1. To provide an opinion on the fairness of the presentation of the City's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.
2. To consider the City's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the City's internal control over compliance with the requirements that could have a direct and material effect on a 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 in accordance with the Uniform Guidance.
5. To report on the status of prior year findings and questioned costs.

SCOPE OF THE AUDIT

We performed an audit of the City's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2018, 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 provisions of the Uniform Guidance.

Our report on the basic financial statements of the City as of and for the year ended June 30, 2018 is included under a separate cover.

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

Sincerely,

A handwritten signature in black ink that reads "Wilcox Choy". The signature is written in a cursive, slightly slanted style.

Wilcox Choy
Partner

**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***



A Hawaii Limited Liability Partnership

**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

The Chair and Members of the City Council
City and County of Honolulu

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of Honolulu, State of Hawaii (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 8, 2019. Our report includes a reference to other auditors who have audited the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We and the other auditors consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as items 2018-001 through 2018-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We and the other auditors consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as item 2018-004 to be a significant deficiency.

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
January 8, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON
INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

The Chair and Members of the City Council
City and County of Honolulu

Report on Compliance for Each Major Federal Program

We have audited the City and County of Honolulu, State of Hawaii's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of the 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 each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the Major Federal Programs in the Table Below

As described in the accompanying *Schedule of Findings and Questioned Costs*, the City did not comply with requirements regarding the following:

Finding No.	CFDA No.	Program Name	Compliance Requirement
2018-005	14.218	CDBG – Entitlement Grants Cluster	Subrecipient Monitoring
2018-006	14.239	HOME Investment Partnerships Program	Subrecipient Monitoring
2018-007	14.267	Continuum of Care	Reporting
2018-008	14.267	Continuum of Care	Subrecipient Monitoring
2018-009	14.871	Housing Choice Voucher Cluster	Eligibility
2018-010	14.879		
2018-011	14.871 14.879	Housing Choice Voucher Cluster	Special Tests
2018-012	17.258 17.259 17.278	WIOA Cluster	Earmarking
2018-013	20.500 20.507 20.525 20.526	Federal Transit Cluster	Reporting

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

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor’s Results section of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2018.

Other Matters

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as items 2018-005 through 2018-013 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or 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 deficiency in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as item 2018-014 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed above, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 8, 2019, which contained an unmodified opinion on those financial statements. We did not audit the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., which are discretely presented component units of the City. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 20, 2019, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 8, 2019

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:				
<i>Child Nutrition Cluster:</i>				
Pass-through State Department of Education -- Summer Food Service Program for Children Total Child Nutrition Cluster	10.559	12-351523	\$ - -	\$ 156,743 156,743
<i>Supplemental Nutrition Assistance Program SNAP Cluster --</i>				
Pass-through State Department of Human Services -- State Administrative Matching Grants for Supplemental Nutritional Assistance Program Total SNAP Cluster	10.561	DHS-16-SNAP-3078, SA1 & SA2	- -	11,177 11,177
Total U.S. Department of Agriculture			-	167,920
U.S. Department of Commerce:				
Pass-through State Civil Defense -- Meteorologic and Hydrologic Modernization Development	11.467	NA16NWS4670036	-	134,567
Total U.S. Department of Commerce			-	134,567
U.S. Department of Housing and Urban Development:				
<i>CDBG-Entitlement Grants Cluster --</i>				
Community Development Block Grants/Entitlement Grants Total CDBG-Entitlement Grant Cluster	14.218		12,068,794 12,068,794	21,417,464 21,417,464
Emergency Solutions Grant Program	14.231		470,838	528,236
HOME Investment Partnerships Program	14.239		1,388,017	2,746,486
Housing Opportunities for Persons with AIDS	14.241		400,130	416,896
Continuum of Care Program	14.267		6,968,729	7,072,766
Family Self-Sufficiency Program	14.896		-	182,114
Pass-through State Hawaii Public Housing Authority -- Public and Indian Housing	14.850	SPB 16-02	-	17,493
<i>Section 8 Project-Based Cluster --</i>				
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation Total Section 8 Project-Based Cluster	14.856		- -	152,752 152,752
<i>Housing Voucher Cluster:</i>				
Mainstream Vouchers	14.879		-	1,404,890
Section 8 Housing Choice Vouchers	14.871		-	51,868,198
Pass-through State Hawaii Public Housing Authority -- Section 8 Housing Choice Vouchers: FSS Total Housing Voucher Cluster	14.871	PMB 09-03; SPB 16-02	- -	39,136 53,312,224
Total U.S. Department of Housing and Urban Development			21,296,508	85,846,431
U.S. Department of Justice:				
Domestic Cannabis Eradication/Suppression Program	16.000		-	59,950
Equitable Sharing Program	16.922		-	151,845
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		-	151,233
DNA Backlog Reduction Program	16.741		-	301,536
Pass-through State Department of Human Services -- Juvenile Accountability Block Grants	16.523	DHS-12-OYS-264, SA6	-	2,441
Pass-through State Department of Attorney General:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	16-CD-01	-	29,550
Violence Against Women Formula Grants (Non-ARRA)	16.588	14-WF-08; 15-WF-0815-WF-04	-	161,408
Crime Victim Assistance	16.575	14-VA-02; 15-VA-02	512,707	1,396,330
National Sexual Assault Kit Initiative	16.833	16-AK-01	-	22,403
Justice Assistance Grant (JAG) Program:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	-	94,085
Pass-through State of Hawaii Department of Attorney General --				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program Total JAG Program	16.738	14-DJ-02 & 03; 15-DJ-09 & 11; 16-DJ-0215-DJ-062015-DC-NY-K002	- -	311,206 405,291
Total U.S. Department of Justice			512,707	2,681,987
U.S. Department of Labor:				
YouthBuild	17.274		-	155,755
Homeless Veterans' Reintegration Program	17.805		-	3,186
<i>Workforce Investment Act (WIA) Cluster:</i>				
Pass-through State Department of Labor & Industrial Relations:				
Workforce Investment Act - Adult Program	17.258	WIOA 15-AP-0; 16-AP-0; 16-DW-0 (Adult); 16-LAC-0; 16-A&DWP-0; 17-A&DWP-0;	-	1,148,765
Workforce Investment Act - Youth Activities	17.259	WIOA 15-YP-0; 16-YP-0; 16-LAC-0	-	1,160,573
WIOA Dislocated Worker Formula Grants Total Workforce Investment Act Cluster	17.278	WIOA 15-DW-0; 16-AP-0; 16-DW-0(DW); 17-A&DWP-0(DW); 16-A&DWP-0; 16-LAC-0	- -	777,743 3,087,081
Pass-through State Department of Labor & Industrial Relations:				
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277	WIA 14-NEG-JD-0	-	34,834

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
H-1B Job Training Grants	17.268	AAI-15-O	-	206,625
Workforce Innovation Fund	17.283	DEI-PY15-CC	-	101,587
Total U.S. Department of Labor			<u>-</u>	<u>3,589,068</u>
U.S. Department of Transportation:				
<i>Highway Planning & Construction Cluster:</i>				
Pass-through State Department of Transportation & Oahu Metropolitan Planning Organization:				
		CMAQ-0001 (41) CMAQ-0300(128) FLH-0300(91) STP-0001(040) (042) (052) (055) (057) (058) (059) STP-0300(141) STP-6010(001) STP-7180(001) STP-7411(001) STP-7502(001) STP-7542(001) STP- 8920(002)		
Highway Planning and Construction	20.205		-	10,994,989
Highway Planning and Construction	20.205	BR-NBIS-064 & -066	-	396,230
		FHWA 202.07-17; 203.03.16; 203.05-14; 203.8-10; 203.82-11;		
Highway Planning and Construction	20.205	TAP-0300(150); TAP-9263(001)	-	231,366
Total Highway Planning & Construction Cluster			<u>-</u>	<u>11,622,585</u>
<i>Federal Transit Cluster:</i>				
Federal Transit - Capital Investment Grants	20.500		-	2,381,631
Federal Transit - Formula Grants	20.507		338,470	25,965,666
State of Good Repair Grants Program	20.525		-	950,553
Bus and Bus Facilities Formula Program	20.526		-	1,176,336
Total Federal Transit Cluster			<u>338,470</u>	<u>30,474,186</u>
<i>Transit Services Programs Cluster:</i>				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513		194,765	194,765
Job Access and Reverse Commute	20.516		97,045	97,045
New Freedom Program	20.521		23,934	23,934
Total Transit Services Programs Cluster:			<u>315,744</u>	<u>315,744</u>
<i>Highway Safety Cluster:</i>				
Pass-through State Department of Transportation:				
		DD17&18-10(01-O-01); OP17-05(01-O-01); PS17- 09(01-O-01); PT17-01(01-O-01); SC17&18-06(01-O- 01); EM17-04 (01-O-01)PS17-09 (06-O-01) AL17-02(01-O-01); PS 17-09(02-O-01); TR 17- 03(03-O-01)		
State and Community Highway Safety	20.600		-	1,137,128
National Priority Safety Programs	20.616		-	55,027
Total Highway Safety Cluster			<u>-</u>	<u>1,192,155</u>
Pass-through State Department of Transportation:				
Alcohol Open Container Requirements	20.607	AL 17-02(01-O-01)&(06-O-01)	-	525,465
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL 18-02(01-O-01)	-	36,171
Total U.S. Department of Transportation			<u>654,214</u>	<u>44,166,306</u>
Environmental Protection Agency:				
Environmental Protection Consolidated Grants	66.606			1,189
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		-	157,908
<i>Clean Water State Revolving Fund Cluster --</i>				
Pass-through State Department of Health --				
Capitalization Grants for Clean Water SRF	66.458	C150048-00	-	271,123
Total Clean Water State Revolving Fund Cluster			<u>-</u>	<u>271,123</u>
Total Environmental Protection Agency			<u>-</u>	<u>430,220</u>
U.S. Department of Education:				
Pass-through State Department of Human Services --				
		DHS 12-VR-640 SA2, SA3, SA4, SA5; 15-VR-2113 SA1; 16-VR-3071, 3074 3075, 3125 (Mod 1); 17-VR- 4100		
Rehabilitation Services: -Vocational Rehabilitation Grants to States	84.126	4100	-	825,863
Total Vocational Rehabilitation			<u>-</u>	<u>825,863</u>
Pass-through State Department of Education --				
21st Century Community Learning Center	84.287	13023	-	1,037
Total U.S. Department of Education			<u>-</u>	<u>826,900</u>

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
<i>Aging Cluster:</i>				
Pass-through State Executive Office on Aging:				
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	HON2016N03	771,522	771,522
Nutrition Services Incentive Program	93.053	HON2017NSIP; HON2018NSIP	220,860	220,860
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	HON2016N03	1,835,147	1,850,911
<i>Total Aging Cluster</i>			<u>2,827,529</u>	<u>2,843,293</u>
Pass-through State Executive Office on Aging:				
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	HON2016N03	36,401	36,401
National Family Caregiver Support, Title III, Part E	93.052	HON2016N03	415,687	430,140
Pass-through State Department of Health:				
Block Grants for Community Mental Health Services Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.958	n/a	-	615,636
Projects of Regional and National Significance	93.243	ASO Log 16-125	-	118,610
Pass-through State Department of Transportation -- State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	PO 00 234952	-	24,500
Total U.S. Department of Health and Human Services			<u><u>3,279,617</u></u>	<u><u>4,068,580</u></u>
Corporation for National and Community Service --				
Retired and Senior Volunteer Program	94.002		-	86,136
Total Corporation for National and Community Service			<u>-</u>	<u><u>86,136</u></u>
Executive Office of the President --				
High Intensity Drug Trafficking Area Program	95.001		-	1,448,805
Total Executive Office of the President			<u>-</u>	<u><u>1,448,805</u></u>
U.S. Department of Homeland Security:				
<i>Pass-through State Civil Defense --</i>				
<i>Homeland Security Grant Program:</i>				
Urban Areas Security Initiative Program	97.067	EMW 2015-SS-00003	-	1,698,568
State Homeland Security Program	97.067	EMW 2016-SS-00004	-	303,870
<i>Total Homeland Security Grant</i>			<u>-</u>	<u>2,002,438</u>
Emergency Management Performance Grants	97.042	EMW 2015-EP-0003; EMW-2016-EP-0008; EMW- 2017-EP-0003	-	1,003,099
Port Security Grant Program	97.056	EMW-2016-PU-00072	-	75,871
Pass-through National Development and Research Institutes, Inc. -- Assistance to Firefighters Grant	97.044	2014-FP-00945	-	11,053
Total U.S. Department of Homeland Security			<u>-</u>	<u><u>3,092,461</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 25,743,046</u></u>	<u><u>\$ 146,539,381</u></u>

**City and County of Honolulu
State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City and County of Honolulu (the City) and is presented on the cash basis of accounting and 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). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Schedule does not include the federal grant activity of the Board of Water Supply and Oahu Transit Services, Inc., discretely presented component units of the City.

2. Loans Outstanding

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2018, which are not presented in the Schedule.

Program Title	CFDA Number	Loans/ Advances	Loans Outstanding
Major Programs			
Community Development Block Grants – Entitlement Grants	14.218	\$ -	\$ 33,023,924
HOME Investment Partnerships Program	14.239	-	21,532,837
Section 8 Housing Choice Vouchers	14.871	-	3,647,688
		<u>\$ -</u>	<u>\$ 58,204,449</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2018, federal awards and state revolving fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 271,123
State	<u>34,948</u>
	<u>\$ 306,071</u>

4. Indirect Cost Rate

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes None reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section I – Summary of Auditor’s Results (continued)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.218	CDBG – Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
14.267	Continuum of Care Program
14.871, 14.879	Housing Voucher Cluster
17.258, 17.259, 17.278	Workforce Innovation and Opportunity Act Cluster
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster
93.044, 93.045, 93.053	Aging Cluster

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

Section II – Financial Statement Findings

Finding No. 2018-001: Significant Non-routine Transactions in the General Obligation Bond and Interest Redemption Fund

Type of Finding: Material Weakness

Criteria: In accordance with Statement 34 of the Government Accounting Standards Board (GASB), resources flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources) between a primary government and its discretely presented component units should be reported as if they were external transactions. Management should proactively identify non-routine transactions and determine the proper accounting treatment in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition: The 2017 General Obligation Bond and Interest Redemption Fund was restated to correct errors in the accounting for loans and repayments between a primary government and its discretely presented component unit.

Context: In 2017, the City entered into a Memorandum of Understanding with Honolulu Authority for Rapid Transit (HART) for the issuance of debt for the completion of the Honolulu Rail Transit Project. HART received advances of \$130 million, repaid \$50 million and had \$80 million outstanding. The City properly reported the debt issuance in the government-wide financial statements, but incorrectly reported these resource flows through the governmental fund's schedules of revenues, expenditures and changes in fund balance instead of the balance sheet only in the fund financial statements. The misstatement resulted in a restatement that increased the 2017 fund balance by \$80 million.

Cause: The unfamiliarity of non-routine transactions creates a potential for material misstatement. Management's interpretation of the relevant guidance and their unfamiliarity with this non-routine transaction resulted in a restatement.

Effect: The issue noted above resulted in a restatement to the 2017 General Obligation Bond and interest Redemption Fund's fund balance by \$80 million.

Recommendation: We recommend that management be more diligent in its determination of the proper accounting treatment of significant, non-routine transactions.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings (continued)

Finding No. 2018-002: Financial Statement Reporting – HART

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, financial statements should be prepared using the economic resources measurement focus and accrual basis of accounting. Under this basis, transactions are recognized when they occur regardless of when cash is received or disbursed.

Condition: As part of the year end process of preparing financial statements using the accrual basis, management provided several preliminary versions of the trial balance which contained errors and certain supporting schedules which did not reconcile with the trial balance.

Context: HART reports on a cash basis throughout the fiscal year and only prepares accrual basis financial statements for its annual report as of and for the period ended June 30. Accordingly, in preparing accrual basis financial statements, there are reconciliations that must be prepared and adjustments that must be recorded in order to properly present accrual basis financial statements.

Cause: We noted that the accuracy of the preparation of the accrual basis financial statements were negatively affected due to the following:

- (1) The primary fiscal accountant who was responsible for the financial statements left HART in September 2018, prior to the start of the audit. The replacement fiscal accountant was new to the position and was not familiar with certain processes and transaction history. A key internal control activity is for employees to be trained and informed of the agency's financial reporting procedures and processes. Individuals involved in the preparation of financial statements and the related supporting schedules should have knowledge of the transactions or they should review supporting documentation and verify the validity and appropriateness of the information.
- (2) There were accounts that were not properly reconciled. Reconciliation is the process of comparing transactions and activity to supporting documentation. The process ensures the accuracy and validity of financial information and should resolve any discrepancies discovered.
- (3) There was inadequate management review of the information provided by the accounting department. A critical internal control activity is an appropriate review and approval process.
- (4) There was a lack of communication regarding the status and accuracy of supporting schedules during the transition from the prior fiscal accountant.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings (continued)

Effect: Several versions of the trial balance and supporting schedules were returned to management for further investigation and revisions. Consequently, there were several follow-up requests regarding clarification of the information contained in the supporting schedules. The preceding issues delayed the audit process and consequently the issuance of the audited financial statements.

Recommendations: We recommend management re-evaluate its annual closing process to prepare accrual basis financial statements, including identifying the necessary internal control activities, specifically performing appropriate reconciliations, reviews and approvals and adhering to internal timelines.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings (continued)

**Finding No. 2018-003: Accounting for Construction Delay Claims and Internal Communication
- HART**

Type of Finding: Material Weakness

Criteria: In accordance with GASB Codification Section C50, paragraphs 153 – 162, contingent liabilities such as construction delay claims should be evaluated for accrual. An estimated loss should be accrued if information available prior to the issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Elements of effective design and implementation of internal control are prescribed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) through their Internal Control – Integrated Framework, specifically the principles related to information and communication which states that management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information.

Condition: The budget and finance department did not record an accrual for a certain construction delay claim.

Context: As part of the year end process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America, construction delay claims that are probable and estimable should be accrued. During the audit, management provided a listing of construction delay claims to support the amount reported in the financial statements. However, prior to the completion of the audit, we became aware of a tentative settlement of a certain construction delay claim, which was not included in the listing provided by management. The budget and finance and procurement departments indicated that the tentative settlement was negotiated without the budget and finance department’s involvement. Consequently, the budget and finance department did not have the appropriate or relevant information necessary to evaluate whether the construction delay claim should be accrued.

Cause: We noted that there was a lack of internal communication between departments.

Effect: As a result, we proposed and management recorded an adjustment of \$7.5 million to increase the construction delay claim liability.

Recommendations: We recommend management re-evaluate its processes relating to internal communication, particularly for items that may have a financial impact to HART.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings (continued)

Finding No. 2018-004: Change Order and Contract Amendment Management – HART

Type of Finding: Significant Deficiency

Criteria: HART’s Contract Change Procedure Manual (Manual) provides the policies, procedures and documentation requirements related to change orders. Based on our review of the Manual and discussions with management, the Manual is primarily designed to be applicable to design-build type activities.

Condition: There were 5 files that did not include the documentation required under HART’s Manual.

Context: Out of a population of 110 contract changes, we selected 25 changes for testing, which included certain professional service contracts.

Cause: We noted that the documentation issues related to the following:

- (1) For 1 approved change order, we noted that the change order had the relevant approvals, however, the Finding of Merit form was misplaced and was not in the contract change file.
- (2) For 1 approved change order, we noted that the change order had the relevant approvals, however, a Time Analysis Form and a Request for Change Form was not included in the file. The change order was a unilateral no-cost contract change and management indicated that there are no written procedures that cover this specific type of contract change. Consequently, management applied the standard procedures per the Manual with certain deviations to accommodate the terms of the change order; however, the rationale for the deviations was not documented.
- (3) For 3 approved contract amendments related to construction, engineering and inspection, we noted that the contract amendments had the relevant approvals; however, the Negotiation Strategy Memo, Summary of Negotiations, Technical Approvals, Cost Analysis and the Request for Change were not included in the file. Management indicated that these contract amendments were not related to design-build activities and there are no written procedures that cover this specific type of contract change. Consequently, management applied the standard procedures per the Manual with certain deviations to accommodate the terms of the contract amendment; however, the rationale for the deviation was not documented.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings (continued)

Effect: HART did not comply with the documentation requirements in its Manual nor did they provide documentation of deviations for instances that were not covered by the Manual.

Recommendations: We recommend that management be more diligent in retaining the required documentation. We also recommend that management document the rationale for deviations from the procedures and required documents prescribed by the Manual or consider revising the Manual to accommodate the aforementioned contract types.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

Finding No. 2018-005: Perform Annual Subrecipient Monitoring Duties - CDBG

Federal Agency: United States Department of Housing and Urban Development (HUD)
CFDA No.: 14.218
Program: CDBG – Entitlement Grants Cluster
Award Number and Year B-17-MC-15-0001 2018
B-16-MC-15-0001 2017
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR section 200.331 states that depending on the pass-through entity’s assessment of risk posed by the subrecipient, one monitoring tool that may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals is an on-site review of the subrecipient’s program operations. 2 CFR 200.331(b) states that pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: The on-site review for 39 out of 40 ongoing projects for testing were not performed. Further noted that only 1 of the 40 ongoing projects had an on-site review during the year.

Context: During our audit, we selected a non-statistical sample of 9 projects (2 ongoing and 7 post-development monitoring projects), out of a population of 72 projects, for testing and noted all but one open project did not have an on-site review completed, and 4 post development site visits were done as policies and procedures had not been in place during the year.

Cause: Management indicated that the on-site review of ongoing and post-development monitoring was not performed due to a transition in monitoring authority from DCS to BFS in the current year as well as a substantial increase of overall duties.

Effect: Failure to perform an on-site review annually results in noncompliance with the subrecipient monitoring requirement.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-004.

Recommendation: We recommend the City continue to implement and perform the formalized policies and procedures approved by HUD related to the ongoing and post-development monitoring functions.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2018-006: Perform Annual Subrecipient Monitoring Duties - HOME

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.239
Program: HOME Investment Partnerships Program
Award Number and Year M17-MC150201 2018
M16-MC150201 2017
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR section 200.331 states that depending on the pass-through entity’s assessment of risk posed by the subrecipient, one monitoring tool that may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals is an on-site review of the subrecipient’s program operations. 2 CFR 200.331(b) states that pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: The on-site review for 3 out of 7 subrecipients selected for testing was not performed.

Context: During our audit, we selected a non-statistical sample of 7 subrecipients (2 ongoing and 5 post-development monitoring projects), out of a population of 31 subrecipients, for testing and noted 3 subrecipients did not have an on-site review completed. Per review of the 4 post-development monitoring reviews, it was noted that on-site monitoring was done, but a report was never issued to 1 of the subrecipients.

Cause: Management indicated that the on-site review of ongoing and post-development monitoring was not performed due to a transition in monitoring authority from DCS to BFS in the current year as well as a substantial increase of overall duties.

Effect: Failure to perform an on-site review annually results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-005.

Recommendation: We recommend the City continue to implement and perform the formalized policies and procedures approved by HUD related to the ongoing and post-development monitoring functions.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2018-007: Submit Reports in a Timely Manner

Federal Agency: United States Department of Housing and Urban Development

CFDA No.: 14.267

Program: Continuum of Care

Award Number and Year	HI0051L9C011501	2016 – 2017
	HI0014L9C011503	2016 – 2017
	HI0061C9C011100	2016 – 2017
	HI0029L9C011609	2017 – 2018
	HI0034L9C011508	2016 – 2018

Requirement: Reporting

Type of Finding: Non-Compliance and Material Weakness

Criteria: 24 CFR section 578.109(b), states applicants must submit all reports required by HUD no later than 90 days from the date of the end of the project’s grant term. Under the reporting requirements of Continuum of Care, the annual progress report (APR) must be completed and submitted timely.

Condition: Reporting requirements for five APRs were not met.

Context: The City was required to submit six APRs during FY 2018. During the audit, we noted that one APR had been submitted, one APR was submitted but rejected and not corrected, and four had not been submitted as of the audit fieldwork date.

Cause: Management indicated that the APRs were not submitted due to competing priorities.

Effect: Failure to submit or timely correct reports results in noncompliance with the reporting requirement.

Questioned costs: None

Identification of repeat finding: This is a repeat finding from the immediate previous audit, 2017-006.

Recommendation: We recommend the City be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2018-008: **Perform Annual Subrecipient Monitoring Duties**
Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 24 CFR section 578.7(a)(6) states that program management should monitor recipient and subrecipient performance, evaluate outcomes, and take action against poor performance.

Condition: Subrecipient monitoring was not performed for six of seven subrecipients.

Context: During our audit, management indicated that only one subrecipient monitoring was performed in the current year.

Cause: Management indicated that the above exception was due to staffing shortages.

Effect: Failure to monitor subrecipients results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

Identification of a repeat finding: Not applicable

Recommendation: We recommend the City follow its procedures to monitor subrecipients.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-009: Ensuring Tenant Files Properly Support Eligibility Determinations

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.871, 14.879
Program: Housing Choice Voucher Cluster
Award Number and Year: N/A 2018
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: The City administers the program under the Operational Procedures Manual (the Manual). The Manual incorporates the requirements of Title 24 of the Code of Federal Regulations, Parts 1, 5, 8, 882, 888, and 982 and requires each family to complete an application form for consideration of admission to the program. The current application form is referred to as the “Section 8 Household Application/Annual Update Form” (the Application). The Application is used to document the household’s asset, income and family identity information and the results of the verification of that information. The Application must be signed by all adult members of the household and a “Housing Examiner.”

Condition: 3 of the program’s eligibility determinations contained errors. Income targeting requirements were not met.

Context: We selected a non-statistical sample of 60 tenant files out of a population of 3,968 for testing. The tenant files selected represented benefit payments of approximately \$70,000 out of a total benefit payment population of approximately \$49 million. The results of our testing were the following:

- 2 tenant files where the Housing Examiner’s signature was missing from the Application resulting in questioned costs of \$2,196.
- 1 tenant file where the original Application was amended to include an additional family member, however a revised Application was not completed resulting in questioned costs of \$327.

Cause: Although the City has policies and procedures in place to ensure that eligibility determinations are properly supported, there was a lack of diligence in complying with the policies and procedures.

Effect: The City was not compliant with the program’s eligibility requirements and may have incurred unallowable costs.

Questioned Costs: \$2,523

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Identification of a repeat finding: This is a repeat audit from the immediate previous audit, 2017-007.

Recommendations: We recommend the City be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-010: Income Targeting

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.871, 14.879
Program: Housing Choice Voucher Cluster
Award Number and Year N/A 2018
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: 24 CFR 982.201(b)(2) requires that at least 75 percent of families admitted into the program during the fiscal year be extremely low income families. A lower percent of extremely low income families may be admitted with HUD’s approval. Extremely low income families are low income families whose annual income does not exceed 30 percent of the median income for the area.

Condition: Income targeting requirements were not met.

Context: 206 out of the 283 (approximately 73 percent) families admitted during the fiscal year were extremely low income, which was less than the 75 percent requirement. Approval to admit a lower percent of extremely low income families was not requested from HUD until after audit fieldwork.

Cause: The income targeting requirement that at least 75 percent of families admitted into the program be extremely low income families was not met as there were not enough extremely low income families on the waiting list to fill the available slots and approval to deviate from the requirement was not requested from HUD.

Effect: The City was not compliant with the program’s eligibility requirements.

Questioned Costs: None noted

Identification of a repeat finding: Not applicable

Recommendations: We recommend the City comply with the requirement or seek waivers where applicable.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-011 Participant Selection from the Waiting List

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.871/14.879
Program: Housing Choice Voucher Cluster
Award Number and Year: N/A 2017
Requirement: Special Tests
Type of Finding: Non-Compliance and Material Weakness

Criteria: 24 CFR 982.204 requires participants to be selected from the Public Housing Agency’s (PHA) waiting list, except for special admissions. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan. “Selection” from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission.

Condition: Participants were not selected and notified to attend an orientation meeting in the order that they appeared on the waiting list.

Context: We selected a non-statistical sample of 60 applicants from the waiting list to test. The results of our testing are as follows:

- 6 applicants were notified to attend orientation meetings later than applicants lower on the waiting list
- 5 applicants were notified to attend orientation meetings before other applicants that were higher on the waiting list
- 1 applicant was erroneously not provided a notification to attend an orientation meeting
- 1 applicant was provided a notification to attend an orientation meeting that did not include a date or time for the orientation meeting

Cause: Although the City has policies and procedures in place to ensure that applicants are properly selected from the waiting list, there was a lack of diligence in complying with the policies and procedures. There were increased errors in the second half of the fiscal year due to new personnel assuming responsibility for generating the notifications to applicants in the proper order.

Effect: The City was not compliant with the program’s policies and procedures over the selection of applicants from the waiting list.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned Costs: None noted.

Identification of a repeat finding: Not applicable

Recommendations: We recommend that the City be more diligent in following its policies and procedures and provide additional training and oversight to ensure compliance with the Federal requirements.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-012	Earmarking	
Federal Agency:	Department of Labor	
CFDA No.:	17.258, 17.259, 17.278	
Program:	WIOA Cluster	
Award Number and Year	WIOA-16-YP-O	2016-2018
	WIOA-17-YP-O	2017-2019
Requirement:	Earmarking	
Type of Finding:	Non-Compliance and Material Weakness	

Criteria: 29 USC 3164(c)(4) and (c)(2)(C) requires that at least 20 percent of the Youth Program funds allocated to the local area be used for paid and unpaid work experiences.

Condition: The City did not meet the 20 percent requirement referenced above.

Context: The Youth Program expenditures used for paid and unpaid work experiences during the fiscal year was calculated to be approximately 12 percent of the total Youth Program-related expenditures.

Cause: The process to establish a work experience site can take several months and employers or training sites may withdraw their participation. Also, the City was not separately tracking the Youth Program expenditures for paid and unpaid work experiences prior to October 2017.

Effect: Failure to meet the earmarking requirement results in noncompliance.

Questioned Costs: None noted.

Identification of a repeat finding: Not applicable.

Recommendations: We recommend that the City be more diligent in meeting the earmarking requirements.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-013 Preparation of Federal Financial Reports

Federal Agency:	Department of Transportation	
CFDA No.:	20.500, 20.507, 20.525, 20.526	
Program:	Federal Transit Cluster	
Award Number and Year	HI-04-0015	2014-2016
	HI-05-207/208	2014-2017
	HI-16-X002	
	HI-34-0003	2015-2017
	HI-37-X009	2015-2018
	HI-54-0001	2015-2017
	HI-57- X009	2015-2018
	HI-90-X034/X035/X036	2014-2019
	HI-2016-001/003	2016-2022
	HI-2017-001/002	2016-2018
Requirement:	Reporting	
Type of Finding:	Non-Compliance and Material Weakness	

Criteria: FTA Circular 5010.1E Chapter III Section 3(c) states that the Federal Financial Report (FFR) may not be prepared on the cash basis of accounting, even though a recipient may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the recipient must prepare the necessary accruals and submit the FFR on the accrual basis of accounting.

Condition: The City did not prepare all the FFRs on the accrual basis of accounting and errors were noted in the FFRs prepared on the accrual basis FFRs.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Context: The City provided FFRs on the cash basis of accounting for FFRs submitted through December 2017. Specifically, the City was not reporting incurred expenditures that had not been paid and there was no process in place to develop accruals for FFR purposes. The City submitted FFRs on the accrual basis of accounting beginning in January 2018, however, errors were noted. We selected a non-statistical sample of 6 FFRs to test. The results of our testing are as follows:

- 4 FFRs were submitted on the cash basis of accounting
- 2 FFRs were submitted on the accrual basis of accounting, however, errors were noted in the calculation of the accrued expenditures due to expenditures incurred after the end of the quarter being included
- 3 FFRs were submitted, however, there was no evidence of review by an authorized official prior to submission

Cause: The program was not aware of the requirement to prepare the FFRs on the accrual basis of accounting prior to program monitoring conducted for the period ending September 30, 2017. Subsequently, the program revised their procedures to prepare the FFRs on the accrual basis of accounting. The amounts to be accrued are provided by the project managers each quarter, however, no review is done by the fiscal office to determine the accuracy of the amount.

Effect: The City was not compliant with the reporting requirement.

Questioned Costs: None noted.

Identification of a repeat finding: This is a repeat audit from the immediate previous audit, 2017-010.

Recommendations: We recommend that the City be more diligent in following their policies and procedures to ensure FFRs are accurately prepared in accordance with the requirements.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

**City and County of Honolulu
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2018-014: Miscalculation of Housing Assistance Payments

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: HOME Investment Partnerships Program
Award Number and Year M17-MC150201 2018
Requirement: Eligibility
Type of Finding: Significant Deficiency

Criteria: 24 CFR 92.209(h) states "the amount of the monthly assistance that a participating jurisdiction may pay to, or on behalf of, a family may not exceed the difference between a rent standard for the unit size established by the participating jurisdiction and 30 percent of the family's monthly adjusted income."

Condition: The monthly Housing Assistance Payments (HAP) for 3 recipients were calculated incorrectly.

Context: For 3 out of 23 recipients tested for eligibility for Tenant Based Rental Assistance (TBRA), the income and/or utility allowance used to calculate the monthly HAP was calculated incorrectly. The 23 recipients tested received approximately \$158,000 of HAP during FY 2018 out of the total HAP of approximately \$689,000 received by 132 recipients. One error was identified during the audit and two errors were identified by the program, however, it was identified after several months of incorrect HAP were made. The net effect was \$3,514 of HAP overpaid during the year.

Cause: Management indicated that the above exceptions were due to oversight by the Case Managers and Supervisor.

Effect: Failure to properly calculate income could result in noncompliance with the eligibility requirement.

Questioned costs: \$3,514

Identification of a repeat finding: This is a repeat audit from the immediate previous audit, 2017-011.

Recommendation: We recommend the City provide additional training and oversight over the calculation of income.

Views of responsible officials: The City agrees with the finding. See corrective action plan.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Financial Statement Findings

Finding No. 2017-001: Deficiencies in Information Technology Controls (Significant Deficiency)

Condition: During the audit, we noted several IT control deficiencies that, when considered collectively, may impact the City's financial statements.

Context: As part of our financial statement audit for the year ended June 30, 2017, we performed an IT general controls review of the following systems operated by the City:

- Windows Domain
- AMS Advantage Financial Management System
- AMS Advantage Human Resources Management System
- Personnel Time and Attendance (PT&A) System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

Our review resulted in several IT control deficiencies as follows:

- Access to a server administrator account is shared.
- Disaster recovery plan not updated or tested for effective implementation.
- Security patches not applied as Third Party Systems hosted are not required to follow patch management schedule.

Cause: The primary cause of the internal control deficiencies is that the City's IT procedures do not incorporate internal control procedures addressing the items discussed above.

Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.

Status: This comment is no longer applicable:

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Finding No. 2017-002: Accounting and Financial Reporting of Investments (Significant Deficiency)

Condition: During the 2017 audit, we noted that participating investment contracts with maturities greater than one year were improperly recorded at amortized cost resulting in misstatements of approximately \$845,000, \$237,000, and \$2,114,000, to the General, Solid Waste, and Sewer Fund financial statements, respectively. Adjustments were proposed, which management recorded, to correct the misstatements identified.

Context: In 2017, the City starting investing in participating investment contracts with maturities, at the time of purchase, of greater than one year.

Cause: Management did not have policies and procedures to identify investments that meet the criteria of being recorded at fair value.

Recommendation: Management should create policies and procedures to record investments in accordance to U.S. GAAP.

Status: This comment is no longer applicable.

Federal Award Findings and Questioned Costs

Community Development Block Grant Program CFDA 14.218

Finding No. 2017-003: Timeliness (Non-Compliance and Material Weakness)

Condition: Program funds were not expended in a timely manner.

Context: HUD notified the City via a letter dated December 4, 2017 that the City was not in compliance with the sixty-day timeliness test conducted on May 2, 2017 as the City had a line of credit of 1.78 times its annual grant.

Cause: Most of the CDBG grant funding for capital projects were awarded to nonprofit sub-recipients who had difficulty expending the funding quickly enough to meet the timeliness requirement.

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Recommendation: We recommend the City establish procedures to ensure that it is in compliance with the CDBG timeliness standard specified in 24 CFR 570.902. In addition, we recommend that the City ensures that it complies with the final workout agreement determined with HUD.

Status: This comment is no longer applicable.

Community Development Block Grant Program CFDA 14.218

Finding No. 2017-004: Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

Condition: The on-site review for two subrecipients selected for testing were not performed. Further noted that only 3 of the 38 open projects had an on-site review during the year. Also, documentation of the approved risk assessment for open projects being performed at the beginning of the fiscal year could not be provided.

Context: During our audit, we selected a non-statistical sample of 8 projects (5 Open and 3 Post-Development Monitoring projects), out of a population of 56 projects, for testing and noted two open projects which did not have an on-site review completed. Per the City's CDBG Monitoring Policies and Procedures, "the CDBB [Community Based Development Division] policy is to conduct at least one subrecipient monitoring visit every year for each subrecipient with an open CDBG activity".

Cause: Management indicated that the on-site review was not performed due to staffing shortages and other competing priorities.

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Status: This comment is still applicable. See finding 2018-005

HOME Investment Partnerships Program CFDA 14.239

Finding No. 2017-005: Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

Condition: The on-site review for one subrecipient selected for testing was not performed. Also, the risk assessment for open projects was not performed.

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Context: During our audit, we selected a non-statistical sample of 5 subrecipients (2 Open and 3 Post-Development Monitoring projects), out of a population of 19 subrecipients, for testing and noted one subrecipient who did not have an on-site review completed. The on-site review was completed for one out of the 6 open subrecipients.

Cause: Management indicated that the on-site visit was not performed due to staffing shortages and other competing priorities.

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Status: This comment is still applicable. See finding 2018-006

Continuum of Care CFDA 14.26

Finding No. 2017-006: Submit Reports in a Timely Manner (Non-Compliance and Material Weakness)

Condition: Reporting requirements for five APRs were not met.

Context: The City was required to submit eight APRs during FY 2017. During the audit, we noted that two APRs were not submitted, two APRs were submitted after the 90 day requirement, and one APR was rejected and not corrected.

Cause: Management indicated that the APRs were not submitted due to incorrect data obtained from HMIS (Homeless Management Information System) and competing priorities.

Recommendation: We recommend the City be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Status: This comment is still applicable. See finding 2018-007

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Housing Choice Voucher Cluster CFDA 14.871, 14.879

Finding No. 2017-007: Ensuring Tenant Files Properly Support Eligibility Determinations (Non-Compliance and Material Weakness)

Condition: 19 of the program's eligibility determinations contained errors or missing documentation.

Context: We selected a non-statistical sample of 60 tenant files out of a population of 3,535 for testing. The tenant files selected represented benefit payments of approximately \$69,000 out of a total benefit payment population of approximately \$49 million. The results of our testing were the following:

- 1 tenant file where the verification of the tenant's legal identity was not maintained resulting in questioned costs of \$1,214.
- 7 tenant files where the Housing Examiner's signature was missing from the Application resulting in questioned costs of \$6,783.
- 1 tenant file where the adult tenant's signature was missing from the Application resulting in questioned costs of \$1,177.
- 10 tenant files where reported income or asset information did not agree to amounts verified. These errors did not impact eligibility determinations or benefit payment amounts.

Cause: Although the City has policies and procedures in place to ensure that eligibility determinations are properly supported, there was a lack of diligence in complying with the policies and procedures.

Recommendations: We recommend the City be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Status: This comment is still applicable. See finding 2018-009

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Housing Choice Voucher Cluster CFDA 14.871, 14.879

Finding No. 2017-008: Timely Reporting (Non-Compliance and Material Weakness)

Condition: The required financial statements were not submitted in a timely manner.

Context: We selected the unaudited and audited financial statements as of and for the year ended June 30, 2016 and the unaudited financial statements as of and for the year ended June 30, 2017 and noted the following:

- The audited financial statements as of and for the year ended June 30, 2016 was submitted and rejected on March 31, 2017. The rejection notice provided a revised due date of June 17, 2017, however the resubmission did not occur until February 27, 2018, approximately 8 months after the revised due date.
- The unaudited financial statements as of and for the year ended June 30, 2017 was initially submitted on September 21, 2017. The financial statements were rejected and resubmitted and accepted on October 6, 2017.

Although the program is required to submit several reports, the FASS-PH system is one of HUD's main monitoring and oversight systems for the program.

Cause: The program does not have documented policies and procedures to address the reporting requirements related to unaudited and audited financial statements. The party responsible for submission of the June 30, 2016 audited financial statements left the program shortly after the initial submission. Additionally, the party currently responsible for submitting the unaudited and audited financial statements is new to the program and was unaware of the requirements.

Recommendations: We recommend the City establish policies and procedures over the reporting of unaudited and audited financial statements.

Status: This comment is no longer applicable.

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Federal Transit Cluster CFDA 20.500, 20.507, 20.525, 20.526

Finding No. 2017-009: Proper Identification of Allowable Direct and Indirect Costs (Non-Compliance and Material Weakness)

Condition: The City requested reimbursement of costs that were potentially unallowable.

Context: The City and FTA formalized a partnership by signing a Full Funding Grant Agreement for the Honolulu Rail Transit Project (H RTP). The H RTP is managed by the Honolulu Authority for Rapid Transportation. In December 2016, there were 2 two drawdowns totaling \$90,396,801 which included \$65,029,088 and \$12,633,523 of payroll and non-payroll administrative costs, respectively, which were incurred from 2010 through December 2016, but were previously undrawn. Federal participation in these costs was 29.8%.

Payroll costs represent all staff time and include personnel who work on non-program related items as well as personnel who are considered part of the general cost of government. Non-payroll administrative costs primarily consisted of facility rentals. These non-payroll administrative costs include costs for non-program items as well as the general cost of government and should not be directly charged to the program, rather, these costs should be allocated based on an approved cost allocation plan.

Cause: The City has policies and procedures to evaluate whether direct construction costs are allowable. The City had previously elected not to request reimbursement for payroll and non-payroll administrative costs, the City did not develop policies and procedures to evaluate the whether such costs were allowable.

Recommendations: We recommend that the City work with the FTA to determine an appropriate course of action related to the questioned costs. Additionally, if the City expects to continue to draw on payroll and non-payroll administrative costs, we recommend that the City develop and implement a cost allocation plan.

Status: This comment is no longer applicable.

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Federal Transit Cluster CFDA 20.500, 20.507, 20.525, 20.526

Finding No. 2017-010: Preparation of Federal Financial Reports (Non-Compliance and Material Weakness)

Condition: City did not have written procedures over the preparation of its FFRs and the reports were not prepared on the accrual basis of accounting.

Context: City provided FFRs on the cash basis of accounting. Specifically, the City was not reporting incurred expenditures that had not been paid and there was not process in place to develop accruals for FFR purposes.

Cause: The program does not have documented policies and procedures to address the reporting requirements related to unaudited and audited financial statements. The party responsible for submission of the June 30, 2016 audited financial statements left the program shortly after the initial submission.

Recommendations: We recommend that the City develop written procedures to ensure FFRs are prepared in accordance with the requirements.

Status: This comment is still applicable. See finding 2018-013

HOME Investment Partnerships Program CFDA 14.267

Finding No. 2017-011: Miscalculation of Housing Assistance Payments (Significant Deficiency)

Condition: The monthly Housing Assistance Payments (HAP) for 3 recipients were calculated incorrectly.

Context: For 3 out of 13 recipients tested for eligibility for Tenant Based Rental Assistance (TBRA), the income and/or utility allowance used to calculate the monthly HAP was calculated incorrectly. The 13 recipients tested received approximately \$97,000 of HAP during FY 2017 out of the total HAP of approximately \$790,000 received by 130 recipients. One error was identified during the audit and two errors were identified by the program, however, it was identified after several months of incorrect HAP were made. The net effect was \$704 of HAP underpaid during the year.

Cause: Management indicated that the above exceptions were due to oversight by the Case Managers and Supervisor.

**City and County of Honolulu
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2018

Recommendation: We recommend the City provide additional training and oversight over the calculation of income.

Status: This comment is still applicable. See finding 2018-014

Finding No. 2017-012: Schedule of Expenditures of Federal Awards (SEFA) (Significant Deficiency)

Condition: During the audit, several errors were identified in the amounts reported on the SEFA.

Context: The following amounts reported on the SEFA as provided to subrecipients for these programs were initially overstated (understated):

CFDA No.	Program Name	Amount Overstated (Understated)
14.218	CDBG – Entitlement Grants Cluster	\$ 8,492,587
14.239	HOME Investment Partnerships Program	924,951
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster	(297,346)

The following amounts reported on the SEFA as Federal Expenditures for these programs were initially overstated:

CFDA No.	Program Name	Amount
14.218	CDBG – Entitlement Grants Cluster	\$ 9,340,076
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster	165,213

Cause: The City’s current process does not facilitate accurate preparation of the SEFA. Program management is responsible for the accuracy of the amounts reported and Budget and Fiscal Services (BFS) personnel are responsible for compiling the SEFA. Management indicated that the above exceptions were due to oversight by the program managers and BFS.

Recommendation: Program and BFS management should establish procedures over the amounts reported on the SEFA to ensure accuracy.

Status: This comment is no longer applicable.

CORRECTIVE ACTION PLAN

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov

KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

MANUEL T. VALBUENA
DEPUTY DIRECTOR

March 21, 2019

Mr. Troy Shimasaki
Office of the City Auditor
1001 Kamokila Boulevard, Suite 216
Kapolei, Hawaii 96707

Dear Mr. Shimasaki:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2018

Enclosed is the response to the recommendations included in KMH LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2018. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson H. Koyanagi, Jr.", is written over a horizontal line.

Nelson H. Koyanagi, Jr., Director
Budget and Fiscal Services

Enclosure

APPROVED:

A handwritten signature in blue ink, appearing to read "Roy K. Amemiya, Jr.", is written over a horizontal line.

Roy K. Amemiya, Jr.
Managing Director

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2018-001: Significant Non-routine Transactions in the General Obligation Bond and Interest Redemption Fund

Audit Recommendation: We recommend that management be more diligent in its determination of the proper accounting treatment of significant, non-routine transactions.

Administration's Comment: The City will be more diligent in reviewing the accounting treatment of significant, non-routine transactions by documenting and researching the issues for proper reporting in the financial statements.

Anticipated Completion Date: Ongoing

Contact Person(s): Nancy Abilay, Department of Budget and Fiscal Services, Assistant Chief Accountant

Finding No. 2018-002: Financial Statement Reporting - HART

Audit Recommendation: We recommend management re-evaluate its annual closing process to prepare accrual basis financial statements, including identifying the necessary internal control activities, specifically performing appropriate reconciliations, reviews and approvals and adhering to internal timelines.

Administration's Comments: HART concurs with the audit finding. Steps will be taken to ensure the accounting staff receives proper training, and an adequate management review of accounting information is conducted.

Anticipated Completion Date: June 2019

Contact Person(s): Ruth Lohr, Honolulu Authority for Rapid Transportation, Fiscal Officer II

Finding No. 2018-003: Accounting for Construction Delay Claims and Internal Communication - HART

Audit Recommendation: We recommend management re-evaluate its processes relating to internal communication, particularly for items that may have a financial impact to HART.

Administration's Comment: HART concurs with the audit finding. Steps will be taken to ensure items that may have a financial impact are properly and timely communicated to the budget and finance department.

Anticipated Completion Date: June 2019

Contact Person(s): Ruth Lohr, Honolulu Authority for Rapid Transportation, Fiscal Officer II

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

Finding No. 2018-004: Change Order and Contract Amendment Management - HART

Audit Recommendation: We recommend that management be more diligent in retaining the required documentation. We also recommend that management document the rationale for deviations from the procedures and required documents prescribed by the Manual or consider revising the Manual to accommodate the aforementioned contract types.

Administration's Comment: HART concurs with the finding. New contract change procedures were adopted to ensure change order and contract amendment approval processes are consistent.

Anticipated Completion Date: November 2018

Contact Person(s): Ruth Lohr, Honolulu Authority for Rapid Transportation, Fiscal Officer II

Finding No. 2018-005: Perform Annual Subrecipient Monitoring Duties - CDBG

Audit Recommendation: We recommend the City continue to implement and perform the formalized policies and procedures approved by HUD related to the ongoing and post-development monitoring functions.

Administration's Comment: The City will continue to implement and perform the formalized policies and procedures approved by HUD related to the ongoing and post-development monitoring functions.

Anticipated Completion Date: Ongoing

Contact Person(s): Holly Kawano, Department of Budget and Fiscal Services, Federal Grants Coordinator

Finding No. 2018-006: Perform Annual Subrecipient Monitoring Duties - HOME

Audit Recommendation: We recommend the City continue to implement and perform the formalized policies and procedures approved by HUD related to the ongoing and post-development monitoring functions.

Administration's Comment: See response to Finding No. 2018-05 above.

Anticipated Completion Date: Ongoing

Contact Person(s): Holly Kawano, Department of Budget and Fiscal Services, Federal Grants Coordinator

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

Finding No. 2018-007: Submit Reports in a Timely Manner

Audit Recommendation: We recommend the City be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Administration's Comment: The City will be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements. All branch positions were filled as of mid-February this year, providing sufficient capacity to complete all delinquent reports by fiscal year end.

Anticipated Completion Date: June 2019

Contact Person(s): Timothy Ho, Department of Community Services, Planner VII

Finding No. 2018-008: Perform Annual Subrecipient Monitoring Duties

Audit Recommendation: We recommend the City follow its procedures to monitor subrecipients.

Administration's Comment: The City will follow its procedures to monitor subrecipients. During fiscal year 2019, the Continuum of Care program is being administered by a private non-profit organization and HUD.

Anticipated Completion Date: June 2019

Contact Person(s): Timothy Ho, Department of Community Services, Planner VII

Finding No. 2018-009: Ensuring Tenant Files Properly Support Eligibility Determination

Audit Recommendation: We recommend the City be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Administration's Comment: The City will be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Anticipated Completion Date: June 2019

Contact Person(s): Jayne Lee, Department of Community Services, Housing Assistance Specialist VII

Finding No. 2018-010: Income Targeting

Audit Recommendation: We recommend the City comply with the requirement or seek waivers where applicable.

Administration's Comment: The City will be more diligent in following its existing income targeting policies and procedures to ensure compliance with the Federal requirements.

Anticipated Completion Date: June 2019

Contact Person(s): Jayne Lee, Department of Community Services, Housing Assistance Specialist VII

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

Finding No. 2018-011: Participant Selection from the Waiting List

Audit Recommendation: We recommend that the City be more diligent in following its policies and procedures and provide additional training and oversight to ensure compliance with the Federal requirements.

Administration's Comment: The City will be more diligent in following its policies and procedures and provide additional training and oversight to ensure compliance with the Federal requirements.

Anticipated Completion Date: June 2019

Contact Person(s): Jayne Lee, Department of Community Services, Housing Assistance Specialist VII

Finding No. 2018-012: Earmarking

Audit Recommendation: We recommend that the City be more diligent in meeting the earmarking requirements.

Administration's Comment: The City will be more diligent in meeting the earmarking requirements.

Anticipated Completion Date: June 2019

Contact Person(s): Leina'ala Nakamura, Department of Community Services, Program Administrator

Finding No. 2018-013: Preparation of Federal Financial Reports

Audit Recommendation: We recommend that the City be more diligent in following their policies and procedures to ensure FFRs are accurately prepared in accordance with the requirements.

Administration's Comment: The City will be more diligent in following the procedures for FFR reporting to ensure the reports are accurate, properly reviewed and in accordance with the requirements.

Anticipated Completion Date: June 2019

Contact Person(s): Ann Sakurao, Department of Budget and Fiscal Services, Fiscal Officer II
Melanie Felipe-Dela Rosa, Department of Budget and Fiscal Services, Fiscal Officer II
Christopher Clark, Department of Transportation Services, Chief Planner

Finding No. 2018-014: Miscalculation of Housing Assistance Payments

Audit Recommendation: We recommend the City provide additional training and oversight over the calculation of income.

Administration's Comment: The City will continue to provide additional training and oversight over the calculation of income.

Anticipated Completion Date: June 2019

Contact Person(s): Leina'ala Nakamura, Department of Community Services, Program Administrator