



Office of the City Auditor



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

**Report to the Mayor
and the
City Council of Honolulu**

**Follow-Up on
Recommendations
from Report No. 16-03,
*Audit of the Honolulu
Authority for Rapid
Transportation (HART)***

**Report No. 20-05
September 2020**

**Follow-Up on Recommendations
from Report No. 16-03, *Audit of
the Honolulu Authority for Rapid
Transportation (HART)***

A Report to the
Mayor
and the
City Council
of Honolulu

Submitted by

THE CITY AUDITOR
CITY AND COUNTY
OF HONOLULU
STATE OF HAWAII

Report No. 20-05
September 2020



TROY SHIMASAKI
ACTING CITY AUDITOR

OFFICE OF THE CITY AUDITOR
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September 30, 2020

The Honorable Ann Kobayashi, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Kobayashi and Councilmembers:

A copy of our report, *Follow-Up on Recommendations from Report No. 16-03, Audit of the Honolulu Authority for Rapid Transportation (HART), Report No. 20-05*, is attached. This audit was initiated by the Office of the City Auditor pursuant to Section 3-502.1(d) of the Revised Charter of Honolulu which requires the city auditor to conduct follow-up audits and monitoring of compliance with audit recommendations. The audit objective was to report on the status of HART's implementation of the 18 recommendations made in Report No. 16-03.

In April 2016, our office released the *Audit of the Honolulu Authority for Rapid Transportation (HART), Report No. 16-03*. The audit made 18 recommendations to improve HART planning, management and operations. In our *Audit Recommendations Status Report, Fiscal Year 2017*, issued in July 2018, HART reported that 16 of the 18 recommendations were in process, 1 was resolved, and 1 was not started. In January 2019, we issued a *Follow-up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1, Report No. 19-01*. In this update, HART reported that it had addressed or completed 14 of 18 recommendations, and others were under consideration. Due to time constraints, we were unable to conduct a thorough assessment of recommendations implemented. However, a preliminary review found that 16 recommendations were in process, 1 had been resolved, and 1 had not been implemented. Our office made a commitment to conduct a more thorough examination at a later date. This follow-up audit meets that outstanding obligation from Report No. 19-01.

In this follow-up audit, we found that 12 recommendations were *completed*, 3 were *resolved*, and 3 were *in process*.

In response to a draft of this follow-up audit, HART management agreed with the status of recommendations and expressed its commitment to address the three outstanding recommendations that are deemed *in process*. We made technical, non-substantive amendments to the draft report for purposes of accuracy, clarity, and style.

Honolulu City Council
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We would like to express our sincere appreciation for the cooperation and assistance provided us by HART managers and staff. We are available to meet with you and your staff to discuss this report and to provide more information. If you have any questions, please call me at 768-3134.

Sincerely,

A handwritten signature in black ink that reads "Troy Shimasaki". The signature is written in a cursive style with a large initial "T" and a long, sweeping underline.

Troy Shimasaki
Acting City Auditor

c: Andrew Robbins, Executive Director and CEO, HART
Ruth Lohr, Chief Financial Officer, HART
Members of the HART Board of Directors
Kirk Caldwell, Mayor
Roy Amemiya, Jr., Managing Director
Nelson Koyanagi, Jr., Director, Department of Budget and Fiscal Services

Follow-Up on Recommendations from Report 16-03, *Audit of the Honolulu Authority for Rapid Transportation (HART)*

September 2020

Background

The *Audit of the Honolulu Authority for Rapid Transit (HART), Report No. 16-03*, issued in April 2016 was conducted pursuant to City Council Resolution 15-90, *Requesting the City Auditor to Conduct a Performance Audit of the Honolulu Rail Transit Project*, to determine the adequacy of HART's processes to ensure that the rail project is constructed and completed economically, effectively and efficiently. We found that improvements were needed for HART's processes. Specifically the 2016 report found that HART's:

- Financial and subsidiary plans were not reliable or current, financial plans were not updated, and controls over financial information reporting needed to be strengthened;
- *Project Management Plan* and *Operations and Maintenance Plan* were outdated;
- Planning needs to be improved to address and manage future rail project costs; and
- Project cost estimates, methodologies, and cost assumptions were unsubstantiated and project managers were not managing actual costs against their budgets.

Based on these findings, the audit made 18 recommendations that HART should:

1. *Increase efforts to regularly update its financial plan. The cost changes and adjustments are necessary to reflect the current financial condition of the project. Updates should be supported by detailed, source documentation.*
2. *Update its Operations and Maintenance Plan (OMP) to address funding, management, and other transit needs.*
3. *Consistently and accurately report on project cost information, identify and explain variances if internal and external reports are intended to be different so that policy makers and the public receive consistent and reliable project cost information.*
4. *Develop methods to ensure data used in HART, Project Management Oversight Contractor (PMOC), and other reports are consistent, accurate, reliable, and can be reconciled among all the reports using the data.*
5. *Develop a process for tracking and monitoring all costs, including the status of delay claim costs.*
6. *Support its cost estimates with consistent, reliable and sufficient information. To do so, HART should thoroughly document details, including any forecasting methodology and assumptions made to support its cost estimates.*

7. *Replace the contract management system (CMS) with a system that is more user friendly and more appropriate to managing the HART construction project. If the CMS system is retained, HART should define which CMS data elements, data fields, and functions should be used and which parts should be deactivated or eliminated.*
8. *Use the city's C2HERPS enterprise resource planning system to develop, monitor, track, and report budget, financial, and accounting data. The CMS system should not be used for these purposes.*
9. *Develop a forecasting model to best predict escalation costs and support it with documentation.*
10. *Make it a priority to analyze significant changes to the project, determine how it will affect the project's overall costs and schedule, and regularly update key management plans to reflect those changes to ensure that stakeholders and the public are informed of significant changes in a timely manner.*
11. *Ensure project managers prioritize budget management, compare actual costs to cost estimates, analyze any differences and make adjustments as necessary to prevent or minimize cost overruns.*
12. *Not make concessions on retainage to contractors, as it diminishes HART's ability to ensure proper performance and could be misconstrued as favoritism or biased.*
13. *Document its cost-saving strategies and to the extent possible, quantify and document the amount of potential cost savings.*
14. *Develop and implement written internal policies and procedures that will address stipend payments, including requirements for supporting documentation of unsuccessful bidders' actual costs, determination of compensated value, and limit payment to no more than the unsuccessful bidders' actual cost or the stipend amount, whichever is less.*
15. *Better document its office space requirements and regularly review its office lease agreements to identify any unoccupied usable area. To reduce current operational costs so that it only pays for space that is needed and to find potential future savings, if space is unoccupied, HART should consider renegotiating the lease, subleasing the space, or allowing other city agencies to use or rent the space until HART actually needs the space.*
16. *Develop written policies and update procedures for contract administration. Clearly distinguish the roles and responsibilities of project managers, contract managers, and contract administrators in contract administration policies and procedures. Promote increased awareness of procurement and contract administration file recordkeeping by providing additional training to staff, and develop more robust guidance, policies, and procedures that address the variety of contracts and associated invoices HART receives in order to help standardize the invoice payment process and prevent improper payments.*
17. *Develop plans for annual and ongoing operations and maintenance of the rail system once it is completed and operational. The plan should address subsidies needed to fund rail operations and maintenance costs, maximize fare box recoveries and ridership; minimize city subsidies; address operations and maintenance (O&M) policies, subsidy sources, and alternative revenues.*
18. *Fill the operations and maintenance position and other key vacancies. The recruitment should include a succession plan to fill key positions in the event of any unexpected departures.*

In April 2016 HART disagreed with the audit findings and recommendations and provided additional information for review. After review of the information we stood by our audit findings, conclusions, and recommendations and encouraged HART to reconsider and implement the recommendations.






Subsequently, in our report, *Audit Recommendations Status Report Fiscal Year 2017*, revised, issued on July 6, 2018, we noted that HART reported improvements in its project management, contract administration and planning to be more prudent and accountable. HART indicated that 16 of the original 18 recommendations were in process, 1 was resolved and 1 was not started.

In January 2019, we issued *Follow-up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1*, in response to City Council Resolution 17-199, which requested that we conduct a follow-up audit of HART. The resolution included an objective to determine *whether HART addressed the concerns raised and followed the recommendations made in our prior HART Audit* (Report No 16-03). HART reported in this follow-up audit, that it had addressed and/or completed actions on 14 of the audit recommendations. HART further stated that it was actively committed, has implemented or acted on 16 of the in-process recommendations from the 2016 audit and will continue to work on the open recommendations. We concluded that 1 recommendation had been resolved, 1 had not been started because HART claims it would incur a penalty if it were implemented and the remaining 16 recommendations were in some stage of implementation. We stated that we would continue to monitor the status of the outstanding recommendations.

The objective of this current follow-up audit is to report on the status of HART's implementation of the original 18 recommendations made in Report No. 16-03.

AUDIT RESULTS

We found that 12 of the original recommendations had been completed, 3 are in process, and 3 had been resolved.

 Completed 12	 Resolved 3	 In Process 3	 Not Started --	 Dropped --
Agency has sufficiently implemented the audit recommendation.	Although agency did not implement the audit recommendation, it implemented an alternative solution that sufficiently addressed the applicable audit finding or risk.	Agency started or has partially implemented the audit recommendation.	Agency has not begun implementation of the recommendation.	Agency has no plan to implement the recommendation; the risk associated with the recommendation no longer exists, or is no longer applicable.

The following details the audit recommendations made and the status of each recommendation based on our review.

Recommendation 1



Completed

HART should increase efforts to regularly update its financial plan. The cost changes and adjustments are necessary to reflect the current financial condition of the project. Updates should be supported by detailed, source documentation.

Report No. 19-01 noted that HART concurs with this recommendation and in July 2017 committed to update its financial plan.

STATUS UPDATE

HART was required to submit a detailed updated financial plan as part of the *Revised Recovery Plan of 2018, updated November 19, 2018, Update May 10, 2019* and approved by the Federal Transit Administration (FTA) on September 5, 2019. In addition, HART staff present a monthly Financial Update Report for review by the HART Board of Directors. These reports are prepared on a monthly basis, but appear to be presented to the board for review and discussion approximately three months after the period has ended. We reviewed the approved Revised Recovery Plan and found that sufficient attention and financial data were provided to satisfy FTA requirements. We also reviewed several Financial Update Reports from October 2019 to July 2020 and found that they were reviewed and updated on a regular basis. We also verified via a sample of board meeting agendas and minutes from November 2019 to July 2020 that regular financial updates were presented and discussed at board meetings.

We further found that HART adopted a *Contract Change Procedures, 5.CA-11, Rev. 5.0 – April 25, 2019*, applicable to all procedures for all HART contracts including construction, non-construction, and personal services contracts. The procedures provide documentation requirements necessary to support the contract change requests and clarifies the review process and responsibilities within HART.

Recommendation 2



Resolved

Update its Operations and Maintenance Plan (OMP) to address funding, management, and other transit needs.

HART noted in Report No. 19-01 that with the approval of the 2016 Charter Amendment 4 to the Revised Charter of the City and County of Honolulu (RCH), responsibility for operations and maintenance for the rail project was transferred to the Department of Transportation Services (DTS).

STATUS UPDATE

HART issued an *Operations and Maintenance Plan, Rev. 2.0, March 28, 2019*, which is the principal source document that sets forth the operations and maintenance for the rail system. In issuing the plan HART noted that DTS will now be responsible for all operations and maintenance. On April 12, 2019 HART and DTS entered into a Memorandum of Understanding to facilitate

communication and a smooth transition from the construction phase to the operations and maintenance phase. The Memorandum of Understanding notes that DTS shall be responsible for all costs and activities associated with the operations and maintenance of each project segment of the rail project which shall commence no later than the passenger service commencement date for the applicable segment.

On July 15, 2019, HART issued a *DTS-HART Communication Procedure*, to facilitate the coordination and transfer of information and actions between HART and DTS for the transition of responsibilities. As part of this process, appropriate DTS and HART staff are sharing office space which will further facilitate the transition.

Currently HART and DTS are jointly soliciting bids for a public-private partnership (P3) which includes construction of the remaining system, including the design, construction, operations and maintenance for the rail project. The joint procurement is in accordance with the charter amendment which transferred the responsibility for operations and maintenance from HART to DTS. In the recent *Report of the Honolulu Rate Commission, May 2020*, advice was submitted to the mayor, city council and Department of Transportation Services but not HART, with suggestions on how fares will be collected once operations began for the multi-modal bus and rail transit system. This further demonstrates that HART will not be involved in the operations and maintenance of the system once operations are underway.

Recommendation 3



Completed

Consistently and accurately report on project cost information, identify and explain variances if internal and external reports are intended to be different so that policy makers and the public receive consistent and reliable project cost information.

HART noted in Report No. 19-01 that it concurred with this recommendation and believes this recommendation has been fully addressed through revisions in its financial plan reporting practices.

STATUS UPDATE

The FTA required HART to submit an updated Recovery Plan which was approved on September 5, 2019. The approved Recovery Plan includes an updated financial plan, cost reduction and containment measures, updated cost estimates, and an assessment of HART's ability to absorb unexpected risk costs, and uncertainties. HART reports that there have been significant changes and improvements to financial plan reporting. The financial reporting of the Project Controls officer is now under the purview of HART's chief financial officer (CFO). Financial reports are prepared by a budget analyst and approved by the chief financial officer for presentation to the HART board on a monthly basis. The CFO notes that reported financial data is obtained from the C2HERPS system and may include additional financial information not required to be reported to the Project Management Oversight Contractor (PMOC) or the FTA. We reviewed a sample of HART's board agendas and meeting minutes from November 2019 to July 2020 to confirm that financial updates are a routine agenda item for board meetings. We also reviewed a sample of Financial Update reports presented to the HART board and confirmed that they are being updated on a monthly basis. In addition, we reviewed a sample of the monthly PMOC reports to confirm that project cost data are included and are being updated on a current basis.

Recommendation 4**Completed**

Develop methods to ensure data used in HART, PMOC, and other reports are consistent, accurate, reliable, and can be reconciled among all the reports using the data.

HART reported in audit Report No. 19-01 that this finding had been addressed and the action was complete. HART explained that differences in reporting dates resulted in different data. Reports are reviewed by various managers at different levels and are then reconciled and reviewed by the Financial and Project Controls officers. Actual financial data are now obtained from the C2HERPS system as recommended by the original audit rather than from the Contract Management System (CMS).

STATUS UPDATE

HART reported that an organizational change, effective January 2020, assigned key project control activities to the chief financial officer (CFO). In explaining the change the CFO noted that Project controls is a bifurcated process and that it is appropriate for cost-related monitoring to be under the CFO's purview rather than the Project Management Officer. All reports are now shared, reconciled, and reviewed between finance and project controls before distribution. We reviewed HART's approved and updated organization charts to verify that the organization change took place. In March 2019, an updated *Risk and Contingency Management Plan, Rev. 3.0, March 8, 2019*, was approved, replacing the previous plan issued in March 2018. The cost and schedule forecasts produced are reported to the FTA and included in the PMOC monthly reports. These reports are available to HART stakeholders and the public. We reviewed the updated *Risk and Contingency Plan*, PMOC monthly reports and HART Monthly Progress Reports to verify HART's response.

Recommendation 5**Completed**

Develop a process for tracking and monitoring all costs, including the status of delay claim costs.

HART responded in Report No. 19-01 that it believed this finding had been addressed and action is complete. HART noted that it had improved financial reporting since the original audit was released and that it prepared a periodic worksheet showing potential claims (risk) values for major control packages.

STATUS UPDATE

We found that HART released an updated *Risk and Contingency Management Plan, Rev.3.0, March 8, 2019*, which requires regular reviews and identification of risks, i.e., change claims, including delay claim costs. The Monthly Progress Reports submitted by HART to the board and the PMOC for review and reporting to the FTA, as appropriate, includes a risk management report which reviews the project's current financial risks. This includes a summary of Construction Claims which include delay cost claims. Claims are reported to the FTA and PMOC in accordance with *FTA Circular 4220.1F* concerning third-party claims and litigation. HART considers a claim to arise when a third-party contractor submits a request for a final written decision by the Contracting Officer. Pursuant to Hawai'i Revised Statutes Section 103D-711 and Hawai'i Administrative

Rules Section 3-126-28, the decision of the Contracting Officer on these claims is deemed final. An aggrieved party has six months to initiate action in Circuit Court to appeal the decision.

We reviewed a sample of HART's Monthly Progress Reports from January 2019 to May 2020 and found that the status of claims are monitored and includes the contract, contractor, claim description, claim amount, and current status.

Recommendation 6



Completed

Support its cost estimates with consistent, reliable and sufficient information. To do so, HART should thoroughly document details, including any forecasting methodology and assumptions made to support of its cost estimates.

Report No. 19-01 noted that HART believed this recommendation had been addressed and was complete. Project Controls reviews detailed change cost estimates along with assumptions and costs analysis as part of the Change Control Committee.

STATUS UPDATE

HART reported that Section 5.6 of the *Revised Recovery Plan of 2018, November 19, 2018, updated May 10, 2019* and approved by the FTA on September 5, 2019, includes a detailed Estimate at Completion cost prepared in accordance with FTA guidelines and procedures relating to risk assessment, cost mitigation, and estimate of capital cost. It also incorporates cost estimating methodologies accepted by the construction industry. Details of the process for identifying and categorizing risk, primary and secondary mitigations, and a detailed capital cost estimate methodology are included as appendices within the approved recovery plan. We reviewed these areas of the approved Recovery Plan to verify that detailed substantiated cost estimates were included.

We also reviewed a sample of monthly HART board meeting minutes from November 2019 to July 2020 and Monthly Progress Reports from January 2019 to May 2020 which track estimated costs through its risk management updates, to verify that they are presented for review on a regular basis.

Recommendation 7



In Process

Replace the contract management system (CMS) with a system that is more user friendly and more appropriate to managing the HART construction project. If the CMS system is retained, HART should define which CMS data elements, data fields, and functions should be used and which parts should be deactivated or eliminated.

Report No. 19-01 noted that HART had retained an IT specialist firm, Nexus Corporation, to conduct a *CMS Condition Assessment and Recommendation* report. The assessment concluded that the current CMS system should be replaced since it contained overall functionality shortcomings and no longer sufficiently addressed system performance requirements needed to support the HART program. HART's current CMS system is outdated and experiences frequent system failures.

Furthermore, the assessment recommended replacing the CMS system since it was no longer supported by Oracle.

STATUS UPDATE

GjB and Associates was retained to perform an analysis of options to replace HART's Project Management Information Systems (PMIS) which is referred to as HART's CMS system. In December 2018 (updated January 2019) GjB presented options in a report, *Project Report HART CMS*. The options identified included upgrading the CMS to Oracle's Primavera Unifier (Unifier) system which would appear to meet most of HART's needs. The second option would be to develop a Request for Proposals and solicit bids for a new system. While offering more choices, the second option would take significantly more time to select and procure a replacement solution.

HART concluded that selection of Oracle's Unifier system would meet HART's needs while providing cost and time savings over other alternatives. In March 2019, HART submitted a proposal and received approval in April 2019 to proceed with a sole source procurement of the Unifier system at an estimated cost of \$6.3 million.

The Unifier system is currently being installed and staff are being trained on the system. The projected completion date is September 2020. Unifier and the current CMS system are running in parallel during the transition period. We reviewed sole source documents related to the upgrade and confirmed with staff that the implementation of the Unifier system was currently underway.

NEXT STEPS

HART should complete installation and transition of the Unifier system to replace the current CMS system.

Recommendation 8



Completed

Use the city's C2HERPS enterprise resource planning system to develop, monitor, track, and report budget, financial, and accounting data. The CMS system should not be used for these purposes.

In Report No. 19-01 HART reported that since July 2017, C2HERPS had been used exclusively for tracking project revenue and expenditures. HART believed that this recommendation had been addressed.

STATUS UPDATE

HART reported that all financial reports that present actual costs to the FTA, HART board, public officials and employees are generated from the C2HERPS systems. HART provided examples of Revenue, Cash Summary, Cash Detail and Expenditures reports, which the Chief Financial Officer stated are generated by C2HERPS. A budget analyst reconciles the reports, and sends the data to Project Controls for updating of monthly reports provided to the Board, the PMOC and other reporting as required. The PMOC uses the information to update the FTA. We reviewed a sample of financial reports generated from the C2HERPS system and compared them to monthly *Financial Update* reports, to verify that information presented to the HART board through its Finance Committee is based on C2HERPS-generated reports.

Recommendation 9**Completed****Develop a forecasting model to best predict escalation costs and support it with documentation.**

HART noted in Report No. 19-01 that it believed this recommendation had been fully addressed. Project Controls uses a forecasting methodology that includes escalation in construction cost estimates and also for professional service contracts which include staffing plans for documentation purposes.

STATUS UPDATE

HART reported that the *Revised Recovery Plan of 2018, November 19, 2018, updated May 10, 2019*, and approved by the FTA on September 5, 2019 includes, in Section 5.6, the *Development of Acceptable Project Cost* which is intended to develop a realistic cost estimate for the completion of the full project scope. Appendix F of the Recovery Plan provides a detailed description and explanation of the basis for the cost estimation and assumptions used to develop the estimates. HART notes that this was accepted by the FTA with approval of the Recovery Plan. We reviewed the approved Recovery Plan and verified that an appropriate forecasting model was incorporated along with explanation and documentation. We also reviewed a sample of HART board meeting minutes from November 2019 to May 2020 and related documentation to verify that the forecasting model is regularly presented and updated as appropriate.

Recommendation 10**Completed****Make it a priority to analyze significant changes to the project, determine how it will affect the project's overall costs and schedule, and regularly update key management plans to reflect those changes to ensure that stakeholders and the public are informed of significant changes in a timely manner.**

In Report No. 19-01 HART reported that it believed this recommendation had been fully addressed. New procedures were being developed to identify *key* decisions or changes that needed to be reviewed by all affected parties in HART. In addition, a more rigorous risk assessment was being put in place.

STATUS UPDATE

HART issued an updated *Risk and Contingency Management Plan (RCMP)*, Rev. 3.0, March 8, 2019 which is a part of HART's *Project Management Plan* approved by the FTA on September 5, 2019. It is also incorporated in the revised Recovery Plan approved by the FTA on September 5, 2019. The plan was issued in accordance with the FTA's risk assessment guidelines and is the third complete revision issued since the original plan was issued in 2011. Minor revisions are made to specific pages in the RCMP between major revisions.

The purpose of the RCMP is to comply with FTA risk assessment guidelines specified in *Oversight Procedure 40C*. HART executed a complete review of project risks in 2017 and 2018 resulting in the current RCMP which identifies and prioritizes project risks. We reviewed this document and verified that a FTA-accepted risk management program was in place. We also reviewed a sample

of Monthly Progress Reports, PMOC monthly reports, and HART Board of Director meeting minutes from January 2019 to July 2020 to confirm that project risks are updated and presented for discussion on a monthly basis.

Recommendation 11



Completed

Ensure project managers prioritize budget management, compare actual costs to cost estimates, analyze any differences and make adjustments as necessary to prevent or minimize cost overruns.

HART stated in Report No. 19-01 that it believed that this recommendation had been addressed and that the suggested action had been completed. HART noted that every change order includes a cost analysis that compares the HART independent cost estimate with the contractor's proposed costs.

STATUS UPDATE

HART developed procedures to process all contract change orders relating to the rail project, including construction, non-construction, and professional services contracts. The most recent procedure, *Contract Change Procedure, 5.CA-11, Rev 6.0, May 26, 2020*, establishes steps for processing, tracking, and resolving contract changes. In addition, project cost estimating is included in section 5.6 of the FTA approved Recovery Plan. Section 6.7 of the Recovery Plan covers mitigation strategies to minimize cost overruns. We reviewed the Recovery Plan, Contract Change Procedures and a sample of HART Board Meeting Minutes, Monthly Progress reports, and PMOC reports from January 2019 to July 2020 to verify that costs and cost projections are being tracked and reviewed on a regular basis.

Recommendation 12



Completed

Not make concessions on retainage to contractors, as it diminishes HART's ability to ensure proper performance and could be misconstrued as favoritism or biased.

HART agreed in Report No. 19-01 that any retainage payment must support HART's continued ability to ensure proper performance and any payment of retainage is in accordance with statutory requirements.

STATUS UPDATE

HART noted that retainage is withheld on construction invoices in accordance with Section 5.1(h) of its *General Conditions for Design-Build Contracts (08/2015)*. HART issued an updated *Contractor Payment Application Procedure, 5.CA-03, Rev 3.0 – March 22, 2019*. The procedures, which are under the control of the Chief Financial Officer, outlines the steps and reviews that must be taken to process all payment claims. Among the forms and procedures utilized are the *Payment Application Validation Checklist* and *Payment Application Cost Code Verification*. Both have specific requirements to verify that any retainage amount is accurate and included as part of the invoice and cost verification code. The procedures also specify a number of review layers that are required prior to approval and issuance of any payment to ensure that proper retainage amounts are maintained. HART noted a revision updating the *Contractor Payment Application Procedures (5.CA-03, Rev 4.0)* to include updated procedures for retention is in final draft phase. We also reviewed HART's *Expenditure*

Transaction Detail Report, a C2HERPS report that includes the status and retainage tracking. Since the updated procedures are still in a final draft phase we did not verify the nature of the updated procedures. HART stated that retainage procedures remain unchanged from those stated in its *General Conditions for Design-Build Contracts*.

Recommendation 13



In Process

Document its cost-saving strategies and to the extent possible, quantify and document the amount of potential cost savings.

HART reported in follow-up audit, Report No. 19-01 that it believes this recommendation has been fully addressed. It noted that based on a *lessons learned* methodology, new cost-avoidance opportunities had been identified. In addition, with input from specialty consultants and Project Controls, a tracking spreadsheet was implemented to better estimate rough order of magnitude of costs and cost savings for ongoing work.

STATUS UPDATE

As part of the September 5, 2019 FTA-approved revised Recovery Plan, Section 4, Cost Reduction and Containment, documents the current cost-saving strategies. The plan identifies 13 cost reduction efforts being pursued, the most significant being a Design-Build-Finance-Operate-Maintain alternative for the remaining construction of the rail project. This is also known as the P3 or *public-private partnership* option. Proposals for the P3 option have been received and are currently being evaluated by HART. In addition to the P3 initiative HART is also using value engineering, lessons learned information, reviews of soft costs and on-direct construction costs for potential cost savings. Because a P3 initiative has not yet been adopted and cost savings undetermined, we consider this recommendation in process.

NEXT STEPS

Complete the review, evaluation and selection of a P3 contractor and continue ongoing evaluation of cost savings strategies.

Recommendation 14



Completed

Develop and implement written internal policies and procedures that will address stipend payments, including requirements for supporting documentation of unsuccessful bidders' actual costs, determination of compensated value, and limit payment to no more than the unsuccessful bidders' actual cost or the stipend amount, whichever is less.

This recommendation was not specifically addressed in Report No. 19-01. However, we found that HART implemented a written stipend payment procedure in July 2016, which effectively tightened its internal control over stipend payments.

STATUS UPDATE

HART issued an updated formal *Stipend Payment Procedure, 2.PA-15, Rev. 1.0 – February 11, 2019*, guiding the use and oversight of stipend payments. The procedure notes that the purpose is to

ensure that the use of stipends complies with all appropriate city, state and federal laws, and at a minimum fully comply with applicable provisions of Hawai'i Revised Statutes (HRS 303D-303(1)) and Federal Transit Administration Circular 4220.1F, *Third-Party Guidance*. The procedure specifies that the Director of Procurement and Consultant Contracts is responsible for ensuring compliance with the stipend payment requirements and that a team consisting of the HART Executive Director/CEO, Chief Financial Officer, First Deputy Executive Director, and Director Procurement and Consultant Contracts is responsible for determining when a stipend shall be offered.

The procedure further specifies that the maximum total stipend shall not exceed 0.35 percent of the median cost estimate of the contract per unsuccessful offeror. HART states that since the updated procedures were adopted in 2019, no stipend payments have been issued. Although there were no stipend payments for us to review and verify that the revised process is being enforced, we found the revised procedure meets the recommendation's intent.

Recommendation 15



Better document its office space requirements and regularly review its office lease agreements to identify any unoccupied usable area. To reduce current operational costs so that it only pays for space that is needed and to find potential future savings, if space is unoccupied, HART should consider renegotiating the lease, subleasing the space, or allowing other city agencies to use or rent the space until HART actually needs the space.

This recommendation was not specifically addressed by HART in Report No. 19-01, but HART had previously noted that there was no early termination clause other than for project termination and any termination would result in a penalty.

STATUS UPDATE

HART reported that since the original audit was completed a charter amendment was passed to transfer operations and maintenance of the completed rail system to the Department of Transportation Services. To facilitate this transfer process, appropriate DTS personnel have started utilizing HART's current offices which has reduced the amount of vacant space.

HART's current office space lease expires in November 2020. HART indicated as of May 2020, office space options currently under consideration include: (1) an extension of the existing lease until the end of FY 2021 and (2) move to new office space around September 2020. However, with the recent announcement that Hawaiian Electric Company (HECO), as part of its office space consolidation downtown, has leased the office space currently occupied by HART, the continued use of the existing office space is uncertain. HECO's occupancy will be phased in gradually starting in January 2021. HART stated that they are currently working with HECO to secure a sublease of office space until the end of FY 2021.

NEXT STEPS

Secure a sublease from HECO for continued use of existing office space in the short term and locate suitable office space in the future to cover completion of the rail project.

Recommendation 16**Completed**

Develop written policies and update procedures for contract administration. Clearly distinguish the roles and responsibilities of project managers, contract managers, and contract administrators in contract administration policies and procedures. Promote increased awareness of procurement and contract administration file recordkeeping by providing additional training to staff, and develop more robust guidance, policies, and procedures that address the variety of contracts and associated invoices HART receives in order to help standardize the invoice payment process and prevent improper payments.

HART reported in Report No. 19-01 that it had taken steps to update written policies and procedures for contract administration. Revisions adopted in 2017 included the formation of a Contract Change Committee composed of the HART Deputy Executive Director, Director of Project Controls, Director of Design and Construction, and Director of Core Systems. This committee is responsible for reviewing requests.

STATUS UPDATE

HART issued a revised *Contract Change Procedures, 5.CA-11, Re 5.0 – April 25, 2019* and another revised *Contract Change Procedure, 5.CA-11, Rev 6.0, May 26, 2020*. According to HART, revised procedures were made to reflect substantial changes in policy. Minor changes are incorporated in the existing procedures. According to the latest procedures, any request for changes are submitted for a *Finding of Merit (FOM)* to the Change Control Committee through the committee's administrator for consideration and determination. The committee meets on a weekly basis and a finding of merit or no merit for a requested change is determined by a majority vote of the committee. In the case of a tie, the committee chair's vote acts as the tiebreaker. Detailed steps are identified in the procedures. Changes exceeding established thresholds must be presented to the HART Board of Directors for review. The board will then issue a recommendation to approve or disapprove the change request to the HART Executive Director/Chief Executive Officer.

With respect to training, HART reported that as contracts on the west side of project are closed out and new contracts are awarded, some functions and requirements of the Contract Managers and Procurement staff have been realigned to increase efficiency. Staff training is therefore continuing as an ongoing process.

Recommendation 17**Resolved**

Develop plans for annual and ongoing operations and maintenance of the rail system once it is completed and operational. The plan should address subsidies needed to fund rail operations and maintenance costs, maximize fare box recoveries and ridership; minimize city subsidies; address operations and maintenance (O&M) policies, subsidy sources, and alternative revenues.

HART noted in Report No. 19-01 that following the approval of the 2016 Charter Amendment 4 to the Revised Charter of the City and County of Honolulu which placed operations and maintenance responsibilities with the City Department of Transportation Services, responsibility for operations and maintenance now rests with DTS. HART is collaborating with DTS to transition the operations

and maintenance responsibilities to DTS and believed that this recommendation had been addressed.

STATUS UPDATE

HART issued an updated *Operations and Maintenance Plan, Rev 2.0, March 28, 2019*, which defines the Operations and Maintenance Plan for the rail system, based on its current understanding of DTS' operations and maintenance strategy. HART submitted the plan to DTS to review and revise in accordance with its own strategy. To facilitate this transfer, appropriate DTS staff were assigned to work with HART staff at HART offices. In addition, the recently released proposed rail/bus rate structure was issued with acknowledgement that this is now the responsibility of the city's transportation department.

Recommendation 18



Resolved

Fill the operations and maintenance position and other key vacancies. The recruitment should include a succession plan to fill key positions in the event of any unexpected departures.

HART noted in Report No. 19-01 that this recommendation had been addressed since the operations and maintenance function of the rail system had been transferred to the Department of Transportation Services as a result of the approval of Charter Amendment 4 in the 2016 election.

STATUS UPDATE

HART reported that all operations and maintenance-related hiring is now the responsibility of the Department of Transportation Services. In addition we verified that the FTA is working jointly with DTS and HART to ensure the system's operational readiness. We also confirmed that the FTA is working with both DTS and HART on the *FTA Oversight Procedure 54 – Readiness for Service*. This oversight procedure's purpose is to review, analyze, and recommend procedures that the FTA expects the PMOC to utilize when evaluating the rail system's readiness for service. Based on these observations, we consider this recommendation resolved.

Appendix A

Audit Objectives, Scope, and Methodology

The objective of this follow-up audit is to determine whether the Honolulu Authority for Rapid Transportation (HART) has adequately addressed the 18 recommendations in Report No. 16-03, *Audit of the Honolulu Authority for Rapid Transportation (HART)*, with appropriate corrective actions. This follow-up audit is limited to reviewing and reporting on the implementation of the outstanding audit recommendations.

All 18 recommendations were reviewed in order to assess the extent to which HART's corrective actions are substantiated. We reviewed the original audit and subsequent follow-up audits, and requested updated responses for each recommendation. We reviewed supporting documentation pertinent to the follow-up audit. While initial interviews were conducted, adjustments were made due to the coronavirus pandemic. As a result, additional documentation requests were primarily accomplished through the use of email correspondence and telephone calls as appropriate.

We assessed HART's internal controls to the extent that they related to the recommendations and as demonstrated in the procedures and processes described in response to the recommendations. During the audit we were aware that there are additional investigations/audits currently underway; however, we concluded that these did not impact our work or create any potential impediments to the completion of our work.

We met with responsible representatives of HART to discuss our preliminary findings in order to identify any concerns or clarifications that may be appropriate to the report. We then provided a written draft of the report that HART could use as a basis for its formal written response to the follow-up audit.

The audit was conducted from March 2020 to August 2020 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Appendix B

Management Response



HONOLULU AUTHORITY for RAPID TRANSPORTATION

September 29, 2020

Troy Shimasaki
Acting City Auditor
City and County of Honolulu
Office of the City Auditor
1001 Kamokila Boulevard, Suite 216
Kapolei, HI 96707

Dear Mr. Simasaki:

Subject: HART Response to City Auditor for Follow-up Report
(Report No. 16-03)

Enclosed is HART's updated response to the Follow-up Report.

Thank you for the opportunity to report on HART's activities following the issuance of the report.

Should you have any questions on our response, please feel free to contact me directly.

Very truly yours,

Andrew S. Robbins
Executive Director and CEO

Attachment

IN REPLY REFER TO:
COR-00208

Andrew S. Robbins
EXECUTIVE DIRECTOR AND CEO

David H. Uchiyama
DEPUTY EXECUTIVE DIRECTOR AND COO

BOARD OF DIRECTORS

Tobias Martyn
CHAIR

Terrence M. Lee
VICE CHAIR

Michele Chun Brunngraber
Kika G. Bukoski
Jade Butay
Wes Fryzstacki
Ford Fuchigami
Dean Hazama
Wesley K. Machida
Lynn McCrory
Glenn M. Nohara
Kathy Sokugawa
Joseph P. Uno
Hoyt H. Zia

HART Responses to Office of the City Auditor
Follow-up Report to Report 16-03

Recommendation 1

Completed

HART should increase efforts to regularly update its financial plan. The cost changes and adjustments are necessary to reflect the current financial condition of the project. Updates should be supported by detailed, source documentation.

HART's Response – We concur with this recommendation and have implemented procedures necessary to update our financial information on a regular basis. Financial reports and cash flow projections are provided to the HART Board and the PMOC for their monthly meetings. In addition, our Revised Recovery Plan, dated November 19, 2018 and updated May 10, 2019, which includes detailed financial information and projections, was approved by the FTA on September 5, 2019.

Recommendation 2

Resolved

Update its Operations and Maintenance Plan (OMP) to address funding, management, and other transit needs.

HART's Response – We concur with this recommendation and have resolved this issue by updating our Operations and Maintenance Plan. Note that following the approval of the 2016 Charter Amendment 4 to the Revised Charter of the City and County of Honolulu, responsibility for operations and maintenance now rests with DTS. HART and DTS have entered into a Memorandum of Understanding with the City's Department of Transportation Services to facilitate communication, proper coordination and a smooth transfer of the operations and maintenance function from HART to DTS.

Recommendation 3

Completed

Consistently and accurately report on project cost information, identify and explain variances if internal and external reports are intended to be different so that policy makers and the public receive consistent and reliable project cost information.

HART's Response - We concur with this recommendation and have taken actions to ensure such reporting is accurate, timely and consistently provided. We will continue to track and monitor all project costs, including delay claims, construction claims, as well as, managing our risk and contingencies.

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Recommendation 4

Completed

Develop methods to ensure data used in HART, PMOC, and other reports are consistent, accurate, reliable, and can be reconciled among all the reports using the data.

HART's Response - We concur with this recommendation and have implemented procedures to ensure the data included in the HART Monthly Reports, PMOC reports and other reports (internal or external) are accurate, reliable and consistently presented.

Recommendation 5

Completed

Develop a process for tracking and monitoring all costs, including the status of delay claim costs.

HART's Response - We concur with this recommendation and will continue to track and monitor all project costs, including delay claims. Construction claims, contingency management and risk management are performed on an on-going basis and discussions with HART management and the PMOC occur regularly.

Recommendation 6

Completed

Support its cost estimates with consistent, reliable and sufficient information. To do so, HART should thoroughly document details, including any forecasting methodology and assumptions made to support of its cost estimates.

HART's Response - We concur with this recommendation and have procedures in place to document our assumptions and methodologies for preparing cost estimates, projections and forecasts used in financial reporting and project cost analyses.

Recommendation 7

In process

Replace the contract management system (CMS) with a system that is more user friendly and more appropriate to managing the HART construction project. If the CMS system is retained, HART should define which CMS data elements, data fields, and functions should be used and which parts

HART Responses to Office of the City Auditor
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should be deactivated or eliminated.

HART's Response - We concur with this recommendation and we are currently in the process of converting our contract management system to a new system (Oracle Unifier). Because the conversion to Unifier is currently on-going and not expected to be fully integrated until the end of 2020, we agree that this recommendation is still *in process*.

Recommendation

Completed

Use the city's C2HERPS enterprise resource planning system to develop, monitor, track, and report budget, financial, and accounting data. The CMS system should not be used for these purposes.

HART's Response - We concur with this recommendation and are currently using the City's C2HERPS enterprise resource planning system to generate budgetary, financial and accounting reports. CMS is no longer being used for this purpose.

Recommendation 9

Completed

Develop a forecasting model to best predict escalation costs and support it with documentation.

HART's Response - We concur with this recommendation. Project Controls uses a forecasting methodology that includes escalation in construction cost estimates and also for professional service contracts which include staffing plans for documentation purposes.

Recommendation 10

Completed

Make it a priority to analyze significant changes to the project, determine how it will affect the project's overall costs and schedule, and regularly update key management plans to reflect those changes to ensure that stakeholders and the public are informed of significant changes in a timely manner.

HART's Response - We concur with this recommendation and will continue to track and monitor all project costs including amendments, contract changes and schedule updates. Construction claims, contingency management and risk management are also monitored on an on-going basis and discussions with HART management and the PMOC occur regularly.

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Recommendation 11

Completed

Ensure project managers prioritize budget management, compare actual costs to cost estimates, analyze any differences and make adjustments as necessary to prevent or minimize cost overruns.

HART's Response - We concur with this recommendation and have developed procedures to monitor all contract change orders relating to the rail project, including construction, non-construction, and professional services contracts. The most recent procedure, *Contract Change Procedure, 5.CA-11, Rev 6.0, May 26, 2020*, addresses contract change orders. Project cost estimating and budget analysis, including comparing actual costs to cost estimates, are performed on a regular basis. The City Center Utility Relocation (CCUR) challenges have stressed the budget and schedule. By utilizing extensive, comparative analysis to determine best value, HART is working to hold increasing costs by applying these measures.

Recommendation 12

Completed

Not make concessions on retainage to contractors, as it diminishes HART's ability to ensure proper performance and could be misconstrued as favoritism or biased

HART's Response - We concur with this recommendation and have taken steps to ensure retainage is withheld on construction invoices in accordance with Section 5.1(h) of its *General Conditions for Design-Build Contracts (08/2015)* and our *Contractor Payment Application Procedures*.

Recommendation 13

In process

Document its cost-saving strategies and to the extent possible, quantify and document the amount of potential cost savings.

HART's Response - We concur with this recommendation. The most significant cost reduction effort being pursued is a Design-Build-Finance-Operate-Maintain (DBFOM) alternative for the remaining construction of the rail project, called a public-private partnership, also known as the P3. In addition to the P3 initiative, Project Controls has developed a tracking spreadsheet to better estimate rough order of magnitude of costs and cost savings for ongoing work. HART is also using value engineering, lessons learned information, reviews of soft costs and indirect construction costs for potential cost

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savings. Because the P3 initiative has not yet been awarded and its cost savings undetermined, we agree that this recommendation is still *in process*.

Recommendation 14

Completed

Develop and implement written internal policies and procedures that will address stipend payments, including requirements for supporting documentation of unsuccessful bidders' actual costs, determination of compensated value, and limit payment to no more than the unsuccessful bidders' actual cost or the stipend amount, whichever is less.

HART's Response - We concur with this recommendation and will continue to follow the procedures documented in *Stipend Payment Procedure, 2.PA-15, Rev. 1.0 – February 11, 2019*, guiding the use and oversight of stipend payments. The purpose of this guidance is to ensure that the use of stipends complies with all appropriate city, state and federal laws, and at a minimum fully comply with applicable provisions of Hawai'i Revised Statutes (HRS 303D-303(1) and Federal Transit Administration Circular 4220.1F, *Third-Party Guidance*.

Recommendation 15

In process

Better document its office space requirements and regularly review its office lease agreements to identify any unoccupied usable area. To reduce current operational costs so that it only pays for space that is needed and to find potential future savings, if space is unoccupied, HART should consider renegotiating the lease, subleasing the space, or allowing other city agencies to use or rent the space until HART actually needs the space.

HART's Response - We concur with this recommendation and we are continuing to explore office space options including: (1) an extension of the existing lease until the end of Fiscal Year 2021 or (2) moving to a new office space. Because a final decision on our office space has not been finalized, we agree that this recommendation is still in process.

Recommendation 16

Completed

Develop written policies and update procedures for contract administration. Clearly distinguish the roles and responsibilities of project managers, contract managers, and contract administrators in contract administration policies and procedures. Promote increased awareness of procurement and

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contract administration file recordkeeping by providing additional training to staff, and develop more robust guidance, policies, and procedures that address the variety of contracts and associated invoices HART receives in order to help standardize the invoice payment process and prevent improper payments.

HART's Response - We concur with this recommendation and have implemented procedures to increase efficiency, clearly define roles and responsibilities and improve work flow within our contract administration department. As contracts on the west side of project are closed out and new contracts are awarded, some functions and requirements of the Contract Mangers and Procurement staff have been realigned to increase efficiency. Staff training continues as an ongoing process.

Recommendation 17

Resolved

Develop plans for annual and ongoing operations and maintenance of the rail system once it is completed and operational. The plan should address subsidies needed to fund rail operations and maintenance costs, maximize fare box recoveries and ridership; minimize city subsidies; address operations and maintenance (O&M) policies, subsidy sources, and alternative revenues.

HART's Response - We concur with this recommendation, however, following the approval of the 2016 Charter Amendment 4 to the Revised Charter of the City and County of Honolulu, responsibility for operations and maintenance now rests with DTS. HART continues to collaborate with DTS on the transition of the operations and maintenance responsibilities to them. In addition, the recently released proposed rail/bus rate structure was issued with acknowledgement that this is now the responsibility of the city's transportation department.

Recommendation 18

Resolved

Fill the operations and maintenance position and other key vacancies. The recruitment should include a succession plan to fill key positions in the event of any unexpected departures.

HART's Response - We concur with this recommendation, and it has been noted that all operations and maintenance-related hiring is now the responsibility of the Department of Transportation Services (DTS).

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