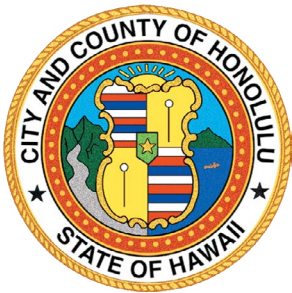




Office of the City Auditor



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. 19-01 and Select Recommendations from Report No. 20-05, on the Honolulu Authority for Rapid Transportation (HART)

Report No. 22-05
July 2022

**Follow-Up on Recommendations
from Report No.19-01 and
Select Recommendations
from Report No. 20-05, on 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. 22-05
July 2022



OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

1001 KAMOKILA BOULEVARD, SUITE 216, KAPOLEI, HAWAII 96707 / PHONE: (808) 768-3134 / FAX: (808) 768-3135

ARUSHI KUMAR
CITY AUDITOR

July 22, 2022

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

Dear Chair Waters and Councilmembers:

A copy of our audit report, *Follow-up on Recommendations from Report No. 19-01 and Select Recommendations from Report No. 20-05, on the Honolulu Authority for Rapid Transportation (HART)*, is attached. This audit was conducted by the Office of the City Auditor pursuant to Section 3-502.1(d) of the Revised Charter of Honolulu, which authorizes the city auditor to conduct follow-up audits and monitor compliance with audit recommendations.

The objective of this follow-up audit is to assess the extent to which HART has acted upon six recommendations in Report No. 19-01 (Recommendations 1-3 and 5-7), and three outstanding recommendations from Report No. 20-05.

In this follow-up audit, we found that all nine recommendations were *completed*.

We would like to express our sincere appreciation for the cooperation and assistance provided to us by the HART managers and staff. The audit team is available to meet with you to discuss this report and provide further information. If you have any questions, please call me at 768-3134.

Sincerely,

A handwritten signature in cursive script that reads "Arushi Kumar".

Arushi Kumar
City Auditor

c: Lori Kahikina, Executive Director and Chief Executive Officer, HART
Rick Blangiardi, Mayor
Michael D. Formby, Managing Director
Krishna Jayaram, Deputy Managing Director
Andrew Kawano, Director, Department of Budget and Fiscal Services

This page intentionally left blank.

Follow-Up on Recommendations from Report No. 19-01 and Select Recommendations from Report No. 20-05, on the Honolulu Authority for Rapid Transportation (HART)

July 2022

Background

This report is a follow-up audit of Report No. 19-01, *Follow-Up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1*, and select recommendations made in Report No. 20-05, *Follow-Up on Recommendations from Report No. 16-03, Audit of the Honolulu Authority for Rapid Transportation*.

Background: Report No. 19-01

City Council Resolution 17-199, CD1 requested that the City Auditor conduct a follow-up audit of the Honolulu Authority for Rapid Transportation (HART). Report 19-01 was issued January 17, 2019. The audit objectives were to determine whether:

1. HART's contractors fulfilled their obligations in an economical, effective, and efficient manner;
2. expenditures charged to HART by the contractors were valid and accurate;
3. HART had implemented the project management and contract administration controls over the contractors needed to prevent cost overruns for the rail project; and
4. HART addressed the concerns raised, and followed the recommendations made, in our prior HART audit.

Although HART made many improvements and was in the process of implementing many of the recommendations made in prior audit reports, the Federal Transit Administration (FTA) and its Project Management Oversight Contractor (PMOC) indicated that much more needed to be done to control project costs and to ensure more schedule delays did not occur.

Based on our review, cost overruns and schedule delays resulted from inexperienced HART managers and contractors who initiated and approved a plethora of change orders and amendments that increased project costs and contributed to schedule delays. We found insufficient justifications and documentation for many contract change orders and amendments.

We also found that HART lacked internal controls to minimize costs and prevent schedule delays, and ignored or only partially addressed repeated PMOC warnings about internal controls and schedule impacts.

The audit made seven recommendations that directed HART to:

1. *Assess and revise contract amendment and change order policies and procedures to ensure proper oversight and that requisite approvals are obtained prior to effectuating changes;*
2. *Revise or implement policies and procedures to ensure that sufficient documentation is in the contract files that justify contract amendments and change orders;*
3. *Establish an internal audit function, attached to the HART Board, to conduct independent oversight of project expenditures and compliance with applicable policies, procedures, laws, and best practices;*
4. *Fully implement the 16 in-progress recommendations from the 2016 Audit of the Honolulu Authority for Rapid Transportation, Report No. 16-03;¹*
5. *Comply with the 2012 Staffing and Succession Plan by transitioning four key administrative positions (Chief Safety and Security Officer; Quality Assurance Manager; Chief Project Officer; and Project Controls Manager) from consultants to HART employees;*
6. *Update the 2012 Staffing and Succession Plan to identify other positions currently filled by consultants that can be transitioned to HART employees and provide a timeline for the transition; and*
7. *Review its personnel strategy by considering a mix of civil service, exempt, and personal service contract employees, as applicable, to ensure that current project needs are met and that qualified, experienced staff are in place to transition to operations and management.*

Background: Report No. 20-05

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.

¹ The 16 in-progress recommendations from Report No. 16-03 were evaluated in Report No. 20-05. Of the 16 recommendations reviewed, we determined that 3 were *in process* of implementation. In this current audit, we revisited those 3 *in process* recommendations.

In January 2019, we issued a *Follow-up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1, Report No. 19-01*. Recommendation No. 4 stated that HART should fully implement the 16 in-progress recommendations from Report No. 16-03. In Report 20-05, HART stated 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. 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.

Report 20-05 found that 12 recommendations were *completed*, 3 were *resolved*, and 3 were *in process*. The three recommendations in process were:






1. *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, fields, and functions should be used and which parts should be deactivated or eliminated;*
2. *Document its cost-saving strategies and to the extent possible, quantify and document the amount of potential cost savings; and*
3. *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.*

The audit objectives were to follow-up on the following nine recommendations:

- Six recommendations from Report No. 19-01 (Recommendations 1-3 and 5-7); and
- Three *in process* recommendations from Report No. 20-05, because they were included in Report No. 19-01, which is the primary subject of this follow-up audit.

SUMMARY OF FOLLOW-UP RESULTS

Based on our review, we found that all nine recommendations from Report Nos. 19-01 and 20-05 were completed. The summary table below highlights these results. We note that this follow-up audit only focused on the nine recommendations from prior audits. These follow-up audit results do not render opinions on HART's overall operations, governance, financial planning, or internal controls.

 Completed 9	 Resolved --	 In Process --	 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.

Recommendation 1



HART should assess and revise contract amendment and change order policies and procedures to ensure proper oversight and that requisite approvals are obtained prior to effectuating changes (Report 19-01).

In response to this recommendation from Report No. 19-01, HART concurred with the need to continue updating contract administration procedures, including those related to oversight and approval process for contract amendments and change orders. The agency also affirmed that it would continue to review, refine, and update written policies and procedures, including those specifically related to contract administration and change orders.

STATUS UPDATE

HART reported that revisions to ensure proper oversight and approvals of change executions were implemented as of May 22, 2020. We found that since Report No. 19-01 was issued in January 2019, HART amended its Contract Change Procedure, 5.CA-11, twice:

1. Revision Level 5.0 (April 25, 2019) made seven substantive amendments. One of the seven amendments relating to approvals clarified that amounts exceeding the range specified in the Negotiating Strategy Memo (NSM) requires the approval of the Director of Design and Construction and two other appropriate entities.
2. Revision Level 6.0 (May 26, 2020) made 11 changes to policies and procedures. Of the 11 amendments, 2 related to approvals:
 - All pending contract changes valued between \$1 million and \$5 million requires HART Board of Directors' Project Oversight Committee (POC) review. Contract changes valued at over \$5 million require both POC and full HART Board review. The HART Board may review any pending change request. The POC and HART Board recommends to the CEO whether to approve/disapprove the change request.

- The NSM must be signed by the Resident Engineer (RE). For construction contracts, the RE, under the direction of his or her supervisors, the Construction Engineering and Inspection Construction Manager and the Area Construction Manager, may submit the NSM for their review and approval. Once signed by the RE and others, as directed, the NSM shall be submitted to the Contract Change Committee for approval. The NSM approval shall be by majority. All denials must include a written justification. Once the approval for the NSM is obtained by majority vote, the RE and his or her team will conduct negotiations with the Contractor, with the goal of staying within the NSM target value or range.

Based on our review of updated policies and procedures, we concluded that HART completed this recommendation. HART implemented policies and procedure changes that clarified and strengthened management and oversight of contract change amendments and change orders.

Recommendation 2



Completed

HART should revise or implement policies and procedures to ensure that sufficient documentation is in the contract files that justify contract amendments and change orders (Report No. 19-01).

According to HART management, contract change procedures were revised to identify documents that are required to be placed in each change folder to ensure proper documentation.

STATUS UPDATE

We found that on January 8, 2019, HART established the Executive Decision Document (EDD) Procedure and revised it on August 7, 2020. This procedure was established for two primary reasons:

1. Stakeholders and elected officials questioned how, why, and who, in the past, made some key decisions and also why there is no *one place* repository where these decisions are documented; and
2. Significant decisions made without the input of all relevant and appropriate departments within HART may have had different outcomes if such input had been sought.

According to HART, the EDD focuses on the process of review and concurrence leading to the presentation of the EDD to the HART Executive Director-CEO as the final approver, rather than the exclusive decision of the HART Executive Director-CEO.

An EDD is required:

- Where allocated contingency of one contract is transferred to another contract;
- Where a request is made to fund a new or existing contract out of unallocated contingency;
- Where a new contract packaging plan is created, or where an existing plan is changed or closed;

- Where a subcontractor is requested to be added to a consultant contract;
- As a request for *recommended settlement authority* prior to entering into mediation or any dispute resolution forum (but which does not give settlement authority);
- As an approval on terms of agreement with a contractor on resolution of outstanding change requests (or claims) in excess of \$5 million absolute value;
- Where there is a change in method of delivery; or
- Where there are discretionary changes to a contract that is either in excess of \$1 million or if deemed by a department head and concurred as such by the Executive Director-CEO to be of significant importance that an EDD is warranted.

An EDD must include the following reviewers:

- Project Director or Senior Project Officer;
- Chief Financial Officer;
- Executive Manager;
- Deputy Executive Director/Chief Operating Officer; and
- HART Executive Director/Chief Executive Officer

Each of the mandatory reviewers may add an additional reviewer(s) as s/he deems necessary to provide input into the requested EDD.

The EDD must include:

- Contract/Project description;
- Request summary;
- Background;
- Contract/Compliance requirements;
- Summary of Impacts; and
- List of Exhibits/Attachments.

We reviewed a random sample of five EDDs issued between November 1, 2020 and March 24, 2022 to assess whether HART effectively implemented the EDD policy and procedure. We found that all EDDs were properly executed and complete.

By implementing the *Executive Decision Document Procedure*, 2.PA-16, HART improved documentation and transparency in managing change orders and amendments. Our testing of EDD

documents found that HART effectively implemented and enforced this procedure. As a result, we deem this recommendation completed.

Recommendation 3



Completed

HART should establish an internal audit function, attached to the HART Board, to conduct independent oversight of project expenditures and compliance with applicable policies, procedures, laws, and best practices (Report No. 19-01).

HART management reported that the HART Board approved the establishment of an internal audit function and established an Internal Audit Committee of the Board.

STATUS UPDATE

On June 18, 2021, the HART Board formally adopted Resolution 2021-8, *Relating to the Adoption of Policies, Rules, and Operating Procedures of the Board of Directors*.

Resolution 2021-8 established a separate Internal Audit Committee to the Board and the addition of an outsourced independent Internal Audit Function within HART that reports to the Internal Audit Committee Chair and the Board Executive Officer. The Internal Audit Committee would perform the following oversight duties:

- Receive the final report(s) from independent auditors on any special financial and non-financial audits requested by the board or third parties;
- Oversee the Authority's responses to financial and non-financial audits of the Authority by third parties including, but not limited to, audits by the city auditor and the state auditor, except that time sensitive responses are delegated to the Executive Committee for review prior to submission;
- Identify problems, issues and/or management follow-up actions emanating from any financial or non-financial audits of the Authority's activities and recommend to the Board any actions as appropriate;
- Pursue investigations initiated by the board;
- Establish HART's fraud hotline;
- The Chair of the Internal Audit Committee and the Board Executive Officer are responsible for directing the work of the internal audit function pursuant to the Financial Policies of the board; and
- Prepare an annual work plan, which includes an internal audit risk assessment of the Authority.

HART's Internal Audit Committee held its first public meeting on April 7, 2022. The committee chair noted that the estimated cost to procure an independent internal audit function was about

\$200,000 annually for a lead and support auditor. This estimate was much higher than the committee was anticipating. HART has a draft procurement under review for the internal audit function.

According to the committee chair, the fraud hotline is not yet operational, but the committee is looking to establish a hotline that will allow the public and others to anonymously report potential fraud, waste, or abuse related to the project.

Although the internal audit function is not yet operational, we believe HART has made substantial progress to address the recommendation. HART established a formal internal audit committee that has already met, it estimated the cost for an independent internal audit function, and it established rules for the internal audit function (Res 2021-8). Based on this progress, we consider this recommendation completed.

Recommendation 4



Completed

HART should comply with the 2012 Staffing and Succession Plan by transitioning four key administrative positions (Chief Safety and Security Officer; Quality Assurance Manager; Chief Project Officer; and Project Controls Manager) from consultant to HART employees (Report 19-01).

During 2021, an evaluation was conducted of all staff members and their roles, including consultants, and the overall organizational structure. As a result, HART staff was reduced by approximately 45 percent and consultant staff was reduced by approximately 30 percent. The staffing changes that occurred in 2021 included the transition of several consultants to HART staff, including the Project Director, the Director of Construction, and the Director of Quality Assurance, among others. HART clarified that current leadership has amended the 2012 Staffing and Succession Plan and renamed it the Staffing Strategy Plan.

STATUS UPDATE

HART transitioned three of the four consultant positions to city employees as referenced in the audit recommendation:

- *Chief Safety and Security Officer (Consultant)*. HART reported that it has recruited heavily for this position, as a city employee, without success. This is a critical position, but qualified candidates for this role are in high-demand. As it continues to recruit for this position, HART filled it with a qualified consultant.
- In December 2021, the Project Management Oversight Contractor (PMOC) issued a *Management Capacity and Capability Review* at the request of the Federal Transit Administration (FTA). The report acknowledged that HART struggles to fill this position and that it may have to rely on a consultant to fill it until a suitable candidate can fill the position as a city employee.
- *Quality Assurance Manager (City Employee)*. HART filled this position with a city employee in October 2021.

- *Chief Project Officer (City Employee)*. The new title for this position is Project Director. This position was filled by a consultant, but the incumbent transitioned to fill the position as a city employee effective March 2022.
- *Project Controls Manager (City Employee)*. A city employee filled this position during the interim as HART recruited to fill it permanently. In April 2022, HART filled this position permanently with a city employee.

HART substantially complied with this recommendation by transitioning three of four key consultant positions to city employees. While the Chief Safety and Security Officer position remains filled by a consultant on an interim basis, HART has made a good faith effort to fill positions with city employees when possible and appropriate.

Recommendation 5



Completed

HART should update the 2012 Staffing and Succession Plan to identify other positions currently filled by consultants that can be transitioned to HART employees and provide a timeline for the transition (Report No. 19-01).

HART management reported that a new *Staffing Strategy Plan* (SSP) was developed and submitted to the PMOC in October 2021 in connection with substantial revisions to the overall Project Management Plan.

STATUS UPDATE

Since Report 19-01 was issued in January 2019, HART made substantive amendments to its SSP (previously referenced as the 2012 Staffing and Succession Plan) on three occasions:

- March 2019;
- March 2020; and
- September 2021.

We evaluated the updated SSP and found that the plan appropriately emphasizes and acknowledges the project's evolution, the need to prioritize staff right-sizing, hiring city employees, and balancing the need to utilize consultants to ensure that the rail project has the proper expertise and will result in a successful project.

According to HART, the SSP is evolving as the project passes the mid-point of construction activities and enters into asset transfer and contract close out. HART, as a temporary agency, and based on the current status of the project, has reduced the project team roster significantly to better align to the current needs of the project and to help address the funding shortfall.

The purpose of the SSP is to help ensure that the mission and goals of HART are met in an efficient, cost-effective, and timely manner. Hiring qualified, experienced personnel, providing adequate training, and retaining vital members of the project team are key objectives of the plan. As the

project advances, the changing personnel needs will require adjustments to ensure the proper staff with the necessary skills and experience are available and engaged.

According to the plan, HART strives to hire current city employees to staff the project. When positions are difficult to fill or when specific skills and expertise are needed that are not available with city staff, HART supplements its open positions through a contract with a consultant. Consultant employees are then seconded² to fill the necessary roles under HART's organizational structure, but are not considered HART employees concerning compensation and benefits. This approach often provides quicker mobilization of experienced project team members when needed, while the City recruits and trains qualified employees. The use of consulting staff with specific expertise assists HART in meeting the Technical Capacity and Capability requirements set forth by the FTA.

In addition, the plan acknowledges that the Department of Transportation Services (DTS) is a key partner with HART and holds a significant role in the future of rail system operations and maintenance in Honolulu. As portions of the project are completed, those assets will be transferred to DTS. DTS is responsible for the revenue service opening, and operations and maintenance (O&M) of the rail system.

The SSP also notes that HART has had success in hiring direct employees to staff the project but relies on consultant staff to meet the Technical Capacity and Capability requirements necessary to implement the project, as set forth by the FTA. Consultant staff seconded to HART will be phased out as the project progresses (and as roles shift to the DTS organization when active O&M is needed), and where qualified employees are identified, hired by HART, and trained to replace the consultants. Consultant staff roles that have not yet transitioned to HART employees during the development and construction phase of the project will ultimately be replaced with a public employee when the final hand-off of O&M responsibilities to DTS occurs. A sufficient overlap time will be programmed to ensure a smooth transition of all duties and continuity of operations.

Based on our review of HART's updated SSP, we consider this recommendation complete. We also note that earlier iterations of the SSP (previously the 2012 Staffing and Succession Plan) specifically identified key consultant positions that should be transitioned to HART staff, and a timeline for that transition. As the project has progressed, the current plan does not specify positions to transition from consultant to city employee, but it more appropriately establishes a broader policy statement about filling positions with city employees as a priority. The plan also considers consultants to ensure the rail project has the expertise to successfully complete the project. Also, the prior *Staffing and Succession Plan* did not consider transferring O&M to DTS, while the current plan does.

In our analysis, the staffing and succession strategy through 2018, which was the strategy under review for Report No.19-01, is obsolete and the recommendation to amend the staffing strategy to identify specific positions for transition and a timeline for that transition is no longer appropriate.

² *Seconded* is defined as the temporary assignment of an employee from one organization to another for a specified period of time, usually to carry out a particular project.

HART eliminated numerous positions, both consultant and non-consultant, during the period of 2020-2021. With the project nearing its half-way point, focusing on specific positions is no longer valid. Rather, HART should remain vigilant and review its staffing needs on a regular basis, and make appropriate adjustments.

Recommendation 6



Completed

HART should review its personnel strategy by considering a mix of civil service, exempt, and personal service contract employees, as applicable, to ensure that current project needs are met and that qualified, experienced staff are in place to transition to operations and management (Report No. 19-01).

In addition, to a new SSP, described in the previous recommendation, HART acknowledged that DTS is responsible for O&M of the rail system and noted that DTS has developed a team of experienced staff for the O&M responsibilities. Transition of some related responsibilities from HART to DTS has begun.

STATUS UPDATE:

As stated above, in its current form, the SSP emphasizes and acknowledges the project's evolution, the need to prioritize staff right-sizing, hiring city employees, and balancing the need to utilize consultants to ensure that the rail project has the proper expertise and will result in a successful project.

According to the current staffing strategy plan, HART strives first and foremost to hire current city employees to staff the project. When positions are difficult to fill or when specific skills and expertise are needed that are not available with city staff, HART supplements its open positions through a contract with a Project Management Support Consultant (PMSC), HDR Engineering, Inc. PMSC employees are then seconded to fill the necessary roles under HART's organizational structure but are not HART employees concerning compensation and benefits. This approach often provides quicker mobilization of experienced project team members when needed, while the city recruits and trains qualified city employees. The use of consulting staff with specific expertise assists HART in meeting the technical capacity and capability requirements set forth by the FTA.

We found that since December 2020, HART has reduced the number of city employees from 115 to 52, a 55 percent decrease. Most notably, the number of personal services contract employees declined 57 percent from 101 in 2020 to 43 in 2022. Exhibit 1 provides a more detailed breakdown of staff reductions.

Exhibit 1
HART Staff Changes, December 2020 to March 2022

HART Staff (City Employee)	December 2020	March 2022	Percent Change
Personal Services Contract	101	43	57%
Civil Service	1	0	100%
Appointees	7	7	0%
89-Day Contract	3	2	33%
Intern	3	0	100%
Total Staff	115	52	55%

Source: HART

Consultant Staff declined by 74 percent

We reviewed the status of consultant employees at HART and found that HART reduced the number of consultant staff since December 2020 (see Appendix B).

- In December 2020, HART identified 19 full-time positions that were held by consultants.
- In December 2021, the number of full-time consultant positions was reduced from 19 to 6, which represents a 68 percent decrease in the number of consultants. A total of 13 consultant positions were eliminated and their attendant responsibilities were assigned to other positions within the organization. Of the 13 eliminated consultant positions, 4 were assigned to city employees, and 1 position was reduced to part-time status.
- As of April 2022, one of the remaining consultant positions (Project Director) had been converted to a city position, leaving five consultant positions.
- Between December 2020 and April 2022, HART reduced the number of consultant positions by 74 percent from 19 to 5 consultants.

PMOC expressed general approval for staffing reductions, but also expressed concerns

In December 2021, the PMOC issued a *Management Capacity and Capability Review* report. The report provided the PMOC’s findings, recommendations, and professional opinions based on the management capacity and capability of HART to implement revenue service efficiently and effectively. The PMOC found that the project team had become more cohesive and morale had improved. The report emphasized that HART should continue to make it a priority of leadership to continue improving project team morale. Downsizing created a short-term dip in morale, but the overall quality and morale of the remaining staff and new management appears to be high and should contribute to HART’s efforts to completing the project.

Although the PMOC found that the staff reductions were generally positive, it did express concern that the magnitude of the overall staff reduction may be too great. The PMOC recommended that HART conduct a workload assessment to address upcoming project schedule and tasks to complete. The workload assessment should include updated organizational charts, with secondary resource provided for key positions, and resource expectations after phase 1 interim revenue service begins and for City Center construction.

Based on our analysis, HART reassessed its staffing needs, amended the *Staffing Strategy Plan* (formerly called the 2012 Staffing and Succession Plan), and reduced its staff as the project has progressed, particularly costly consultant staff, in accordance with the intent of the initial audit recommendation. As a result, we consider the recommendation complete. While we generally found that the personnel changes are positive, we concur with the PMOC recommendation that HART conduct a workload assessment to ensure that it has sufficient and qualified personnel to successfully complete the rail project.

Recommendation 7



Completed

HART should 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, fields, and functions should be used and which parts should be deactivated or eliminated (Report 20-05).

According to HART, Unifier Cloud System (*Unifier*) has been implemented as HART's new Project Management Information System (PMIS) which is an upgraded replacement to CMS.

STATUS UPDATE

In December 2020, HART replaced the old CMS system with *Unifier* at a cost of \$1,690,674. The new system offers attributes and capabilities in areas such as:

- ▶ Governance
- ▶ Document Management
- ▶ Risk
- ▶ Data configuration
- ▶ Forms
- ▶ External integrations
- ▶ Project and contract tracking
- ▶ Project and cost management
- ▶ Data and reports
- ▶ Data dashboard
- ▶ Third party hosting
- ▶ Workflow
- ▶ Mobile capability
- ▶ Data availability
- ▶ Data analytics
- ▶ Internal integrations

We observed and examined an overview/demonstration of the *Unifier's* capabilities provided by a team of HART administrators. We observed the team pull up various data fields and report generation. Based on our observation, we concluded that the system is more robust and has significantly more capabilities than HART's prior CMS system. HART is currently utilizing these capabilities and has improved data management, reporting, and communication. Although HART has not fully utilized *Unifier's* capabilities, they are moving toward maximizing these capabilities and has made significant progress in integrating this system into its operations.

We identified 16 key *Unifier* attributes that we believe would improve HART's management of its contracts, change orders, reporting capabilities, transparency, and governance. According to HART, eight attributes are currently available, four are partially implemented, and four are not yet implemented (see Appendix C).

Based on our analysis and observation of *Unifier*, we consider this recommendation completed. We concluded that this new system is an improvement over the prior CMS system, and it substantially complies with the intent of the recommendation. Although HART has not yet implemented all of the system's capabilities, the agency has implemented a significant number of attributes and has indicated plans to implement further improvements.

Recommendation 8



Completed

HART should document its cost-saving strategies and, to the extent possible, quantify and document the amount of potential cost savings (Report No. 20-05).

HART issued a draft revised Recovery Plan, which included a detailed financial plan. The Recovery Plan identifies ongoing efforts for cost savings and value-engineering ideas. These activities will continue throughout the remainder of the project.

STATUS UPDATE

We reviewed HART's revised *2022 Recovery Plan* and found that it detailed several cost-savings initiatives. In October 2021, HART retained an independent consultant to perform an *Independent Cost Estimate & Schedule Assessment*, with a focus on review of estimated costs to complete the project and the corresponding Project schedule. The consultant identified cost reductions totaling \$749 million, which are detailed in Exhibit 2.

**Exhibit 2
Potential Cost Savings**

Group	HART's Current EAC			Assessment Team's Recommendation			Delta
	Base	Continge	Total	Base	Contingency	Total	
Guideway, Stations, Support Facilities, Systems and Vehicles	\$6,677	\$1,062	\$7,740	\$6,507	\$836.7	\$7,343	\$396.3
Real Estate and Art Elements	646.1	146.6	792.7	646.1	146.6	792.7	-
Professional Services and City and County Participating Departments	2,415	201.5	2,617	2,169	95.5	2,264	352.7
Unallocated Contingency	-	221.7	221.7	-	221.7	221.7	-
Total	\$9,738	\$1,632	\$11,371	\$9,321	\$1,301	\$10,622	\$749.0

Source: HART Draft Recovery Plan, 2022

Mauka shift could save an additional \$165.9 million:

Separately, the consultant performed a high-level assessment of the *mauka shift* initiative. This shift would move the guideway along a portion of Dillingham Boulevard to the mauka side of the roadway, which will allow the project to avoid the relocation of significant utilities. The cost assessment for the mauka shift focused on three components:

1. Utility relocations;
2. Guideway savings; and
3. Professional Services (soft costs).

The consultant identified additional cost savings of \$165.9 million related to the mauka shift. Most of these savings are attributable to the elimination of work, more efficient construction methods, a reduction of the overall project schedule, and a reduction in allocated contingency.

Staffing Cost Savings of \$246.7 million:

In early 2021, the newly formed executive team reviewed each position in the HART organization, including consultants and contractors to HART. They identified and eliminated duplication, redundancy, and excessive or unnecessary positions relative to the needs of the project. As a result of this reorganization, HART's staff was reduced from 112 to 64 full-time equivalent positions. Similarly, the number of consultants who support the project was reduced by approximately 30 percent.

The consultant estimated that HART's most recent staffing reduction plan would result in a savings of approximately \$246.7 million. Combined, the consultant's recommendations for project cost savings, including the mauka shift and staffing changes, total \$914.9 million.

Based on our review of HART's revised Recovery Plan, we found that the identified cost initiatives meet the intent of the prior audit recommendation and consider the recommendation completed.

Recommendation 9



Completed

HART should 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.

On December 30, 2020, the former HART Executive Director-CEO signed a five-year lease extension on the existing office space. The financial terms of the lease are similar to lease terms for external office space being leased by other city departments. Much of the space is being utilized. Further, it is expected that, as construction activity ramps up when the project moves into the City Center segment, more of the space will be utilized.

STATUS UPDATE

On December 31, 2020, HART entered into a sub-lease agreement with Hawaiian Electric Co. to lease approximately 63,927 rentable square feet on floors 1, 11, 17, and 23 of Ali'i Place in Downtown Honolulu. The lease term covers the period January 1, 2021 – June 30, 2027. According to a HART administrator, the new sub-lease agreement is similar to what HART occupied at the end of the previous agreement in terms of rentable space. The administrator also noted that utilization is different in that HART will be rearranging staff to create synergies, allow for collaboration among appropriate groups, and better utilize space. HART commented that the current office space is sufficient for current and future needs, but noted that staffing and office utilization is not static. As projects move forward, some staff will leave and others will enter.

We toured HART office space on floors 11, 17, and 23 and Rm. 150 to assess utilization. Generally, perimeter offices were occupied with some center administrative work spaces open. Based on this assessment, we find that HART has substantially complied with the audit recommendation.

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) adequately addressed nine recommendations from the following reports:

- Six recommendations from *Follow-up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1, Report No. 19-01*; and
- Three outstanding recommendations from *Follow-up on Recommendations from Report No. 16-03, Audit of the Honolulu Authority for Rapid Transportation, Report No. 20-05*.

We reviewed all nine recommendations to assess the extent to which HART's corrective actions were substantiated. We reviewed the original audits and subsequent follow-up audits, and requested updated status for each recommendation. We reviewed supporting documentation pertinent to the follow-up audit, interviewed HART administrators and staff, and observed operational processes.

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 recommendations. During the audit, we were not aware of any other investigations, audits or work by other agencies that would impact our work.

We met with responsible representatives of HART to discuss our preliminary findings in order to identify and 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 this follow-up audit.

The audit was conducted from January to May 2022 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.

This page intentionally left blank.

Appendix B

Status of HART Consultant Staff from December 2020 to April 2022

	<i>Title</i>	<i>Job Description</i>	<i>Status December 2020</i>	<i>Status December 2021</i>	<i>Status April 2022</i>
1	Business Systems Manager	Manage business systems	Consultant	Consultant	Consultant
2	Core Systems Director	Director of Core Systems	Consultant	Consultant	Consultant
3	Lead Cost Analyst	Cost forecasting	Consultant	Consultant	Consultant
4	Project Manager	Design project manager	Consultant	Consultant	Consultant
5	Project Manager	East Area Construction Manager	Consultant	Consultant	Consultant
6	Director of Project Controls/Project Director	Responsible for project controls	Consultant	Consultant	City Employee
7	Assistant Manager of Core Systems	Responsible for Core Systems	Consultant	City Employee	City Employee
8	Director of Design and Construction	Responsible for the overall design and construction	Consultant	City Employee	City Employee
9	Director of Quality Assurance	Manage quality programs	Consultant	City Employee	City Employee
10	Director of Readiness and Activation	Responsible for start-up and testing	Consultant	City Employee	City Employee
11	Administrative Assistant	Assisted the Project Director	Consultant	Position Eliminated; responsibilities assigned to other positions	----
12	Construction Manager – West	Managed West Area	Consultant	Position Eliminated; responsibilities assigned to other positions	----
13	Fare Collections Manager	Manage fare collection contract	Consultant	Position Eliminated; responsibilities assigned to other positions	----
14	Project Director Assistant	Assistant to Project Director	Consultant	Position Eliminated; responsibilities assigned to other positions	----
15	Public Relations Manager	Manage public relations	Consultant	Position Eliminated; responsibilities assigned to other positions	----
16	Safety Certification Manager	Safety and security manager	Consultant	Position Eliminated; responsibilities assigned to other positions	----
17	Safety Certification Specialist	Manage the Safety Certification Process	Consultant	Position Eliminated; responsibilities assigned to other positions	----
18	Traffic Engineer	Traffic engineer	Consultant	Position Eliminated; responsibilities assigned to other positions	----
19	Risk Management	Risk modeler	Consultant	Responsibilities assigned to other positions; consultant works part-time	----

Source: Honolulu Authority for Rapid Transportation

This page intentionally left blank.

Appendix C

Status of Select Functional Elements of the Unifier Cloud System

1.0 FUNCTIONAL PMIS REQUIREMENTS			
1.1 PMIS Governance			
1.1.10	Aggregates actuals and forecasts from projects in execution to match timescale granularity	Partial	Forecasts and actuals are captured for In Progress work for costs and schedules; however, cost aggregations remain a work in progress.
1.1.13	Enables ability to monitor ongoing projects to see real-time roll up of cash flow	Partial	While real-time roll up of costs are available in the system, implementation of cash flow curves remains on the capability backlog. This may move to the new Analytics solution as cost tracking, monitoring, and reporting is improved.
1.2 Project and Contract Tracking			
1.2.12	Facilitates automatic tracking of baseline budgets, actuals, forecasts, and payments	Partial / Improvements	Schedule controls are in-place and robust while cost and contracts are a more manual effort supplemented by software applications. HART is focusing on revising existing procedure documents to requirements gathering to enable system design.
1.2.20	Manages closeout processes with turnover documents, punch lists, checklists, and warranties	Not implemented	Because closeout started prior to implementation of Unifier, this capability was postponed to not impede the handover process with changes. The experts involved with Segment 1 handover will lead the requirements and design discussions to introduce this functionality for Segment 2 and beyond.
1.3 Workflow			
1.3.1	Provides workflow coordination and instructions for external parties to manage design change requests	Available / Improvements	This capability exists and is available. Newer projects will have managed design iterations available throughout the project. HART is focusing on introducing a business process that captures Architect's Supplemental Instructions (ASIs).
1.4 Document Management			
1.4.2	Provides standard document management capabilities such as security management, revision contract, check in/out, commenting, and auditing logs for all documents	Currently Available	This capability is implemented and used in the current Unifier solution.
1.5 Project and Cost Management			
1.5.4	Provides a graphical EVM dashboard with standard metadata and metrics such as CPI, SPI, TCPI, CV, and SV. Allows tracking of earned value results by project, WBS, and CBS.	Not Implemented	The solution provides this capability, but the functionality has not yet been defined. This will be a high priority during implementation of the new Analytics solution.
1.5.12	Provides the ability to view roll ups of funding allocation, appropriation, and consumption in a single consolidated view	Not implemented	The solution provides this capability, but the functionality has not yet been defined.

(Continued)

2.0 DATA AND REPORTS			
2.1 Data			
2.1.2	Provides reliable and accurate data for reporting	Currently Available	This capability is implemented and used in the current solution.
2.1.5	Retains historical contract progress	Currently Available	This capability is implemented and used in the current solution.
2.2 Availability			
2.2.1	Provides reliable and accurate data for reporting	Currently Available	This capability is implemented and used in the current solution.
2.2.3	Retains historical contract progress	Currently Available	This capability is implemented and used in the current solution.
2.4 Dashboard			
2.4.3	Provides dashboards on a per-user basis	Available/Improvements	This capability exists and is available, but HART will focus on improving this capability in the new Analytics solution.
2.4.6	Provides drill down capability to track data at a lower data level (e.g. - by project by team)	Available/Improvements	This capability exists and is available, but HART will focus on improving this capability in the new Analytics solution.
2.5 Analytics			
2.5.4	Financial reports can be generated on an "As-of Date" and "Run Date" for historical reference and auditing	Partial	Financial reporting is currently available for in progress contracts that reports by run date. This capability will be improved to include "As-of-Date" in the new Analytics solution.
3.0 SYSTEMS			
3.3 External Integrations			
3.3.1	Capable of full system integration to city ERP financial and cost data	Capable but not implemented	This capability exists and requirements will be defined over the next few months. Implementation requires negotiation with DHR and DIT to enable integration with city managed data.

Source: Honolulu Authority for Rapid Transportation

Appendix D

Management Response

IN REPLY REFER TO: **HART-COR-01839**



Lori M.K. Kahikina, P.E.
Executive Director and CEO

Rick Keene
Deputy Executive Director and COO

BOARD OF DIRECTORS

Colleen Hanabusa <i>Chair</i>	Kika G. Bukoski <i>Vice Chair</i>	
Anthony B. Aalto	Natalie Iwasa	Arthur Tolentino
Michele Chun Brunngraber	J. Roger Morton	Dean Uchida
Jade Butay	Joseph V. O'Donnell	Robert Yu
Mark Howland		

July 20, 2022

MEMORANDUM

TO: ARUSHI KUMAR, CITY AUDITOR

ATTN: TROY SHIMASAKI, SENIOR AUDITOR

FROM: LORI M.K. KAHIKINA, P.E., EXECUTIVE DIRECTOR AND CEO

SUBJECT: HART MANAGEMENT RESPONSE TO *FOLLOW-UP ON RECOMMENDATIONS FROM REPORT NO. 19-01 AND SELECT RECOMMENDATIONS FROM REPORT NO. 20-05, ON THE HONOLULU AUTHORITY FOR RAPID TRANSPORTATION (HART)*

This is in response to your letter dated July 11, 2022. Thank you for the opportunity to provide comments on the draft report of the follow-up audit performed by the Office of the City Auditor. We understand the report relates to the recent follow-up audit of Report No. 19-01, *Follow-Up Audit of the Honolulu Authority for Rapid Transportation, Resolution 17-199, CD1*, and select recommendations made in Report No. 20-05, *Follow-Up on Recommendations from Report No.16-03, Audit of the Honolulu Authority for Rapid Transportation*.

The audit report expresses the conclusion of the Office of the City Auditor that all nine recommendations from Report Nos. 19-01 and 20-05 have been implemented and are considered complete. HART agrees with these findings.

We appreciated the opportunity to work with you and your staff and for your professionalism and thoroughness during the conduct of the audit.



LORI M.K. KAHIKINA, P.E.
Executive Director and CEO

This page intentionally left blank.