

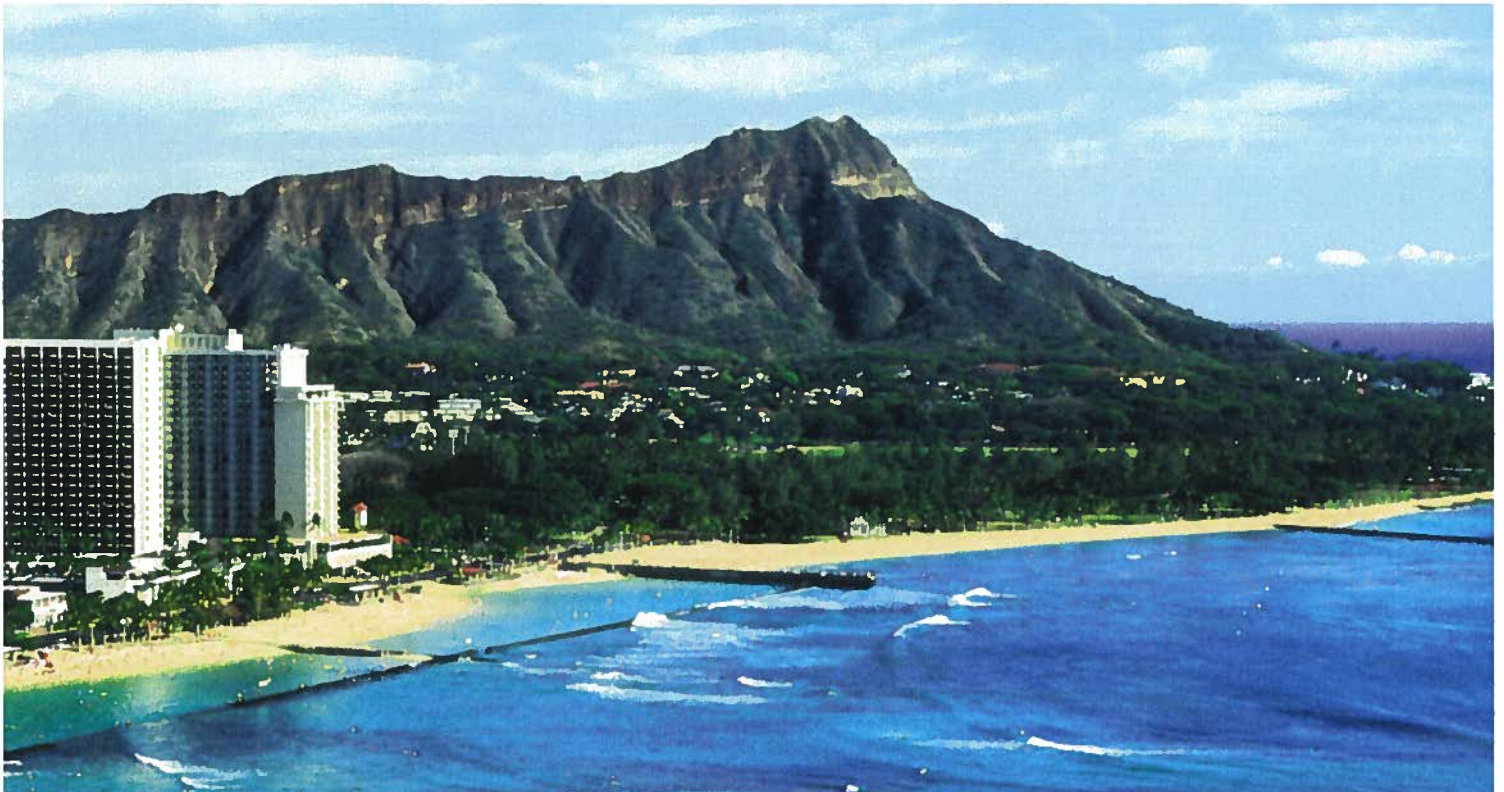
OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

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

For the Fiscal Year Ended
June 30, 2015

Single Audit of Federal Financial
Assistance Programs



Conducted by KMH LLP

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INTRODUCTION



A Hawaii Limited Liability Partnership

March 28, 2016

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

Dear Chair and Members of the City Council:

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii (the City) as of and for the fiscal year ended June 30, 2015. Our report containing our opinion on those basic financial statements is included in the City's *Comprehensive Annual Financial Report*. We have also audited the City's compliance with requirements applicable to its major federal financial programs. We submit herein our reports on compliance and internal control over financial reporting and over federal awards, the schedule of expenditures of federal awards, and the schedule of findings and questioned costs. Our audit was performed in accordance with the terms of our contract with the City and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OBJECTIVES OF THE AUDIT

1. To provide an opinion on the fairness of the presentation of the City's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.
2. To consider the City's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.
5. To report on the status of prior year findings and questioned costs.

SCOPE OF THE AUDIT

We performed an audit of the City's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133.

Our report on the basic financial statements of the City as of and for the year ended June 30, 2015 is included under a separate cover. A separate management letter containing our observations regarding the City's internal controls dated March 28, 2016 has also been issued to the City Council.

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

Sincerely,

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

Wilcox Choy
Partner

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



A Hawaii Limited Liability Partnership

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of Honolulu, State of Hawaii (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 7, 2016. Our report includes a reference to other auditors who have audited the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We and the other auditors did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs*, items 2015-1, 2015-2, and 2015-3, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2015-4, 2015-5, 2015-6, and 2015-7.

The City's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 7, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON
INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**



A Hawaii Limited Liability Partnership

Report on Compliance for Each Major Federal Program, Report on Internal Control over Compliance, and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City and County of Honolulu, State of Hawaii's (the City's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Basis for Qualified Opinion on HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster

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

Finding No.	CFDA No.	Program Name	Compliance Requirement
2015-4	14.239	HOME Investment Partnerships Program	Subrecipient Monitoring
2015-5	14.267	Continuum of Care	Subrecipient Monitoring
2015-6	14.267	Continuum of Care	Reporting
2015-7	20.500, 20.507	Federal Transit Cluster	Special Test – Wage Rate

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

Qualified Opinion on HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the other major federal programs identified in the Summary of Auditor’s Results section of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2015.

Other Matters

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

Report on Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-4, 2015-5, 2015-6, and 2015-7 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-8 and 2015-9 to be significant deficiencies.

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 7, 2016, which contained an unmodified opinion on those financial statements. We did not audit the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., which are discretely presented component units of the City. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 28, 2016, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is March 7, 2016

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Pass-through from the State Department of Education-- Summer Food Service Program for Children	10.559	12-351523	\$ 162,647
Pass-through from the State Department of Human Services-- Supplemental Nutritional Assistance Program	10.561	DHS-11-SNAP-301 SA3; SA4	17,510
Pass-through from the State Department of Land and Natural Resources-- Cooperative Forestry Assistance	10.664	12-DG-11052012-156	65,188
Total U.S. Department of Agriculture			245,345
U.S. Department of Commerce:			
Pass-through from University of Hawaii -- Sea Grant Support Economic Adjustment Assistance	11.417 11.307	MA130019 -	34,793 46,769
Total U.S. Department of Commerce			81,562
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/Entitlement Grants	14.218	-	7,534,639
Emergency Solutions Grant Program	14.231	-	775,714
Supportive Housing Program	14.235	-	61,682
Shelter Plus Care	14.238	-	432,983
HOME Investment Partnerships Program	14.239	-	2,558,896
Housing Opportunities for Persons with AIDS	14.241	-	416,197
Continuum of Care Program	14.267	-	5,531,157
Pass-through from the State Hawaii Public Housing Authority:			
Public and Indian Housing	14.850	PMB 13-04, SA1	45,748
Family Self-Sufficiency Program	14.896	PMB 13-04, SA1	31,254
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	-	159,588
<i>Housing Voucher Cluster:</i>			
Mainstream Vouchers	14.879	-	1,475,545
Section 8 Housing Choice Vouchers	14.871	-	47,354,046
Pass-through from the State Hawaii Public Housing Authority-- Section 8 Housing Choice Vouchers: FSS	14.871	PMB 13-04, SA1	110,261
<i>Total Housing Voucher Cluster</i>			48,939,852
Total U.S. Department of Housing and Urban Development			66,487,710
U.S. Department of Justice:			
Domestic Cannabis Eradication/Suppression Program	16.000	-	105,137
Equitable Sharing Program	16.922	-	35,240
Pass-through from the State Department of Human Services-- Juvenile Accountability Block Grants	16.523	DHS-12-OYS-264, SA3 SA4 SA5	107,894
Pass-through from the State Department of the Attorney General:			
Crime Victim Assistance	16.575	11-VA-02; 12-VA-02	1,391,977
Violence Against Women Formula Grants (Non-ARRA)	16.588	11-WF-05 12-WF-04 13-WF-0811-WF-08; 12-WF-08; 13-WF-04	183,957
Crime Victim Assistance/Discretionary Grants	16.582	-	4,999
Public Safety Partnership and Community Policing Grants (ARRA)	16.710	-	20,280
Public Safety Partnership and Community Policing Grants (Non-ARRA)	16.710	-	47,421
DNA Backlog Reduction Program	16.741	-	250,505
Pass-through from the State Department of the Attorney General-- Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	13-CD-02	25,508
<i>Justice Assistance Grant (JAG) Program Cluster:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	464,713
Pass-through from the State Department of the Attorney General-- Edward Byrne Memorial Justice Assistance Grant Program	16.738	11-DJ-01 11-DJ-02 11-DJ-06 11-DJ-09 12-DJ-04 12-DJ-09	468,325
Edward Byrne Memorial JAG Program / Grants To Units Of Local Government (ARRA)	16.804	-	45
<i>Total JAG Program Cluster</i>			933,083
Total U.S. Department of Justice			3,106,001

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Labor:			
Pass-through from the State Department of Labor & Industrial Relations:			
(WIA) National Emergency Grant	17.277	WIA-12-NEG-DWT-0 WIA-14-NEG-JD-0	398,235
<i>Workforce Investment Act (WIA) Cluster:</i>			
Workforce Investment Act - Adult Program	17.258	WIA-13-AP-0 WIA-13-LAC-0	1,018,565
Workforce Investment Act - Youth Activities	17.259	WIA-13-YP-0 WIA-13-LAC-0	887,193
WIA Dislocated Worker Formula Grants	17.278	WIA-13-DW-0 WIA-13-LAC-0	1,189,211
<i>Total Workforce Investment Act Cluster</i>			3,094,969
Pass-through from the State Department of Labor & Industrial Relations--			
Trade Adj. Asst. Comm. College and Career Training (TAACCCT) Grants	17.282	C3T-Oahu	93,233
Reintegration of Ex-Offenders	17.270	-	224,804
Youthbuild	17.274	-	335,333
Total U.S. Department of Labor			4,146,574
U.S. Department of Transportation:			
Pass-through from the State Department of Transportation:			
<i>Highway Planning & Construction Cluster:</i>			
Highway Planning and Construction (ARRA)	20.205	STP-0001 (36) (51)	1,734
Highway Planning and Construction (non-ARRA)	20.205	ARR-095(1) -8915(2); BR-NBIS(49)(53)(56); CMAQ-0001(41) -0300(128) -7863(001); FLH-0300(91); STP- 0001(33)(35)(36)(40)(42)(43)(46)(47)(50)(51)(52)(55) (56)(57)(58) -0300(63)(69)(112)(132) -6010(1) - 6012(1) -7139(1) -7311(2) -7411(1) -7542(1) - 8920(2)(3)	9,164,186
Highway Planning and Construction (non-ARRA)	20.205	-	310,392
Highway Planning and Construction (non-ARRA)	20.205	FHWA-206-01-12	86,715
Highway Planning and Construction (non-ARRA)	20.205	FHWA 201.01-12 202.84-11 203.05-14 203.77-09 203.79-10 203.80-10 203.81-10 203.83-11 203.84-13 203-05-14	419,846
<i>Total Highway Planning & Construction Cluster</i>			9,982,873
<i>Federal Transit Cluster:</i>			
Federal Transit - Capital Investment Grants (Non-ARRA)	20.500	-	189,543,441
Federal Transit - Formula Grants (ARRA)	20.507	-	4,256,000
Federal Transit - Formula Grants (Non-ARRA)	20.507	-	26,936,394
<i>Total Federal Transit Cluster</i>			220,735,835
<i>Transit Services Programs Cluster:</i>			
Job Access and Reverse Commute	20.516	-	400,244
New Freedom Program	20.521	-	195,217
<i>Total Transit Services Programs Cluster</i>			595,461
Pass-through from the State Department of Transportation--			
State and Community Highway Safety	20.600	AL14-02 AL15-02 DD14-10 DD15-10 OP14-05 OP15-05 PS14-09 PS15-09 PT14-01 PT15-01 SC14-06 SC15-06(01-O-01) AL15-02(06-O-01) TR15-03(03-O-01)EM15-04 (01-O-01) FLEX 2014 - Project 4 & 5 FLEX 2015 Project 4 & 11	1,190,840
Total U.S. Department of Transportation			232,505,009

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Pass-through from the State Department of Health:			
<i>Clean Water State Revolving Fund Cluster:</i>			
Capitalization Grants for Clean Water SRF	66.458	C150048-00	5,725,177
Capitalization Grants for Clean Water SRF	66.458	C150046-68	11,827
Capitalization Grants for Clean Water SRF	66.458	C150046-70	55,010
<i>Total Clean Water State Revolving Fund Cluster</i>			5,792,014
Total Environmental Protection Agency			5,792,014
U.S. Department of Education:			
Pass-through from the State Department of Human Services--			
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126	DHS-13-VR-758 SA1 DHS-14-VR-1024 DHS-15-VR-2113 DHS-12-VR-640 SA1-2 DHS-12-VR-	413,708
Pass-through from the State Department of Education--			
Twenty-First Century Community Learning Centers	84.287	13023	21,002
Total U.S. Department of Education			434,710
U.S. Department of Health and Human Services:			
Pass-through from the State Executive Office on Aging:			
Special Programs for the Aging-Title III, Part D-Disease:			
Prevention and Health Promotion Services	93.043	HON2013N03 HON2015N03	106,866
Pass-through State Executive Office on Aging:			
<i>Aging Cluster:</i>			
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	HON2013N03 HON2015N03	1,669,313
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	HON2012N03 HON2013N03	1,175,840
Supportive Services, (Title IIIC-1) Home Delivered Meals (Title IIIC-2)	93.045	HON2012N03 HON2013N03	1,175,840
Nutrition Services Incentive Program	93.053	HON2014NSIP	114,976
<i>Total Aging Cluster</i>			2,960,129
Pass-through from the State Executive Office on Aging--			
National Family Caregiver Support, Title III, Part E	93.052	HON2013N03 HON2015N03	625,658
Pass-through State Department of Health--			
Block Grants for Community Mental Health Services	93.958	N/A	428,346
Total U.S. Department of Health and Human Services			4,120,999
Corporation for National and Community Service--			
Retired and Senior Volunteer Program	94.002	-	97,858
Total Corporation for National and Community Service			97,858
Executive Office of the President --			
High Intensity Drug Trafficking Area Program	95.001	-	1,694,427
Total Executive Office of the President			1,694,427

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security:			
Pass-through from the State Civil Defense:			
<i>Homeland Security Grant</i>			
Homeland Security Grant Program:			
Citizen Corp Program	97.067	EMW-2012-SS-00009	47,251
Metropolitan Medical Response System Program	97.067	2011-SS-00129	88,596
State Homeland Security Program	97.067	EMW-2013-SS-00003 EMW-2014-SS-00003	1,780,655
<i>Total Homeland Security Grant</i>			1,916,502
Pass-through from the State Department of Defense:			
Regional Catastrophic Planning Grant Program	97.111	2011-CA-00017	1,074,724
Emergency Management Performance Grants	97.042	EMW-2012-EP-00012	222,139
Assistance to Firefighters Grant	97.044	-	2,194,774
Rail and Transit Security Grant Program	97.075	-	349,764
Total U.S. Department of Homeland Security			5,757,903
Total Expenditures of Federal Awards			\$ 324,470,112

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City and County of Honolulu (the City) and is presented on the cash basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Schedule does not include the federal grant activity of the Board of Water Supply and Oahu Transit Services, Inc., discretely presented component units of the City.

2. Loans Outstanding

The City had the following loan balances outstanding awarded as of and for the year ended June 30, 2015, which are not presented in the Schedule. There were no advances in fiscal year 2015.

Program Title	CFDA Number	Loans Outstanding
Major programs		
Community Development Block Grants – Entitlement Grants	14.218	\$ 36,566,717
HOME Investment Partnerships Program	14.239	19,661,334
Section 8 Housing Choice Vouchers	14.871	<u>3,647,688</u>
		<u>\$ 59,875,739</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2015, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 5,792,014
State	<u>740,236</u>
	<u>\$ 6,532,250</u>

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

4. Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Federal Grantor/Program/Grant	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:		
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	\$ 106,866
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	1,535,121
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	996,135
National Family Caregiver Support, Title III, Part E	93.052	554,552
Total U.S. Department of Health and Human Services		3,192,674
U.S. Department of Housing and Urban Development:		
Community Development Block Grants/Entitlement Grants	14.218	4,611,638
Emergency Solutions Grant Program	14.231	775,714
Shelter Plus Care	14.238	432,983
HOME Investment Partnerships Program	14.239	2,487,875
Housing Opportunities for Persons with AIDS	14.241	416,197
Continuum of Care Program	14.267	5,529,503
Total U.S. Department of Housing and Urban Development		14,253,910
U.S. Department of Justice--		
Crime Victim Assistance	16.575	355,000
Total U.S. Department of Justice		355,000
Total Provided to Subrecipients		\$ 17,801,584

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.239	HOME Investment Partnerships Program
14.267	Continuum of Care Program
20.500, 20.507	Federal Transit Cluster
66.458	Clean Water State Revolving Funds
93.044, 93.045, 93.053	Aging Cluster
97.111	Regional Catastrophic Preparedness Grant Program

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

Auditee qualified as low-risk auditee? ___ Yes √ No

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

Section II – Financial Statement Findings

Finding No. 2015-1: Deficiencies in Information Technology Controls

Type of Finding: Significant Deficiency

Criteria: Information technology (IT) is a strategic element of the City and County of Honolulu's (the City) operations. Because of the high volume of transactions, the establishment of internal controls over processes incorporating IT is critical to its operations. As IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should have internal controls to prevent or detect potential misstatements.

Condition, cause, and context: As part of our financial statement audit for the year ended June 30, 2015, we performed an IT general controls review of the following systems operated by the City:

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

Our review resulted in several IT control deficiencies in the areas of logical security and change management as follows:

Logical security

- No effective periodic reviews of certain servers/databases were performed to detect whether terminated individuals are able to log in to the IT systems.
- No effective periodic reviews of certain servers/databases performed to recertify if access rights granted to employees were commensurate with their job responsibilities.
- Lack of segregation of duties in certain areas of security administration for a particular system.
- User IDs to directly access the database is shared.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

Section II – Financial Statement Findings (continued)

- Excessive user accounts with domain administrative privileges.
- Password configurations for a specific server do not meet standards.
- Developers of a specific application have access to application production.
- Ineffective vulnerability scanning.

Change Management Review

- Direct Data Changes – direct data changes are not restricted, monitored or approved as shared IDs are utilized.

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

Effect: Internal controls in the areas of logical security and change management address the following risks:

Logical security

Unauthorized access to these systems could result in either the destruction of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change Management

Unauthorized or untested changes promoted to the production environment could cause the systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.
- Work with vendor programmers to address any internal control deficiencies due to systems limitations.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

Section II – Financial Statement Findings (continued)

Finding No. 2015-2: Real Property Tax Exemptions

Type of Finding: Significant Deficiency

Criteria: In accordance with Revised Ordinances of Honolulu, Chapter 8 – “*Real Property Tax*”, Article 10 – “*Exemptions*”, a claimant may file a claim for exemption with the department of budget and fiscal services. The City is responsible for maintaining adequate documentation of all exemptions granted.

Condition, cause, and context: During the audit, we noted that 2 out of the 73 real property tax exemptions tested did not have documentation to support the exemptions granted. Management indicated that eight years ago, hard copies of the exemptions were scanned by a vendor and subsequently destroyed. Maintenance of this documentation is important because real property taxes is the City’s largest source of revenue and these signed forms are the only evidence of a proper tax exemption. During our discussion with management, due to the structure of the exemption database, there is currently no simple way to determine the extent of the missing documentation.

Effect: Failure to maintain records of real property tax exemptions could lead complications in the future if questions arise with a particular taxpayer and the City is unable to prove or disprove that the taxpayer had a properly approved tax exemption.

Recommendation: We recommend the City investigate to determine if there are any additional documentation missing from its records. Also, we recommend the City improve internal controls to ensure adequate records are kept.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

Section II – Financial Statement Findings (continued)

Finding No. 2015-3: Sewer Fund Capital Asset

Type of Finding: Significant Deficiency

Criteria: Management is responsible for establishing and maintaining a capitalization policy for capital assets, the objectives of which are to provide management assurance that transactions and recorded in conformity with accounting principles generally accepted in the United States of America.

The City's capitalization policy is published on the City's intranet as index code 22.2.

Condition, cause, and context: During the audit, we noted two capital asset projects totaling approximately \$1.1 million that were improperly capitalized resulting in proposed adjustments (unrecorded) to the Sewer Fund financial statements. One project was inactive/abandoned in the current year and should have been expensed in the current year. The other project was completed prior to year-end and should have transferred into the proper asset class upon completion.

Although the City has procedures in place to ensure that capital assets are recorded in accordance with generally accepted accounting principles, the errors noted above were not initially identified during the City's review process.

Effect: Adjustments were proposed to correct the issue related to the capital asset.

Recommendation: We recommend the City be more diligent in performing its existing procedures.

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2015-4 Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.239
Program: HOME Investment Partnerships Program
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 2 CFR section 200.331, "depending on the pass-through entity's assessment of risk posed by the subrecipient, the following monitoring tool may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals: ...(2) Performing on-site reviews of the subrecipient's program operations."

Condition, cause and context: For 1 out of 10 subrecipients tested, we noted that no on-site subrecipient monitoring was performed. The subrecipient was assessed and scheduled for on-site monitoring, however management indicated that due to staffing shortages, the on-site visit was not performed.

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

Questioned costs: None

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

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Finding No.: 2015-5 Perform Annual Subrecipient Monitoring Duties

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

Criteria: In accordance with 24 CFR section 578.7, the grantee must "monitor recipient and subrecipient performance." Further, in accordance with City policy, "generally, all monitoring letters should be mailed within 30 days after the exit conference."

Condition, cause and context: We tested 4 subrecipients for compliance with statutory, regulatory, and contractual requirements and related internal controls over subrecipient monitoring and noted the following:

- 1) For 1 out of 4 subrecipients tested, no on-site monitoring was performed; and
- 2) For remaining 3 out of 4 subrecipients tested, monitoring letters for on-site monitoring completed over five to six months ago were still in draft form or incomplete;

Management indicated that the above exceptions were due to staffing shortages.

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

Questioned costs: None

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Finding No.: 2015-6 Submit Reports in a Timely Manner

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 24 CFR section 578.109(b) and the U.S. Office of Management and Budget Circular A-133 Compliance Supplement, the “report is due from each grantee 90 days after the end of each operating year.”

Condition, cause and context: Under the program requirements of CFDA No. 14.267, the annual progress report (APR) must be completed and submitted timely. The program was required to submit two APRs during FY 2015.

During our audit, we noted that one of the APRs was not submitted on a timely basis (9 days late). Management indicated that APR was submitted late due to late submission by one of the subrecipients.

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

Questioned costs: None

Recommendation: We recommend the City establish controls to gather required reporting information timely from subrecipients to ensure compliance.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Finding No.: 2015-7	Wage Rate
Federal Agency:	United States Department of Transportation
CFDA No.:	20.500, 20.507
Program:	Federal Transit Cluster
Requirement:	Special Tests and Provisions – Wage Rate
Type of Finding:	Non-Compliance and Material Weakness

Criteria: 29 CFR Subtitle A section 5.5 states that the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the United States Department of Transportation (DOT) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the DOT.

Condition, cause and context: We tested 60 contracted projects for compliance with statutory, regulatory, and contractual requirements and related internal controls over special tests and noted the following:

- 1) Fifty instances where certified payrolls were not submitted within 7 days of pay period ending, and
- 2) One instance where the Honolulu Authority for Rapid Transportation (HART) was missing a non-performance report.

Although HART has established policies and procedures in place to ensure compliance with statutory, regulatory, and contractual requirements, there was a lack of diligence in following the established policies and procedures.

Effect: Failure to follow these policies and procedures demonstrates noncompliance with certain statutory, regulatory, and contractual requirements.

Questioned costs: None

Recommendation: We recommend the City be more diligent in consistently following its policies and procedures to ensure compliance.

Contact Person: Douglas Cullison, HART Internal Control Analyst

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Finding No.: 2015-8 Perform Excluded Party Listing Search (EPLS)

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Procurement
Type of Finding: Significant Deficiency

Criteria: In accordance with 2 CFR 215.13, "subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities." To ensure compliance, the City performs an EPLS check prior to the execution of the subrecipient agreement.

Condition, cause and context: For 4 out of 4 contracts tested, we noted no documentation that an EPLS check was performed prior to the execution of the subrecipient agreement. Management indicated the check was performed; however, documentation was not retained.

In the current fiscal year, we noted that all of the program's subrecipients had agreements with the City in the prior year. We also re-performed the EPLS check for the contracts tested and noted no subrecipients were debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Effect: Failure to perform EPLS checks could result in noncompliance with the procurement requirement.

Questioned costs: None

Recommendation: We recommend the City establish procedures to perform and retain EPLS check documentation prior to executing a subrecipient agreement to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2015

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

Finding No.: 2015-9 Obtain DUNS Number Prior to Contract Execution

Federal Agency: United States Department of Transportation
CFDA No.: 20.500, 20.507
Program: Federal Transit Cluster
Requirement: Subrecipient Monitoring
Type of Finding: Significant Deficiency

Criteria: In accordance with FTA Circular 9030.1E, "the recipient must not make any subaward to an entity unless the entity has provided its DUNS number to the recipient."

Condition, cause and context: For 1 out of 2 subrecipient contracts tested, the DUNS number was obtained after the execution of the subrecipient agreement. Management indicated that they were not aware of this requirement.

Effect: Failure to obtain the DUNS number before contract execution could result in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

Recommendation: We recommend the City establish procedures to obtain the DUNS number prior to executing a subrecipient agreement to ensure compliance.

Contact Person: Scott Ishiyama, Department of Transportation Services Paratransit Branch Chief

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

Financial Statement Findings

Finding No.: 2014-1 Deficiencies in Information Technology Controls (Significant Deficiency)

Condition, cause and context: As part of our financial statement audit for the year ended June 30, 2014, we performed an IT general controls review of the following systems operated by the City:

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

Our review resulted in several IT control deficiencies in the areas of logical security and change management as follows:

Physical and logical security

- Several terminated employees continued to have access to the City's IT systems.
- No effective periodic review performed to detect whether terminated individuals are able to log in to the IT systems.
- No effective periodic review performed to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Lack of segregation of duties in certain areas of security administration, operating system, and database security.
- Excessive user accounts with administrative privileges.
- User IDs to directly access the database are shared.
- Activity logging configurations do not meet standards.

Change management

- Direct Data Changes – currently no process for monitoring/reviewing direct data changes.

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

Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2015

- Identify methods to ensure that IT policies and procedures are consistently followed, such as centralizing their user administration process to streamline provisioning and de-provisioning.
- Work with vendor programmers to address any internal control deficiencies due to system limitations.

Status: Partially resolved. See finding 2015-1.

Finding No.: 2014-2 Information Technology for the Board of Water Supply (“BWS”) (Significant Deficiency)

Condition, cause and context: As part of the other auditors’ financial statement audit for the year ended June 30, 2014, they performed an IT general controls review of the following systems operated by BWS:

- J.D. Edwards
- Oracle Utilities Customer Care and Billing
- Automated Meter Reading System
- Kronos Workforce Timekeeper

The other auditors noted that as BWS performed a significant migration to an updated version of J.D. Edwards in the year ended June 30, 2014, they performed additional migration testing over:

- Data Conversion
- Logical Security
- Interface Implementation
- Project Governance
- Reporting

The other auditors’ review resulted in several IT control deficiencies in the areas of logical security, change management, and IT operations as follows:

Logical security

- Weak password security.
- User access rights not approved and granted on a need-to-know, need-to-do basis.
- Lack of validation by business for user access rights.

Change management

- Lack of IT segregation of duties.
- Lack of user acceptance for configuration changes.

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2015

IT operations

- Lack of monitoring controls for certain financial system interfaces.

Recommendation: The other auditors recommend that management of BWS perform the following:

- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.

Status: The comment is no longer applicable.

Finding No.: 2014-3 Employer Contributions to Employee Retirement System (Material Weakness)

Condition, cause and context: During the audit, we noted that the City did not entirely contribute the statutory employer contribution for several years and report the liability. Consequently, as of June 30, 2014, the cumulative amount due to the ERS was approximately \$31.1 million, of which approximately \$16.2 million was related to prior fiscal years. The City did not record the liability owed to the ERS.

There was a combination of control deficiencies that caused the contribution deficiency. The City's contribution amount is calculated by the City's integrated payroll system. The payroll division within the City's Department of Budget and Fiscal Services (BFS) is responsible for communicating any statutory contribution rate changes to the City's Department of Informational Technology (DIT). In 2011, legislation passed that increased employer contributory rates gradually for the next several years. Management was not able to provide any evidence during the audit that the rate changes were communicated to DIT. In addition, budget to actual comparisons identified the large variances in pension expenditures, but no further analysis was performed by BFS.

Based on our discussion with management and ERS, ERS did not communicate to the City that a contribution liability existed until 2014.

Recommendation: The payroll division should timely communicate and properly document statutory contribution rate changes to DIT. The City should consider implementing a detective control to ensure that the changes communicated to DIT have been accurately updated into the system such as reconciliation between expected pension expense and actual pension expense.

Status: The comment is no longer applicable.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2015

Finding No.: 2014-4 Effective Review of Reconciliations and Details Supporting the Financial Statements (Material Weakness)

Condition, cause and context: During the audit, we identified multiple errors related to the review of the reconciliation and account balance detail supporting the financial statements at the Sewer Fund and Solid Waste Fund, that, when considered in the aggregate, indicated a material weakness in internal control.

During the audit, we noted the following errors related to the Sewer Fund:

- Fiscal year 2013 inventories of parts, materials and supplies were errantly overstated by approximately \$6.1 million. In addition, related materials and supplies expense was understated by approximately \$6.1 million.
- Fiscal year 2013 interest expense was errantly understated by approximately \$9.3 million.
- Fiscal year 2013 capital assets were errantly overstated by approximately \$3.7 million.

In addition, we noted the following errors related to the Solid Waste Fund:

- Fiscal year 2014 estimated liability for landfill closure and postclosure care costs and related contractual service expenses were errantly understated by approximately \$3.2 million.
- Fiscal year 2014 accounts receivable and related disposal and collection fees revenue was errantly overstated by approximately \$1.3 million.

Adjustment were proposed, which management recorded, to correct all errors identified above.

Although the City has assigned personnel to perform the review of reconciliations and schedules supporting the balances reflected in the financial statements, the review process did not identify the errors noted above. Management has defined the scope of their reviews as evaluating balances for “reasonableness,” but does not use a specific dollar amount or percentage. When management’s review year-over-year changes did identify variances, management did not effectively evaluate variance explanations from other departments/divisions.

Recommendation: We recommend that the City improve its review policies and procedures as part of the accounting process. This includes defining the scope utilized in the review of the account balances. During the performance of such review, management should also ensure that they consider obtaining corroborating evidence to support management’s explanations, where applicable.

Status: The comment is no longer applicable.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2015

Finding No.: 2014-5 Sewer Fund Capital Assets (Significant Deficiency)

Condition, cause and context: During the audit, we noted two capital asset projects that were improperly capitalized resulting in a restatement to the Sewer Fund financial statements. One project did not meet the City's capitalization criteria and therefore should have been expensed as the project costs were incurred in prior years. The other project was abandoned in the prior year and should have been expensed in the year of abandonment.

Although the City has procedures in place to ensure that capital assets are recorded in accordance with generally accepted accounting principles, the errors noted above were not initially identified during the review process.

Recommendation: We recommend that the City be more diligent in performing its existing procedures.

Status: The comment is still applicable. See finding 2015-3.

Continuum of Care CFDA No. 14.267

Finding No.: 2014-6 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

Condition, cause, and context: For three out of four subrecipients tested, no annual subrecipient monitoring was performed. Management indicated that due to the turnover of a lead contact of the Continuum of Care program, personnel were not aware of such requirement.

Recommendation: We recommend the City document its procedures to monitor subrecipients on a timely basis. This will ensure that compliance procedures are continued, should there be changes in personnel.

Status: Partially resolved. See finding 2015-5.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2015

**Community Challenge Planning Grants and Department of Transportation's TIGER II Planning
CFDA No. 14.704**

Finding No.: 2014-7 Submit Reports in a Timely Manner (Non-Compliance and Material Weakness)

Conditions, cause, and context: Under the program requirements of CFDA No. 14.704, three types of reports must be completed and submitted timely: financial ("SF-425"), narrative, and FFATA reports. As the grant was completed in 2014, the program was required to submit three SF-425 reports, one final narrative report, and one FFATA report, for a total of five reports.

During our audit, we noted that the FFATA data was not submitted in FSRS on a timely basis (162 days late). Management indicated that the subaward was reported late due to the lack of awareness of the requirement.

Recommendation: We recommend the City review its grant agreements to identify all program requirements and implement procedures to ensure compliance.

Status: The comment is no longer applicable.

CORRECTIVE ACTION PLAN

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

KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

GARY T. KUROKAWA
DEPUTY DIRECTOR

March 28, 2016

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

Dear Mr. Young:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2015

Enclosed is the response to the recommendations included in KMH LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2015. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

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

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

Enclosures

APPROVED:

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

Roy K. Amemiya, Jr.
Managing Director

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2015-1: Deficiencies in Information Technology Controls

Audit Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.
- Work with vendor programmers to address any internal control deficiencies due to systems limitations.

Administration's Comment: IT procedures have been updated to include internal control procedures such as access audits, technical implementations, Lightweight Directory Access Protocol authentication and terminated employee syncing between our systems. In addition, methods have been identified to ensure that IT policies and procedures are consistently followed.

Anticipated Completion Date: June 2016

Contact Person(s): Mark D. Wong, Director and CIO, Department of Information Technology
Keith G.H. Ho, Deputy Director, Department of Information Technology

Finding No. 2015-2: Real Property Tax Exemptions

Audit Recommendation: We recommend the City investigate to determine if there are any additional documentation missing from its records. Also, we recommend the City improve internal controls to ensure adequate records are kept.

Administration's Comments: The Real Property Assessment Division has three compliance positions that are dedicated to audit exemption claims. If any discrepancy between exemption claims and documentation is uncovered, the compliance officer will do a site visit and investigate appropriateness of the exemption and can retroactively recover delinquent real property taxes.

Anticipated Completion Date: Ongoing

Contact Person(s): Robert Magota, Assistant Real Property Assessment Administrator, Department of Budget and Fiscal Services

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Finding No. 2015-3: Sewer Fund Capital Assets

Audit Recommendation: We recommend the City be more diligent in performing its existing procedures.

Administration's Comment: The City will be more diligent in implementing its capital asset accounting procedures to ensure that capital assets are properly classified. Training of new or current staff on the proper recording and classifying of capital assets will be a priority. Two levels of review will be implemented: first by capital assets Senior Accountant, and second by the Capital Assets Supervisor. Inquiries and follow up communications about status of projects will be performed to ensure information are received timely. Additional analysis of related general ledger accounts will be implemented to ensure completeness of capital assets.

Anticipated Completion Date: June 2016

Contact Person(s): Luz Peirson, Accountant V, Department of Budget and Fiscal Services

Finding No. 2015-4: Perform Annual Subrecipient Monitoring Duties (HOME Investment Partnerships Program)

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

Administration's Comment: HOME subrecipients will be monitored on an annual basis.

Anticipated Completion Date: December 2016

Contact Person(s): Keith Ishida, Program Administrator, Department of Community Services

Finding No. 2015-5: Perform Annual Subrecipient Monitoring Duties (Continuum of Care)

Audit Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis.

Administration's Comment: Continuum of Care subrecipients will be monitored on an annual basis in accordance with the Department of Community Services' established policy. A new monitoring checklist is being developed to standardize monitoring practices and increase monitoring efficiency. A new laptop computer is being procured to assist staff during their on-site visits.

Anticipated Completion Dates: June 2016 to complete new monitoring checklist and to procure a new laptop computer. December 2016 to monitor subrecipients annually.

Contact Person(s): Keith Ishida, Program Administrator, Department of Community Services

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Finding No. 2015-6: Submit Reports in a Timely Manner

Audit Recommendation: We recommend the City establish controls to gather required reporting information timely from subrecipients to ensure compliance.

Administration's Comment: The Department of Community Services will work with its Continuum of Care subrecipients to ensure that annual performance reports are submitted in a timely manner.

Anticipated Completion Date: June 2016

Contact Person(s): Keith Ishida, Program Administrator, Department of Community Services

Finding No. 2015-7: Wage Rate

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

Administration's Comment: Management has hired a full time staff person who will be responsible for verifying that all required weekly payroll reports from contractors are being submitted on a timely basis.

Policies and procedures will also be put in place that will require contractors to submit weekly required payroll reports and notifications when such reports are not being filed on a timely basis.

Anticipated Completion Date: December 2015 for hiring a staff person and June 2016 for the implementation of the procedures with the contractors.

Contact Person(s): Douglas Cullison, Internal Control Analyst II, Honolulu Authority for Rapid Transportation

Finding No. 2015-8: Perform Excluded Party Listing Search (EPLS)

Audit Recommendation: We recommend the City establish procedures to perform and retain EPLS checks prior to executing a subrecipient agreement to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Administration's Comment: Excluded Parties List System searches will be completed for all Continuum of Care contracts prior to their execution.

Anticipated Completion Date: June 2016

Contact Person(s): Keith Ishida, Program Administrator, Department of Community Services

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Finding No.: 2015-9: Obtain DUNS Number Prior to Contract Execution

Audit Recommendation: We recommend the City establish procedures to obtain the DUNS number prior to executing a subrecipient agreement to ensure compliance.

Administration's Comment: Staff has been directed to obtain DUNS numbers prior to executing future subrecipient agreements. Standard operating procedures will be drafted and adopted to formalize this practice.

Anticipated Completion Date: June 2016

Contact Person(s): Scott Ishiyama, Planner VII, Department of Transportation Services