



OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i



Annual Report 2005-2006

A Report to the
City Council of
Honolulu

November 2006

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Office of the City Auditor
City and County of Honolulu
State of Hawai'i

*The Office of the City
Auditor's mission is to
promote accountability, fiscal
integrity and openness in city
government.*

November 27, 2006

The Honorable Members of the Honolulu City Council:

I am pleased to submit the Annual Report of the Office of the City Auditor for fiscal 2006. This report summarizes our work program undertaken during the fiscal year, including findings and recommendations made to help stakeholders understand and improve city operations and services.

Independent and objective audit reports continue to serve the legislative branch and the public as a catalyst to understand the performance of public sector agencies. Such reports help to foster accountability and provide agency management with a roadmap for improvement.

I trust that our reports have been beneficial in your efforts to improve on the cost efficiency and effectiveness of our city's programs and departments.

Sincerely,

A handwritten signature in black ink, reading "Leslie I. Tanaka".

Leslie I. Tanaka, CPA
City Auditor

Year Three in Review

Fiscal year 2006, our third year in operation, was one of significant accomplishments—from an ambitious work program of six performance audits and two contract audits, to our national award in recognition of our high quality work. Our small staff of only six auditors took on the challenge of completing eight audits—six performance audits and two contract audits for its work program. In-house audits included complex topics such as the city's debt service practices, IT security issues, out-of-state travel practices of city executives, personal services contracts, the neighborhood board system, and management issues with the Honolulu Board of Water Supply. Contract audits included the annual financial audit of the city and a captive insurance study for the City and County of Honolulu. In May of 2006, we received the Knighton Silver Award from the National Association of Local Government Auditors for our report, *Audit of the City's Road Maintenance Practices*.

OCA Wins Knighton Award

Our office was awarded the prestigious Silver Knighton Award for medium size audit shops from the National Association of Local Government Auditors (N.A.L.G.A.) during its May 2006 annual training conference held in San Jose, California. The award was in recognition of the City Auditor's 2005 performance audit report, *Audit of the City's Road Maintenance Practices*, Report No. 05-03.



Leslie Tanaka, City Auditor, receiving the Silver Knighton Award

Mr. George McGowen, Chair of the Awards Committee, presented the award to City Auditor, Leslie Tanaka, during a luncheon session at the annual conference.

N.A.L.G.A. is a professional organization established to improve local government auditing. The organization disseminates information and ideas about financial and performance auditing, provides training, and offers a national forum to discuss auditing issues. N.A.L.G.A. was formed in 1989 and has enjoyed a growing membership since that time. There are currently more than 2,000 members of N.A.L.G.A., representing a wide diversity of audit organizations. Some N.A.L.G.A. members represent one-person audit organizations and others are part of organizations with 45 professionals.

N.A.L.G.A. recognizes excellence in auditing with its annual Knighton Awards. Independent judges evaluate the submitted reports on the basis of their scope and potential for significant impact, the persuasiveness of their conclusions, the focus of their recommendations on effective and efficient government, their clear and concise communications style, and their innovation.

The judges noted that the *Audit of the City's Road Maintenance Practices* was a comprehensive and thorough review of the City's road maintenance practices. The audit report was persuasive in demonstrating the value of the audit's scope to the City and County of Honolulu and provided strong support for audit conclusions and recommendations. The report also showed a high degree of professionalism and innovativeness by bringing various road maintenance issues to the readers' attention and what are best practices in relation to other communities. Charts and exhibits illustrating various performance measures related to road maintenance were well done.

Performance Measurement Reporting—Another Accountability Tool

As governments struggle with the pressures from constituents to improve operations and deliver products and services in a more efficient and cost effective

manner, many state and local governments are beginning to assess the value of **performance measurement and reporting** as a powerful tool to help improve the quality and cost of government services. With the passage of Public Law 103-62, the Government Performance and Results Act (GPRA) in 1993, the federal government took the lead to advance government performance measurement and reporting. Under GPRA, all federal agencies beginning with the 1999 budget cycle are required to submit five-year strategic plans with clear strategic goals and annual performance plans that requires the development of performance data. These federal reports, known as Performance and Accountability Reports (PAR), **emphasize outcomes** rather than the traditional input and output measures, and helps to identify goals at given resource levels that can hold managers accountable for performance results. While federal agencies continue to shape their respective PAR, stakeholders report that the PAR provide meaningful information, improve information quality, measure performance, and demonstrate accountability.

State and local government leaders should heed the initial success of the federal government in performance measurement and reporting, and seriously examine the need for a formal performance measurement system. Such a system should at a minimum include the following: 1) agency goals and objectives, 2) annual program goals, 3) details as to how it intends to achieve those goals, 4) outcome-based performance measures, and 5) explanation of its performance against agency and program performance measures. While performance measurement and reporting is not the panacea to the problems of government, it has the demonstrated potential to improve 1) accountability, 2) policy and budget decisions, 3) program evaluation, and 4) program monitoring. Since the value of a performance measurement system can be viewed differently among the various stakeholders—legislative leaders, other governmental entities, customers, and the general public—consideration in the development of any system should include aspects of performance in financial matters, customer satisfaction, internal operations, employee satisfaction, and community and stakeholder satisfaction.

Finally, the Government Auditing Standards Board (GASB) is currently examining the need for performance measurement reporting in external government financial

reports, such as the city's Comprehensive Annual Financial Report (CAFR). Should GASB adopt this requirement, government entities may be required to report performance measures in their annual financial reports. While such a requirement from GASB may take years to implement, it does not preclude government leaders from adopting a performance measurement and reporting system immediately. Performance measurement and reporting models are available and can readily be adapted to aid in the development of a system for any government entity. After all, stakeholders would rather receive information on the **average cost and time it took to fill a city road pothole, than the number of potholes filled.**

Summary of Reports to Council

We completed and issued six performance audit reports for our fiscal 2006 work program. The six reports are: 1) *Audit of Selected City Information Technology Controls*, 2) *Audit of the City's Personal Services Contract Practices*, 3) *Audit of the City's Debt Service Practices*, 4) *Audit of the City's Executive Staff's Out-of-State Travel*, 5) *Audit of the Neighborhood Board System*, and 6) *Audit of Selected Management Issues at the Honolulu Board of Water Supply*. In addition, we issued a study entitled *Captive Insurance Study for the City and County of Honolulu*. The study was conducted by First Risk Management Services, Inc. We also continue to oversee the financial audit of the city, which resulted in findings and recommendations for the fiscal year ended June 30, 2005, by Nishihama & Kishida, CPA's, Inc., the contract auditor. All of these reports are available to the public on the Office of the City Auditor's web page (www.honolulu.gov/council/auditor).

Financial Audit of the City and County of Honolulu, State of Hawai'i, for the Fiscal Year ended June 30, 2005, Management Letter

Contract auditor, Nishihama & Kishida, CPA's, Inc. submitted their findings and recommendations for the financial audit of the City and County of Honolulu for FY2004-05 to the city council in February 2006. Their

findings included: 1) inadequate demonstration of financial assurance for the costs of post-closure care of the Waipahu and Kapaa municipal solid waste landfills; 2) erroneous calculations of total tenant payments and inadequate documentation in tenant files; and 3) insufficient documentation of subrecipient monitoring. It was also reported that 3 of the 5 findings from the previous year's audit have been resolved. The other 2 findings were still applicable in the FY2004-05 audit. In addition, 5 out of 6 findings from FY1999-2000 through FY2002-03, which were reported as still applicable in the previous year's audit, were resolved in FY2004-05. The other finding for that time period was still applicable in the FY2004-05 audit.

Audit of Selected City Information Technology Controls

Report No. 06-01, January 2006

This audit was initiated by the city auditor due to the increasing reliance on information technology-based processes to support current government service initiatives to the public, along with increasing general concern among governments at all levels and the public over information security. The audit assessed the



adequacy of selected general information security controls employed by the Department of Information Technology, such as

backup and recovery, physical and environmental controls, and service continuity/contingency planning. We found that the Department of Information Technology's control framework does not provide sufficient oversight to ensure comprehensive and effective security management of the city's information technology systems. We also found physical and environmental controls which were inadequate to protect key city information technology systems and resources, and a lack of disaster recovery and contingency planning.

We recommended that the department develop a comprehensive IT security plan; seek funding to facilitate a citywide risk assessment; clarify authority and lines of responsibility for citywide security management; improve security for the data center; seek ways to further improve routine backup and recovery practices; pursue an appropriate funding program for disaster recovery planning; and coordinate and seek agreements from external departments and agencies regarding supporting elements and services related to physical controls and disaster recovery planning.

We also recommended that the mayor ensure the department receives appropriate budgeting consideration for physical and environmental control priorities, improvements to backup and recovery, and disaster recovery planning; and facilitate discussions between the department and other city agencies to ensure proper coordination in support of physical and environmental controls and disaster recovery planning requirements.

Audit of City's Personal Services Contract Practices

Report No. 06-02, February 2006

This audit was initiated by the Office of the City Auditor as provided in the Revised Charter of Honolulu. The city auditor selected the city's personal services contract practices for review because of on-going concerns about the city's use, and level of information and reporting, of personal services contracts. We found that the city's personal services contract practices violate charter and ordinance provisions, the contract process lacks accountability, and several contract practices are questionable.

We recommended that the Department of Human Resources ensure that executive departments and agencies use personal services contracts judiciously in accordance with the directives and intent of the Revised Charter of Honolulu, Revised Ordinances of Honolulu, and department policies and procedures; ensure requesting agencies provide complete and accurate information before certifying requests for employer-employee contracts; ensure quarterly reports of personal services contracts provide complete and accurate information; include supplemental analysis of personal services contract information in its quarterly reports to

the council and public; report additional information with its quarterly reports, including the total cost of contracts, number of contracts previously awarded to a contractor, and number of times a contract position has been renewed; assert its authority to review and approve personal services contracts; require departments and agencies to report the minimum and maximum salaries of existing employees serving in the same or similar capacity at the time of the contract request; require departments and agencies to submit official academic and professional credentials that ensure contractors meet class specifications for their appointments; require departments and agencies to conduct formal, written evaluations of employees hired on personal services contracts; and direct departments and agencies to continue requesting to fill long-term personal services contracts permanently or through limited-term civil service appointments, as appropriate.

We also recommended that the Department of Budget and Fiscal Services report information regarding all employer-employee contracts within 30 days following the end of each fiscal year as required in the Revised Ordinances of Honolulu; report additional annual information such as total cost of personal services contracts, salaries and fringe benefits, and funding sources; post public notice of requests to enter into personal services contracts at least seven days before final approval of the request as required by the Revised Ordinances of Honolulu; and cease using personal services contract status to make retroactive payments to former city employees and develop an alternative method.

Audit of the City's Debt Service Practices

Report No. 06-03, February 2006

This audit was conducted pursuant to the Revised Charter of Honolulu. The city auditor selected this audit due to longstanding concerns expressed by the Honolulu City Council and the public regarding the city's growing debt payments and their impact on the operating budget. We found that the responsibilities for the city's debt have become a fragmented operation overseen by two different departments, and the city has no comprehensive strategic plan to resolve its debt management problems. We also found that the city's

reliance on the same underwriters for the past three years of bond issuance, and the use of non-competitive negotiated sales method raises concerns.

We recommended that the Department of Budget and Fiscal Services consider obtaining the services of an independent professional municipal debt organization to



formally evaluate the city's current debt management program, practices, organization, resources, and staffing to develop an action plan with

recommendations for a comprehensive, unified debt management program that addresses the city's overall fiduciary interests; establish a formal succession plan to ensure that there is proper cross-training in debt management; develop and take steps to issue an annual report on all of the city's debt for the city council and taxpayers; establish practices to identify and scrutinize low dollar value equipment purchases by city agencies and report on the city's compliance with the city's debt policy; reconsider the city's use of underwriters as financial advisors; reconsider its procurement practices; consider competitively selecting an independent financial advisor to represent only the city's interests in bond sales transactions; and make use of established training by independent, nationally recognized municipal finance and debt organizations.

Captive Insurance Study for the City and County of Honolulu

Report No. 06-04, June 2006

This study was conducted pursuant to Section 3-114 of the Revised City Charter of Honolulu and Council Resolution No. 05-070, requesting the city auditor to contract a firm or person to conduct a detailed study of the cost impacts to the city of a captive insurance company. The firm of First Risk Management Services, Inc. conducted the study, which was performed in

accordance with Generally Accepted Government Auditing Standards. It was found that a captive insurance company is a feasible risk financing option for the city and will allow the city to better maintain accountability for its entire insurance and risk management program. Other findings included the potential for the city to earn additional income in the range of \$1 - \$3 million annually by placing funds for its long-term liabilities into the captive; and that the largest contributor to the city's cost of risk is workers compensation.



The study recommended that the city form a captive to address its risk and liability obligations. It was also recommended that the city centralize oversight of its entire risk management program under the direction of the Department of Budget and Fiscal Services, Risk Management Division. The study further recommended that the city consider purchasing excess workers compensation insurance and have its broker obtain premium quotations in excess of various retention levels.

Audit of the City's Executive Staff's Out-of-State Travel

Report No. 06-05, July 2006

This study was conducted pursuant to Section 3-502.1(c) of the Revised City Charter of Honolulu, the City Auditor's Annual Work Plan for FY2005-06, and Council Resolution No. 04-384 which requested the city auditor investigate the sources and financing of former Mayor Jeremy Harris' travel. The report reviewed and assessed the control, monitoring and reporting practices of out-of-state travel by city executive staff for the period covering FY2002-03 through FY2004-05. We found numerous instances, primarily of the former administration, where city executives failed to comply with established out-of-state travel policies, procedures and rules. We also found that many travel gifts to executives go unreported and clarity in the interpretation of the gift law is needed.

We recommended that the managing director review and modify administrative directives to ensure that there are clear policies and procedures necessary for accurate, consistent and timely reporting, accounting and

documentation of executive out-of-state travel. We also recommended that the managing director work with the Honolulu Ethics Commission to ensure the proper identification of gifts and compliance with gift disclosure requirements, including gifted personal travel; establish a clear policy on use of first/business class travel accommodations for executives; ensure all outstanding travel reports are resolved and properly accounted for and reported;

ensure that taxability requirements are met for outstanding executive travel reports; implement procedures to ensure proper tracking and monitoring of travel-related reports and documents; and work with the city council to implement personal travel-related gift acceptance and disclosure requirements.

Audit of the Neighborhood Board System

Report No. 06-06, August 2006

This audit was conducted pursuant to Resolution 04-387, requesting a performance audit of the Neighborhood Board System. The report examines concerns about the system's failure to meet its mission, lack of accountability in spending, non-adherence to the state's "Sunshine Law", and other operational deficiencies. We found that the neighborhood board system was not fulfilling its mission due to its disjointed structure and operational shortcomings.

We recommended that the mayor establish a city-wide sunshine law training program as required by ordinance and to consider separating the neighborhood commission and neighborhood commission office from the managing director's office and attach them to another executive branch agency. We also recommended that the commission amend the neighborhood plan to include measurable goals and objectives; implement a formal review and reporting process of neighborhood boards annually; comply with the neighborhood plan's complaint process provisions; coordinate with the neighborhood commission office to establish a plan that encourages more people to run in

neighborhood board elections; and improve internal review processes to ensure that sunshine law disclosure requirements are met. We also recommended that the neighborhood board chairs coordinate with the neighborhood commission office to ensure that board vacancies are properly noticed on meeting agendas and action taken at board meetings; that board members receive sunshine law training; that board members follow all neighborhood plan requirements; and that meeting minutes and agendas meet sunshine law disclosure requirements.

Audit of Selected Management Issues at the Honolulu Board of Water Supply Report No. 06-07, October 2006

This audit was initiated by the city auditor due to significant organization changes that have occurred over the last seven years at the Honolulu Board of Water Supply (BWS). The audit assessed the impact of those



changes on the organization and provided information on costs associated with human resources, business development projects, and resources devoted to repair and maintain the existing distribution system. We found that human resource reengineering was costly and failed to deliver anticipated efficiencies; costly business development projects were implemented with questionable benefits to ratepayers; and limited budgets for pipeline maintenance have been sufficient only for infrastructure in the most critical condition.

We recommended that the BWS Board of Directors establish policies and guidelines for evaluating the manager and chief engineer's performance and refrain from awarding bonuses to the deputy manager. Other recommendations included conducting annual written performance evaluations of the manager and chief engineer based on the board's overall policy objectives; requesting regular status reports on reengineering efforts; requiring the manager and chief engineer to report on its plans to implement sufficient controls to safeguard the agency's resources and ratepayers' interests in future business activities; and requiring the manager and chief engineer to provide reports on the implementation of the proposed maintenance management system and variances between budgeted vs. actual expenditures for repair and replacement, and the impact on the number of water main breaks. We further recommended that the manager and chief engineer establish a human resources plan that systematically provides continued feedback on efficiencies resulting from human resource initiatives and innovations; clarify official position descriptions and create specific evaluation criteria to document eligibility for bonuses, address potential duplication of duties between EMP chiefs and executive-management-level staff; finalize organization charts; clarify the purpose of the business development office; establish and monitor cost centers for business development projects; monitor the implementation of the computerized maintenance management system; and assess and report on the progress of projects included in the Six-Year Capital Program Prioritization Plan.

Follow-up of Previous Audit Recommendations

While management is responsible for addressing audit findings and recommendations and tracking their status of resolution, government auditing standards require that audit organizations establish policies and procedures for follow-up to determine whether previous significant findings and recommendations are addressed. Our office's annual follow-up program includes identifying agency actions on the previous year's audits and publishing the results in our annual report.

The following section includes the agency comments (Actions Taken) regarding our follow-up request to the findings and recommendations in the four audit reports that were issued by our office in the previous fiscal year (FY2004-05). Based on the responses from the appropriate agencies, we have made some determination as to the degree of compliance, as noted in the Unaudited Status column.

We are pleased to report that 49 of the 50 audit recommendations made in our four audit reports issued in FY2004-05 have been reported as being implemented or in the process of being implemented. This is equal to a 98 percent compliance rate.

Actions Taken on Previous Recommendations

(Report Nos. 05-01, 05-02, 05-03 and 05-04)

Report Title: **Audit of the City’s Sole Source, Emergency, and Professional Services Procurement Practices**
 Report No.: 05-01

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

1. The city’s chief procurement officer should:
 - a. Require the city to procure goods and services through competitive means that meet the agency’s need and saves taxpayers’ money. Improper anti-competitive practices such as unnecessary use of brand names, desire to continue working with the same vendor, or claims that no other vendors exist, must cease. Restrictive brand name specifications should be used when **only one** product will meet the specified need. Requests for sole source and exempt procurement lacking proper written justification should be rejected. Aesthetic preferences should not be the driving factor behind sole source procurement. Procurement specifications must be prepared with the best interests of the city. Identifying performance requirements such as durability, as well as identifying the entire quantity to be purchased will encourage competition and better prices for the city.

In compliance.

Implemented

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

<p>b. Ensure that sole source procurement approvals comply with the state procurement code and city policy, and seek advice and clarifications from the State Procurement Office regarding appropriate justifications for sole source procurements. Moreover, require compliance with the city's debt and financial policies when purchasing equipment with CIP funds thereby restricting improper uses and unnecessary additions to debt service;</p>	<p>In compliance.</p>	<p>Implemented</p>
<p>c. Initiate the practice of electronically posting the city's sole source, emergency, and exempt notices, agency justification forms, and awards, even though it is not required by law;</p>	<p>Under consideration for implementation with new Enterprise Resource Planning System (ERP), subject to budget approval.</p>	<p>Pending Implementation</p>
<p>d. Ensure that approvals granted for emergency procurement meet the statutory requirements of a threat to health, safety, welfare or life. Also, more attention is needed to ensure that errors and missing information in the city's official emergency procurement files are corrected in a timely manner;</p>	<p>In compliance, although we disagree that HRS Section 103D-307 expressly limits emergency procurement to a threat to health, safety, welfare or life. Additional personnel are to be assigned to the responsibility of filing pending Purchasing Division reorganization.</p>	<p>Pending Implementation</p>
<p>e. Take into consideration the limited protections provided when purchase orders are used versus the safeguards in formal contracts to ensure that the city's interests are protected. When purchase orders are used, the city should seek guarantees for the work when procuring goods, services, or construction for emergency procurements; and</p>	<p>In compliance.</p>	<p>Implemented</p>

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

<p>f. Ensure that the Department of the Corporation Counsel complies fully with the electronic posting procedural and documentation requirements for awarding professional services contracts. In addition, it should also provide the required documents to the purchasing division for the city's official procurement files.</p>	<p>In compliance.</p>	<p>Implemented</p>
<p>2. The city's managing director should inform and require city agencies to comply with the city charter requirement that authorizes the city auditor's full, free, and unrestricted access to city employees and agency records during an audit.</p>	<p>In compliance</p>	<p>Implemented</p>

Report Title: **Audit of Selected Management Issues of the Honolulu Liquor Commission**
Report No.: 05-02

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

<p>1. The Honolulu Liquor Commission should:</p> <p>a. work proactively with the administrator to adopt specific goals and objectives for job performance, which are subsequently used to evaluate and assess the administrator's performance;</p>	<p>The Commission worked with the Acting Administrator to develop a written Strategic Plan which addresses the goals and objectives of the Commission, and a time line for its implementation. Extensive staff input was solicited and incorporated into the Plan. The Commission dedicated a significant amount of time and effort to finding and hiring a new Administrator. The selection was based in great part on how well the candidates proposed implementation of the Strategic Plan and how they could further the goals contained in the Strategic Plan. On April 3, 2006, the new Administrator assumed the position, and the Commission has commenced discussions on the specific goals and objectives which will be used to evaluate the Administrator's performance.</p>	<p>Implemented</p>
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RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

b. direct the administrator to:

1) ensure that a thorough, consistent, and documented training program is developed and provided to new commissioners, and that existing commissioners are routinely updated and kept current with responsibilities and duties;

1) The Acting Administrator has assembled a Commissioner’s Manual which contains all of the pertinent Rules and Regulations and laws governing the Commission. These include the Liquor Commission’s Rules and Regulations; Chapter 281 Hawaii Revised Statutes; Sunshine Law; City ethics policies with various updates from the Ethics Commission; administrative agency meeting rules and procedures; the Liquor Commission’s Standards of Conduct; sample agenda; minutes of a standard meeting; and a sample investigative report on a liquor license applicant. The Commissioners are required to attend Sunshine Law and ethics seminars provided by the City. The Commissioner’s Manual has been helpful in getting two new Commissioners integrated into the work of the Commission. The Commissioners will participate in annual conferences to be aware of legal issues facing liquor industry regulators. The Commission has adopted a more open structure whereby the Commissioners are routinely updated on issues, responsibilities, and duties. The Commissioners have been assigned additional tasks pertaining to administrative oversight responsibilities and have been much more aware of and involved in all aspects of Commission activities. This open structure has permeated the hearings and staff operations as well.

Implemented

2) establish an appropriate timeframe for the proposed reorganization plan. Any reorganization plan should include clear description and identification of duties of the proposed senior management team, including descriptions of the qualifications of persons to hold the positions;

2) The Administrator is working on an outline to establish a detailed plan to revamp the organization, including a three- and six-month timetable.

Pending Implementation

3) take all necessary steps to fill the deputy administrator position;

3) The Commission is in the process of hiring an Assistant Administrator. The selection has been made, and only procedural matters remain to be completed. The former Special Assistant to the Administrator is being hired as the Assistant to the Administrator, so the Administrative team is fully in place.

Pending Implementation

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

<p>c. ensure that, as part of its oversight responsibilities, senior management implements effective, open management and communication practices and that the commission develop procedures to independently evaluate managements' implementation efforts;</p>	<p>The Administrator has been directed to implement a re-working of senior management to ensure open management. The Commission has not yet completed development of a procedure to independently evaluate management's implementation efforts but plans to do so in conjunction with the development of performance measures for the Administrator.</p>	<p>Pending Implementation</p>
<p>d. assess whether effective administrative oversight of the commission necessitates the creation of an adjudication board separate from the commissioners;</p>	<p>The Commission is in discussion on this matter and has directed the Administrator to research requirements to establish an adjudication board, or as an alternative, the hiring of a hearings officer to process adjudications so that the Commission would consider only appeals of the hearings officer rulings.</p>	<p>Implemented</p>
<p>e. consider proposing charter amendments to, at a minimum, re-classify the administrator to the excluded class. Similar evaluation should also be considered for the deputy administrator position;</p>	<p>The Commission, with the support of the Mayor's Office, has proposed a Charter amendment that would re-classify the Administrator and the Assistant Administrator to the excluded class. Hearings before the Charter Commission are on going, and on May 10, 2006, the Charter Commission is expected to make a decision whether the proposed amendment will be placed on the November 2006 ballot.</p>	<p>Implemented</p>
<p>f. study the feasibility of transferring the liquor enforcement investigatory responsibilities to the Honolulu Police Department; and</p>	<p>The Commission met with the HPD Chief to discuss the feasibility of transferring the liquor enforcement responsibilities to HPD. Both parties agreed that it would be best to maintain the agency as it is and pledged to work together to improve public safety and licensee regulation. HPD offered to share some of their training resources with HLC.</p>	<p>Implemented</p>
<p>g. work with the Department of Budget and Fiscal Services to have the Internal Controls Division to conduct a thorough review of the commission's processes and practices relating to:</p> <ol style="list-style-type: none"> 1) auditing of licensees, and 2) allocation and utilization of funds received from liquor violation fines. 	<p>The Commission has not been able to initiate this process as yet. The Mayor's Office and the Department of Budget and Fiscal Services have been asked to research the allocation and utilization and disposition of funds received from liquor violation fines.</p>	<p>Pending Implementation</p>

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

2. The liquor commission administrator should:

- a. work proactively with the liquor commissioners to identify and fill necessary vacant staff positions. This should include, but not be limited to: filling vacant positions, removing administratively imposed freezes on vacant positions necessary for effective operations, and actively pursuing the necessary fee adjustments to support proper staffing of the commission. The administrator must actively pursue both of these issues to the city administration and the city council.

NOTE: Effective July 22, 2005, all duties and responsibilities of Liquor Control Administrator Wallace W. Weatherwax were transferred to Anna C. Hirai, Special Assistant to the Administrator, in anticipation of Mr. Weatherwax's retirement. Ms. Hirai was named Acting Administrator effective that date, and continues to serve in that capacity. The announcement of the Commission's selection of the new Liquor Control Administrator is expected soon.

Implemented

The below section references are to the Honolulu Liquor Commission 2005 Strategic Plan (Adopted September 22, 2005) (hereinafter "Plan"), copy attached. Work on the Plan, spanning approximately six months and involving numerous meetings between the Commission and Commission personnel, was prompted in part by the release of the Audit of Selected Management Issues of the Honolulu Liquor Commission.

See generally Appendix A to the Plan, "FY 2006 Action Plan," which details specific agency goals for FY 2006.

Vacancies: Plan I.B.6, pg. 3; II.F.7, pg. 6; II.G.5, pg. 7; III.E.2, pg. 8; IV.F.7, pg. 10 – Fill vacancies in accordance with agency and strategic plan priorities – FY 2006 fills: 2 auditors, 2 senior clerk-typists (and/or liquor licensing clerk), 2 enforcement.

Action: Auditor position placed on "continuous recruitment" status; three candidates interviewed early FY 2006; second group of interviews to be conducted March 2006 for late FY 2006 fill (two positions); one senior clerk-typist position filled February 2006; will interview SR-16 investigator candidates March 2006 for late FY 2006 fill (three positions); two SR-21 investigator positions to be filled March 2006 (internal promotion). In addition, Liquor Control Administrator position to be filled March 2006; Assistant Liquor Control Administrator to be filled late FY 2006.

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

b. ensure that the administrative directives and other appropriate policies and procedures are reviewed and updated. This should include:

- 1) procedures and protocols for investigator actions that are clearly defined and routinely followed;
- 2) a clear rationale and program for selection of licensees to be audited, a plan to achieve full review of licensees is implemented, and necessary resources secured to achieve these objectives;
- 3) clearly identified staff duties and responsibilities; and
- 4) clear guidelines, requirements, minimal acceptable requirements of licensee applications and supporting documents, and provided to all licensee applicants, investigators, commissioners, applicants and others involved in the license process;

License fee increase: Plan IV.B.1, pg. 10 – Obtain necessary resources to achieve Plan objectives.

Action: Council approval for license fee increase obtained November 9, 2005, retroactive to July 1, 2005; collection of retroactively approved fee amounts to be completed February 2006.

Administrative directives, policies, and procedures: Plan IV.D, pg. 10 – Update/create procedures manuals for all work sections.

Action: Work on procedures manuals ongoing; enforcement operational protocols, disciplinary schedule, and administrative directives updated and pending approval by new Liquor Control Administrator.

Investigator actions: Plan II.F, pgs. 5-6; IV.D, pg. 10 – Make enforcement a more effective public safety tool.

Action: Enforcement operational protocols, disciplinary schedule, and administrative directives updated and pending approval by new Liquor Control Administrator; specialized training (ethics, PPCT defensive tactics, MOAB, sound meter use, “source” investigation) ongoing throughout FY 2006.

Licensee audits: Plan II.G, pg. 7 – Provide consistent, comprehensive, and reliable auditing of licensees to ensure compliance.

Action: None in FY 2006 - pending fills in audit section.

Staff duties and responsibilities: Plan I.B.2, 3, pg. 3; IV.D, pg. 10; IV.F.1, pg.10; IV.G.5, pg. 11 – Professionalize staff through formal staff development program; update position descriptions and administrative directives; update/create procedures manuals for all work sections, to include front desk manual; increase level and quality of legal support to the agency.

Implemented

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

- c. implement, with review and approval of the commissioners, an internal affairs review process; and

Action: Established Commissioner-staffed committee to develop evaluation/reporting system for new Liquor Control Administrator; enforcement operational protocols, disciplinary schedule, and administrative directives updated and pending approval by new Liquor Control Administrator; work on procedures manuals for each work section ongoing, with particular emphasis on desk manual for front counter personnel; development of better definition of work responsibilities within administrative services section ongoing; numerous conferences between Commission and Corporation Counsel to enhance agency legal support by Corporation Counsel deputies.

License application standards/guidelines:

Plan III.A, B, C, pg. 8 – Establish clear requirements for evaluation of license applicants and realistic timetable for processing applications; develop inspection rotation and compliance check protocols; maintain updated database of licensee files.

Action: License application checklists updated; new license intake protocol to begin March 2006; started DIT improvements to LCIS to centralize licensing data (purchase of third party licensing software explored in FY 2005 and FY 2006).

Internal affairs: Plan I.F.1, pg. 4 – Create independent internal affairs function or programs assurance branch to provide information to management of violations of Standards of Conduct or any other criminal activity.

Action: Explored third party complaint monitoring pilot program - suspended due to privatization concerns; currently, internal affairs investigations conducted by senior investigative staff under the direction of the Liquor Control Administrator; future plans to explore dedicated investigative staff after new Liquor Control Administrator in place.

Pending Implementation

RECOMMENDATIONS

- d. work with the commissioners and Department of Budget and Fiscal Services to ensure that budget preparation guidelines and criteria realistically reflect the commission’s fiscal self-sustainable position.

ACTIONS TAKEN

Budget Matters: Plan IV.B.1, C, H.1, pgs. 10-11 – Fee increase approval; improved tracking and accounting for fine monies in accordance with HRS 281.

Action: Council approval for license fee increase obtained November 9, 2005, retroactive to July 1, 2005; collection of retroactively approved fee amounts to be completed February 2006; FY 2007 operating budget to reflect fee increase (vacancy fills, equipment purchases, training).

UNAUDITED STATUS

Implemented

Report Title: **Audit of the City’s Road Maintenance Practices**
Report No.: 05-03

RECOMMENDATIONS

- 1. The Department should:
 - a. Assess the status of vacant positions and pursue funding for those positions identified as essential;

ACTIONS TAKEN

Submittal of requests to approve filling of vacancies, recruitment and selection activities are ongoing due to multiple levels of promotional hires. Per City requirement, Department of Facility Maintenance (DFM) vacancies require Department of Budget and Fiscal Services (BFS) approval for each vacancy before hiring action. BFS has approved filling of vacancies for construction equipment operators, heavy truck drivers, streetsweeping operators, storm drain cleaners, laborers, utility workers, and others. Most of these positions are promotional opportunities for employees, and are in various stages of selection. Following the cycle of promotional hires, DFM will request approval to hire an estimated 15 to 20 entry level Laborers to fill essential subsequent vacancies. Monthly reports track status of approval, recruitment and selection activities, projected hire dates, and costs. DFM’s proposed FY07 operating budget which included funding for essential positions was submitted to BFS in October, 2005. DFM continues to work with the Managing Director’s Office (MDO) and BFS to support the hiring program.

UNAUDITED STATUS

Implemented

RECOMMENDATIONS**ACTIONS TAKEN****UNAUDITED
STATUS**

b. Implement web-based technology for educating the public about road maintenance issues and soliciting pothole complaints;	The Department of Information Technology (DIT) personnel were contacted to assist with the establishment of a web-based information site for road maintenance. DFM also will request the assistance of a Public Information Specialist to develop useful public information about road maintenance and repair. In addition IT staff are in the process of upgrading and improving the City's pothole complaint system by establishing a direct link/integration of work order information to the pothole complaint system via the City's website.	Implemented
c. Develop a technology integration plan with other appropriate city and state agencies that utilizes GIS programming;	DIT staff annually review and update DFM's Technology Plan and Recommendations with a citywide perspective. In 2005, the City initiated a major technology driven project to integrate a variety of automated systems including payroll, personnel, financials, and asset management. The project is estimated to take several years to complete.	Implemented
d. Draft, maintain annually, and report to the council, the cumulative road maintenance backlog, identifying both street miles and costs;	To generate improved and meaningful reports with cost based data, DFM initiated discussions with the State and City agencies in pursuit of a photo log and pavement management system. DFM requested FY07 contingency funding for a pavement management system should the City not be able to acquire State funds.	Implemented
e. Improve its record retention system; and	The Division of Road Maintenance (DRM) was provided with the City's record retention manual and examples to assist with the program.	Implemented
f. Keep an accurate account of the worker-hours and dollars spent on nonroad-related activities.	DRM inputs and reports labor cost data followed by DFM review and submittal to requesting agencies.	Implemented

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

2. The Division should:

a. Adopt key industry best practices for its road maintenance program that:

i. Secures dedicated funding,

i. Secures dedicated funding – Presently, DRM develops an operating budget and a Capital Improvement Program (CIP) budget that utilizes general and highway funds. To secure dedicated funding, Council legislation would be required to create a dedicated special fund utilizing gas tax revenues, vehicle weight taxes, etc. We will initiate discussions with City Council and BFS to explore this further.

Implemented

ii. Adopts a pavement management system,

ii. Adopts a pavement management system – DRM is seeking and has publicly advertised a notice of request for services to obtain a consultant to provide professional services to develop a pavement management program. Specifically, professional services are required to prepare a system to regularly collect road condition data; create a computer database to sort and store collected data; develop a computerized program to evaluate the repair or preservation strategies to create cost-effective projects to maintain city roads; and integrate data collection with a work order system to develop manpower costs and resources.

Implemented

iii. Executes a pavement preservation program focusing on long-term maintenance,

iii. Executes a pavement preservation program focusing on long-term maintenance – This will be a part of the proposed comprehensive pavement management program which is described above.

Implemented

iv. Establishes customer-focused performance measures in road treatment decisions and output measurements, and

iv. Establishes customer-focused performance measures in road treatment decisions and output measurements – One of the possible roadway parameters that the pavement management program may institute is the International Roughness Index (IRI). IRI is an objective measure that can be utilized to gage or bench mark road smoothness which can then be correlated with the need for repairs and user ridability concerns for drivers.

Implemented

RECOMMENDATIONS

- v. Implements cost-benefit analysis in maintenance applications.

- b. Draft and implement a plan, and work with the administration and council, to eliminate “poor” industry practices such as:
 - i. Reduced or postponed maintenance,

 - ii. Hiring and wage freezes,

ACTIONS TAKEN

- v. Implements cost-benefit analysis in maintenance applications** – The pavement management program will enable DRM to identify various pavement repairs for distressed pavements, their associated repair costs, and the life cycle expected of that repair. This analytical process would permit cost-benefit decisions to highlight the most cost-effective repair for the expenditure amount. DRM could perform “what if” scenarios based on various repair types, their associated costs, and expected repair duration.

- i. Reduced or postponed maintenance** – The pavement management program will be able to clearly enumerate cost implications for reduced or postponed maintenance. Typically, the reduction or postponement of maintenance repairs not only increases repair costs as time increases but at an accelerating rate. The pavement management program will develop future expected costs to the reduction or postponement of these maintenance activities and depict accelerated costs as compared to performing the repairs at the most effective time. In other words, the reduction or postponement of needed roadway maintenance adds increasing costs over time which can be clearly shown by analytical analysis and the application of industry wide standards (through the pavement management program) as not cost-effective.

- ii. Hiring and wage freezes** – Refer to item Ia. above.

UNAUDITED STATUS

- Implemented

- Implemented

- Implemented

RECOMMENDATIONS

ACTIONS TAKEN

UNAUDITED STATUS

<p>iii. Cancelled or temporary resurfacing,</p>	<p>iii. Cancelled or temporary resurfacing – The cancelled resurfacing of roadways that DRM is aware of, are roads that conflict with other subsurface infrastructure construction projects which are scheduled, i.e. waste water lines, water lines, electrical, telephone, etc. DRM coordinates and schedules around these activities. In addition, DRM endeavors to coordinate trenching activities so that a newly resurfaced or reconstructed roadway does not experience those activities for at least one year after the road was repaired. This policy excludes emergency repairs. First-aid is the only temporary resurfacing that is performed. This is an industry recognized practice where a thin lift of 1” or less of asphalt concrete is placed by a paving machine over a deteriorated road surface peel-off, localized cracking, and other pavement defects in order to prevent water from getting into the roadway’s base course and further deteriorating the roadway. First-aid provides temporary relief and improvements by providing a continuous asphalt layer over irregular road surfaces and a smoother riding roadway for the traveling public until permanent repairs can be designed and constructed by contract.</p>	<p>Implemented</p>
<p>iv. Operating outmoded or hard-to-maintain equipment, and</p>	<p>iv. Operating outmoded or hard-to-maintain equipment – DRM has consistently requested to purchase replacement and new equipment but due to budgetary constraints and funding limitations, our requests have been reduced and the purchase of replacement or new equipment has been deferred.</p>	<p>Implemented</p>
<p>v. Adoption of the “worst first” pavement maintenance philosophy that allows pavement to deteriorate before action is taken.</p>	<p>v. Adoption of a “worst first” pavement maintenance philosophy that allows pavement to deteriorate before action is taken – Though it is not DRM’s philosophy to allow pavement to deteriorate, it is essentially an issue related to insufficient funding and resources. The pavement management program will provide programming information and associated costs for various maintenance scenarios that will assist the budgetary process to fund needed pavement maintenance activities.</p>	<p>Implemented</p>
<p>c. Prioritize and consistently conduct an annual pavement condition survey,</p>	<p>This will be a DRM priority.</p>	<p>Implemented</p>

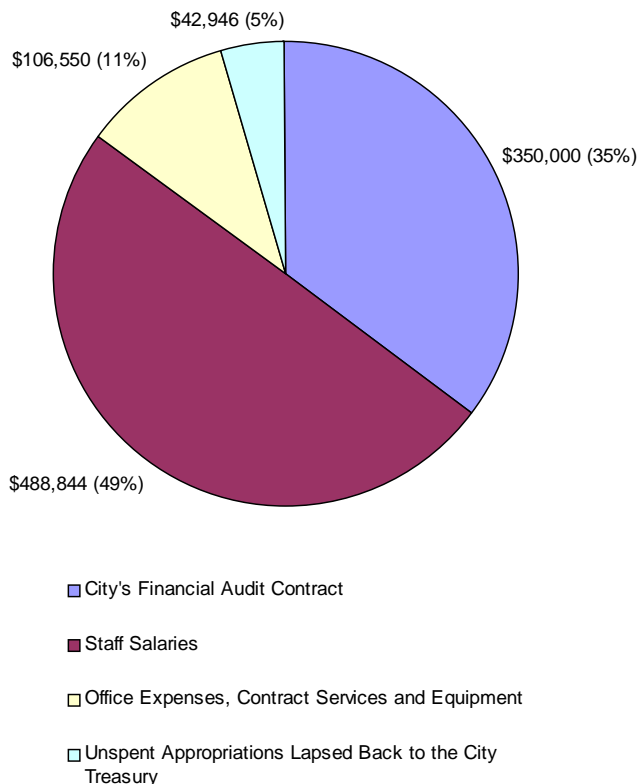
RECOMMENDATIONS	ACTIONS TAKEN	UNAUDITED STATUS
d. Develop a comprehensive work order system,	This is an integral component of the pavement management program. Refer to item 2a. above.	Implemented
e. Draft policies and procedures for road maintenance applications, and	Completed and issued road maintenance and repair guidelines.	Implemented
f. Conduct in-house road resurfacing.	In calendar year 2005, DRM resurfaced 24 lane miles with its crews. DRM will continue to conduct in-housing road resurfacing.	Implemented
3. The Mayor should:		
a. Ensure that the Department of Facility Maintenance has adequate resources to fulfill its mission to maintain city roads,	This administration is committed to adequately fund DFM to fulfill its mission to maintain City roads.	Implemented
b. Ensure that the Department of Design and Construction has adequate resources to program road resurfacing and reconstruction projects, and	This administration will strive to adequately fund the Department of Design and Construction (DDC) to program road resurfacing and reconstruction projects. However, DDC is experiencing a 30% vacancy rate and efforts are being made by DDC and the Department of Human Resources to address this concern.	Implemented
c. Seek a practical solution to issues regarding disputed road ownership.	This administration will seek solutions to adequately resolve issues regarding disputed road ownership. The Department of the Corporation Counsel has begun researching options with the MDO, DDC, and DFM.	Implemented
4. The managing director should review and develop updated record keeping guidelines for city agencies and submit recommendations to the council for adoption.	No Response from Agency	Not Implemented

RECOMMENDATIONS	ACTIONS TAKEN	UNAUDITED STATUS
1. The Office of the Managing Director should:		
a. provide the council and the public a complete and accurate reporting of the city's brunch, sunset and rediscover expenditures;	The Office of the Managing Director will provide upon request, a complete and accurate reporting of the City's brunch, sunset and rediscover expenditures dating from January 2, 2005 to the present.	Implemented
b. establish policies and procedures for participating agencies to identify, capture, track and report city's expenditures for brunch, sunset and rediscover programs;	Policies and procedures have been established within all affected departments to identify, capture, track and report city's expenditures.	Implemented
c. monitor agencies' compliance with those policies and procedures;	Periodical reports are requested from the affected departments.	Implemented
d. ensure that agencies comply with the record retention guidelines and safeguard program documents and reports, including the transition period between outgoing and incoming city administrations; and	The Office of the Managing Director shall retain and safeguard program documents and reports and will include the transition period between outgoing and incoming city administrations	Implemented
e. establish policies and procedures to identify, retain and safeguard financial records and related documents for brunch, sunset and rediscover programs.	Policies and procedures have been established in the Office of Economic Development to identify, retain and safeguard financial and related documents.	Implemented
2. The Department of Budget and Fiscal Services should establish accounting methods and procedures for departments and agencies to completely and accurately identify, capture, track, and report brunch, sunset and rediscover expenditures.	BFS responded on 12-15-05 that it felt existing procedures to identify & report on expenditures are as complete & accurate as possible with the capabilities of the current accounting system. No funds budgeted in '06 for present subject programs but if need arises, current methods/procedures felt to be adequate & will be enhanced with implementation of new financial system to be acquired this fiscal year.	Pending Implementation

FY2005-06 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$984,340 in FY2005-06. An additional \$4,000 was transferred to OCA from the city council to cover the salary increase for the city auditor, bringing the total budget to \$988,340. Of this total, \$350,000 was expended for the city's annual financial audit contract, which OCA oversees for the council. OCA's total appropriated operating budget was \$638,340—of which \$490,140 was for staff salaries and \$148,200 was for office operations, contract services and equipment. Of the \$148,200, \$100,000 was budgeted for a Captive Insurance Study for the City and County of Honolulu. However, since the RFP process resulted in an award of \$64,900 for the study, \$35,100 was saved from the budgeted amount. A total of \$42,946 in unspent appropriations was returned back to the city treasury at the end of the fiscal year.

OCA FY2005-06 Application of Resources



OCA Staff Listing

Leslie I. Tanaka, City Auditor

- Appointed City Auditor on July 1, 2003
- Deputy Auditor, Hawai'i State Auditor's Office, 1995 to 2003
- Director of Administrative Services, University of Hawai'i at Kapiolani Community College, 1981 to 1994
- Certified Public Accountant since 1974

Sherri S. Suzawa, Office Manager

- Served as Office Manager in the Office of the City Auditor since 2003
- Division Secretary, Emergency Medical Services, C&C of Honolulu, 1994 to 2003
- Contract Specialist, Hickam Air Force Base, 1992 to 1994

Susan Hall, Audit Manager

- Served in the Office of the City Auditor since 2003
- Legislative Analyst, Office of Council Services, C&C of Honolulu, 1999 to 2003
- Analyst, Hawai'i State Auditor's Office, 1992 to 1999
- Evaluator, U.S. General Accounting Office, 1983 to 1987

Van Lee, Audit Manager

- Served in the Office of the City Auditor since 2003
- Senior Analyst, Hawai'i State Auditor's Office, 1992 to 2003
- Assistant Vice President, Hawaiian Trust Company, 1984 to 1992

Troy Shimasaki, Senior Auditor

- Served in the Office of the City Auditor since 2004
- Analyst, Hawai'i State Auditor's Office, 2000 to 2004
- Legislative Aide/Analyst, Hawai'i State Legislature, 1992 to 2000

Maria Torres-Kitamura, Senior Auditor

- Served in the Office of the City Auditor since 2005
- Senior Editor/Editor, Hawai'i Business Magazine, 2004 to 2005, 1992 to 1997
- Associate Analyst, Hawai'i State Auditor's Office, 2001 to 2004

Roxane Orian, Staff Auditor

- Served in the Office of the City Auditor since 2004
- Various positions, State of Hawai'i, 1994 to 2002
- Analyst, Hawai'i State Auditor's Office, 1992 to 1994
- Budget Analyst, Hawai'i State Senate, 1991 to 1992

Wayne H. Kawamura, Staff Auditor

- Served in the Office of the City Auditor since 2004
- Legislative Analyst, Hawai'i State Senate, 2002 to 2004, 1999 to 2000
- Policy Analyst, Office of Hawaiian Affairs, 2000 to 2002



Kapolei Hale

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