

OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

Annual Report FY2013-14



September 2014



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 honest,
efficient, effective, and
fully accountable city
government.*

The Honorable Members of the Honolulu City Council:

We are pleased to submit the Annual Report of the Office of the City Auditor for FY2013-14. In our efforts to satisfy the needs of the city council, as well as the needs of the public, we strive to ensure that the city's resources are being used effectively, efficiently, and economically. It is our hope that our reports have been beneficial in your efforts to improve local government.

The mission of the Office of the City Auditor is to promote honest, efficient, effective, and fully accountable city government. In accordance with the city charter, we conducted and coordinated a variety of performance and financial audits and special studies which are listed in our annual work plan. We independently assessed and reported on city operations and services by conducting performance and financial audits that identified ways to improve transparency, accountability, service, efficiency, and the effectiveness of city government.

Our work is conducted in compliance with generally accepted government auditing standards. In providing independent, reliable, and accurate information to the city council and the general public, we strive to provide objective information to the city council and the city administration that could be used to improve operations and programs. As much as possible, the work of the internal audit staff is coordinated with the activities of all external auditors such as independent public accountants, government, and contract auditors.

In our reports, we try to provide the Legislative Branch and the public with information regarding the effectiveness of city programs, and the efficiency of departmental and agency operations. In our efforts, the focus is on adding value to the city by improving public accountability and transparency in its financial and operational activities.

Determining which areas to audit and allocating scarce audit resources to those areas is important for a successful audit function. We use information from the city's adopted operating and capital budgets, and financial statements to perform a risk assessment and to identify potential audit subjects. The results of the model are incorporated into our annual work plan.

As part of our annual review of potential audit subjects, we solicit audit suggestions from the Honolulu City Council, city staff, and members of the public. We continue to welcome your inputs for potential audits that can be used in our annual work plan and annual audit efforts.

In closing, we wish to express our appreciation to the city council and its entire legislative staff for the support and recognition extended to our office. Our accomplishments this past year were possible primarily through your kind and generous support.

Sincerely,

A handwritten signature in black ink that reads "Edwin S.W. Young". The signature is written in a cursive style.

Edwin S.W. Young
City Auditor

City Auditor's Message

The Office of the City Auditor (OCA) issued two performance audit reports in Fiscal Year 2013-14. The audit reports, relating to the Real Property Assessment Division and the Honolulu Authority for Rapid Transportation (HART), are summarized later in this report. Our *Audit of the Real Property Assessment Division*, which was released in October 2013, won the Association of Local Government Auditors (ALGA) Bronze Knighton Award for medium audit shops. In addition to our audit reports, we issued our fourth *Service Efforts and Accomplishments* (SEA) report, and the *Citizen-Centric Report for 2013*. Four *National Citizen Survey* reports summarized Honolulu resident opinions and concerns.

OCA continues to administer the audit of the city's financial statements by an external accounting firm, Accuity LLP. The charter-mandated audit, which includes the Comprehensive Annual Financial Report (CAFR), Public Transportation System – Bus and Paratransit Operations Financial Statement, Sewer Fund Financial Statements, Management Letter, and Single Audit of Federal Financial Assistance programs, received an unqualified opinion. Accuity LLP's contract ended with the FY2013 audit, and a new contract was awarded to PKF Pacific Hawaii LLP for the five fiscal years 2014 to 2018. PKF Pacific Hawaii LLP subsequently assigned the contract to KMH LLP.

OCA staff members continue to participate in peer reviews of audit shops in other jurisdictions as coordinated under the Association of Local Government Auditors peer review program. The program utilizes a reciprocal approach to staffing review teams, which helps to minimize the cost of the *Government Auditing Standards* mandated triennial peer review. This fiscal year, OCA participated in three peer reviews. One deputy city auditor was the team leader for the Office of the City Auditor – San Jose, California; another deputy city auditor was a team member for the Office of the City Auditor – San Diego, California; and the city auditor served as team leader for the peer review of the Office of the City Auditor – Oakland, California. In addition, one of the deputies also helped the Hawai'i County Legislative Auditor prepare for their first peer review. OCA will be undergoing its fourth peer review in 2015.

OCA continues to provide advice, counsel, and support to the Maui County Auditor and the Kauai County Auditor. OCA provides administrative and personnel related support to the newly established Maui County Auditor's Office, which has shortened the learning curve and facilitated the successful set up of this new

office. OCA also provides audit support to the Ethics Commission and its staff.

OCA staff participated in various professional support activities this fiscal year. We presented our award-winning *Audit of the Real Property Assessment Division* at ALGA's 2014 Annual Conference in Tampa, Florida. OCA was privileged to be designated by the Institute of Internal Auditors as one of the 20 best practices audit offices in the nation, and recognized by AGA as a leader in performance auditing and citizen-centric reporting. The city council Certificate of Recognition of the OCA achievements was gratefully appreciated.

Additionally, our audit staff served on the AGA-Hawai'i Chapter's Board of Directors and committees, ALGA Knighton Award review committees, and AGA citizen-centric reporting review committees. Other staff are active with the Association of Certified Fraud Examiners (ACFE) and ISACA. We continue to mentor college students and graduates through the OCA internship program, and participate in outreach programs such as the AGA *Talk Story* events with University of Hawai'i accounting students.

OCA staff members continue to work towards attaining various professional certifications. This fiscal year, a staff member earned the Certified Fraud Examiner credential. This credential denotes proven expertise in fraud prevention, detection and deterrence.

This year, OCA initiated a 360 degree quality review of its operations, policies, and procedures and anticipate the results will improve OCA efficiency and effectiveness. We look forward to continually providing high quality audits that add value to the City and County of Honolulu and fulfilling our mission of promoting honest, efficient, effective, and fully accountable city government.



Auditor Charisma Fojas earned the Certified Fraud Examiner credential from the Association of Certified Fraud Examiners.

Summary of Reports to Council

This section summarizes the reports completed in FY2013-14.

Audit of the Real Property Assessment Division

This report focused on the Real Property Assessment Division (RPAD) of the Department of Budget and Fiscal Services. The audit objectives were to evaluate RPAD's processes related to the classification, reclassification, valuation, and assessment of real property for taxation purposes in the City and County of Honolulu.

City Council Resolutions 10-260 and 11-105 authorized tax adjustments and attempted to resolve problems created when properties were reclassified from residential to commercial or industrial classifications in mixed use zones. We found that properties listed in the resolutions indicated problems have not been resolved because real property data were not accurate, reliable, or complete, which resulted in non-qualified property owners receiving unearned tax adjustments. Inconsistent classifications of adult residential care homes (ARCH) and skilled nursing and intermediate care facilities resulted in inequitable and inaccurate assessments, which were not based on highest and best use as required by the Revised Ordinances of Honolulu. We also found 85 (35%) of 241 historic residential dedicated properties listed under RPAD were not in compliance with the program requirements for property tax exemptions. Non-compliance issues were not resolved because RPAD did not actively monitor and enforce compliance with the program's requirements; conduct inspections of the properties; and maintain current or accurate property data.

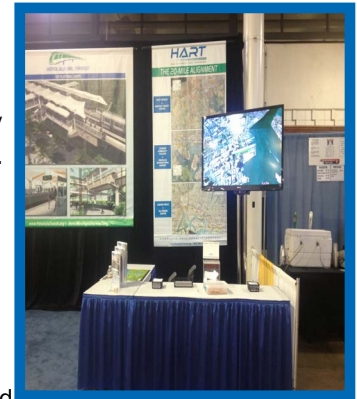


We identified over \$1.8 million in potential tax assessments, which could have resulted if RPAD resolved inaccurate and inconsistent classifications; enforced compliance with historic property requirements; and

complied with ordinances, professional standards, and administrative policies and procedures to generate accurate and reliable data for its classifications and assessments.

Audit of the Honolulu Authority for Rapid Transportation (HART) Public Involvement Programs

This report focused on the public involvement programs and activities at the Honolulu Authority for Rapid Transportation. The audit objectives included assessing the organization's public relations and public involvement services; contract oversight; operational efficiency and effectiveness; and public involvement deliverables.



The rail project, with a projected cost of \$5.2 billion, is one of the largest and most expensive public works projects ever for Honolulu. The Honolulu Authority for Rapid Transportation's public involvement team is tasked with keeping the public informed with timely and accurate information about the project and also with facilitating meaningful information and idea exchanges among agency staff, property owners, business owners, residents, and the project technical staff.

We found that public involvement efforts, totaling nearly \$13.9 million, generally complied with requirements with one exception. As the project moves forward, there are several areas where improvements are needed. We found that consultants hold key management and related functions. As a result, consultants are able to control project and program data, and influence public involvement expenditures with minimal accountability. We also found that consultant and sub-consultant invoices were routinely paid despite minimal documentation.

2013 Service Efforts & Accomplishments Report

The Office of the City Auditor released the fourth Service Efforts and Accomplishments Report for the City and County of Honolulu in March 2014.

The report includes the results of a Citizen Survey conducted for the city that polls the opinions of a random, representative sample of residents about their community, quality of life, service delivery, civic participation, and unique issues of local interest. It includes a variety of comparisons to other cities that supplements the results of the citizen survey.

The SEA results offer elected officials, city employees, residents, and other stakeholders an opportunity to benchmark performance; identify challenges; plan for and evaluate improvements; and identify service improvements for long-term success. The goal is to provide the Honolulu City Council, city employees, and the public with information that can be used to strengthen governmental accountability and transparency, improve governmental efficiency and effectiveness, and support future decision making.

[The National Citizen Survey \(NCS\)[™], City and County of Honolulu \(2013\)](#)

The National Citizen Survey[™] report was completed in March 2014. This is the fifth citizen survey for Honolulu; the first was done in 2006. This year's NCS report was redesigned and presented in four separate reports:

[The National Citizen Survey[™], City and County of Honolulu \(2013\), Community Livability Report.](#) The report presents citizen opinions and ratings for city services, programs, and priorities across eight central facets of community: Safety, Mobility, Natural Environment, Built Environment, Economy, Recreation and Wellness, Education and Enrichment, and Community Engagement.

[The National Citizen Survey[™], City and County of Honolulu \(2013\) Dashboard Summary of Findings Report.](#) The report summarizes citizen opinions of city services, programs, and priorities within the eight facets of community livability, and benchmarks comparisons with other communities across the nation.

[The National Citizen Survey[™], City and County of Honolulu \(2013\) Trends over Time Report.](#) The report provides trends over time with benchmark comparisons to previous survey results in 2006, 2010, 2011, and 2012.

[The National Citizen Survey[™], City and County of Honolulu \(2013\) Technical Appendices.](#) The content of this report includes citizen survey results, benchmark comparisons, survey methodology, and survey materials.

[Citizen-Centric Report for Fiscal Year 2013](#)

The fourth Citizen-Centric Report for Honolulu was published by the Office of the City Auditor in May 2014. The report succinctly communicates financial and performance information to the citizens of Honolulu.

[Financial Audit of the City and County of Honolulu, State of Hawai'i, For the Fiscal Year ended June 30, 2013](#)

Includes the following reports:

- [City and County of Honolulu - Public Transportation System - Bus and Paratransit Operations, Financial Statements and Supplemental Schedules, June 30, 2013 and 2012](#)
- [City and County of Honolulu - Sewer Fund Financial Statements, June 30, 2013 and 2012](#)
- [Financial Audit of the City and County of Honolulu For Fiscal Year Ended June 30, 2013 - Management Letter](#)
- [Single Audit of Federal Financial Assistance Programs For the Fiscal Year Ended June 30, 2013](#)

Accuity LLP, the contract auditor, submitted their comments and recommendations for the Comprehensive Financial Audit of the City and County of Honolulu for FY2012-13 to the city council in January 2014. There were five comments regarding: accounting for capital assets; sub-recipient monitoring and eligibility for the Shelter Plus Care program; incorrect estimates in the Annual Progress Report for the Shelter Plus Care program; sub-recipient monitoring for the Community Development Block Grant (CDBG) program; and a procurement-related issue at Oahu Transit Services.

The comment from fiscal year 2012 regarding cash management of the CDBG and HOME Investment Partnerships programs was resolved. The prior year comment from 2010 pertaining to site visits and completion of required documents under the City's Shelter Plus Care program remains unresolved.

Status of Council Requests for Audits, FY2010-11 to FY2013-14

The city auditor is authorized by city charter to conduct audits of the funds, programs, and operations of any agency or operation of the city, as determined by the auditor to be warranted. The charter also calls for audits to be conducted as requested by the city council by resolution. We have given high priority to council's requests and of the eight requests adopted by the council from FY2010-11 to FY2013-14, three are completed, four are in progress, and one is pending.

No.	Resolution Number	Date Adopted	Resolution Title	Status
1.	10-269	10/13/10	Requesting that the City Auditor Conduct a Performance Audit of the Real Property Assessment Division of the Department of Budget and Fiscal Services	Completed <i>Report No. 13-02</i>
2.	10-297	11/22/10	Requesting an Audit of the Funds Appropriated For Bicycle Projects	Fieldwork Completed; Draft Report Underway
3.	11-46	03/16/11	Requesting that the City Auditor Conduct a Performance Audit of the Department of Parks and Recreation's Camping Operations	Completed <i>Report No. 12-05</i>
4.	12-149	07/11/12	Requesting the City Auditor to Conduct an Audit of the Honolulu Authority For Rapid Transportation's Contracts and Spending For Public Relations and Public Involvement Services	Completed <i>Report No. 13-03</i>
5.	12-150	07/11/12	Urging the City Auditor to Conduct an Audit of the Department of Environmental Services' Wastewater Contracts and Procurement Practices	Fieldwork Underway
6.	13-27	03/20/13	Requesting the City Auditor to Audit the Department of Customer Services' Motor Vehicle, Licensing and Permits Program	Fieldwork Completed; Draft Report Underway ¹
7.	13-201, FD1	10/09/13	Requesting the City Auditor to Perform a Comprehensive Management and Performance Audit of the Board of Water Supply	Fieldwork Completed; Draft Report Underway ²
8.	14-69, FD1	05/07/14	Requesting the City Auditor to Perform a Comprehensive Management and Performance Audit of the City's Paratransit Service	Preliminary Survey TBD

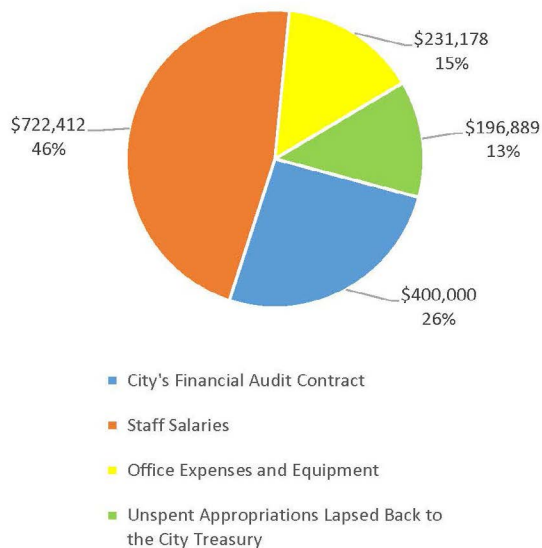
¹ Report issued August 2014

² Report issued September 2014

FY2013-14 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$1,550,479 in FY2013-14. Of this total, \$471,502 was encumbered in anticipation of awarding a new contract for the city's annual financial audit, which OCA oversees for the council. The contract was awarded in the amount of \$400,000, \$71,502 below the anticipated amount. \$722,412 was expended for staff salaries, and \$231,178 was expended for office operations and equipment. OCA negotiated a new lease for its present office space which resulted in additional savings of \$16,723 for basic rent. Unspent appropriations totaling \$196,889 was returned to the city treasury at the end of the fiscal year. Most of the unspent appropriations resulted from salary savings due to vacant senior level positions; reduced financial audit costs; and office space lease savings.

OCA FY2013-14 Application of Resources



OCA Staff Listing

- Edwin S.W. Young, City Auditor, MBA, MS, CIA, CFE, CGFM, CRMA
- Susan Hall, Deputy City Auditor, MPA, CFE, CRMA
- Van Lee, Deputy City Auditor, MBA, CRMA
- Wayne Kawamura, Senior Auditor, JD, MBA, CISA, CRMA
- Troy Shimasaki, Senior Auditor, CRMA
- Amy Cheung, Senior Auditor, MBA, CPA
- Darin Kawamoto, Auditor I, MBA
- Charisma Fojas, Auditor I, CFE
- Shena Bocalbos, Intern
- Iris Lekjarun, Intern
- Sherri Suzawa, Administrative Services Officer



James Campbell Building

Office of the City Auditor
1001 Kamokila Boulevard, Suite 216
Kapolei, Hawai'i 96707

PH: (808) 768-3134
FAX: (808) 768-3135

email: oca@honolulu.gov

website:
www.honolulu.gov/auditor