

## **OFFICE OF THE CITY AUDITOR**

City and County of Honolulu  
State of Hawai'i

# **Annual Report FY2014-15**



August 2015



## 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 FY2014-15. In our efforts to satisfy the needs of the city council, as well as the needs of the public, we strived to ensure that the city's resources were used effectively, efficiently, and economically. It is our hope that our reports were 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 that were 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 was conducted in accordance with generally accepted government auditing standards. In providing independent, reliable, and accurate information to the city council and the general public, we strived 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 was coordinated with the activities of all external auditors such as independent public accountants, and government and contract auditors.

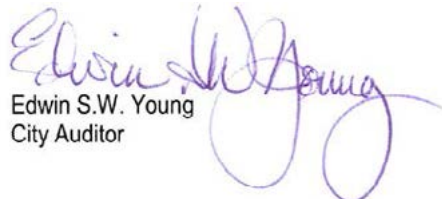
In our reports, we tried to provide the Legislative Branch and the public with information regarding the effectiveness of city programs, and the efficiency of department and agency operations. In our efforts, we focused on adding value to the city by improving public accountability and transparency in 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 therefore used information from the city's adopted operating budget, capital budget, and financial statements to perform a risk assessment and to identify potential audit subjects. The results of the risk assessment were incorporated into our annual work plan.

As part of our annual review of potential audit subjects, we solicited audit suggestions from the Honolulu City Council, city staff, and members of the public. City Council resolutions were assigned first priority. 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, the entire legislative staff, and the many executive departments and their staffs for the support and assistance extended to our office. Our accomplishments this past year were possible primarily through yours and their generous support and kind assistance.

Sincerely,

  
Edwin S.W. Young  
City Auditor

## City Auditor's Message

The Office of the City Auditor (OCA) issued three performance audit reports in fiscal year 2015. The audit reports, which are summarized later in this report, related to: (1) motor vehicle, licensing and permits program; (2) the Board of Water Supply; and (3) bicycle funds. In addition to these audit reports, OCA issued the *Audit Recommendations Status Report*, a fifth *Service Efforts and Accomplishments* (SEA) report, four *National Citizen Survey* reports, and the *Citizen-Centric Report for 2014*. Based on the citizen survey results, the International City/County Management Association (ICMA) and the National Research Center, Inc. awarded the City and County of Honolulu a national *Voice of the People* Award.

OCA continues to administer the charter-mandated audit of the city's financial statements by an external accounting firm. The successful bidder for the Comprehensive Annual Financial Report (CAFR) contract unexpectedly and suddenly cancelled the contract after the new fiscal year started. OCA staff had to innovatively resolve the crisis. After consulting the corporation counsel and the budget and fiscal services staffs, the contract was re-awarded to KMH LLP. KMH LLP completed the following audits on time for the fiscal year ending June 30, 2014: the Comprehensive Annual Financial Report (CAFR); the Public Transportation System – Bus and Paratransit Operations Financial Statement; Sewer Fund Financial Statements; Management Letter; and Single Audit of Federal Financial Assistance programs. The city again received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA).

The multi-tasking OCA staff updated the OCA website and OCA Facebook page; participated in peer reviews of three audit shops; and continued to support and assist others in the audit community. Peer reviews in other jurisdictions included: the Wayne County Office of Legislative Auditor General, Detroit, Michigan; City of Palo Alto Office of the City Auditor, Palo Alto, California; and City of Scottsdale City Auditor's Office, Scottsdale, Arizona. The peer reviews were coordinated under the Association of Local Government Auditors (ALGA) peer review program, which utilizes reciprocal peer review teams. This approach helps to minimize the cost of the mandatory triennial peer review, which OCA will be undergoing in November 2015. This will be the fourth peer review for OCA.

OCA continued to assist other audit offices by providing professional, administrative, training, audit assistance, and support to the Office of the County Auditor - Maui County; Office of the County Auditor - Kauai County; Office of the Legislative Auditor – County of Hawai'i; and Office of the Auditor – State of Hawai'i. OCA also coordinated 3-day audit training workshops for Hawai'i state and local auditors in January and June 2015. To promote government auditing as a career, OCA mentored three college and graduate students through the OCA Internship Program; made presentations to accounting students from the University of Hawai'i, Manoa and West O'ahu campuses; served on the University of Hawai'i at Manoa, School of Accountancy Advisory Board; and developed a government accounting and auditing program for the University of Hawai'i.

OCA staff remained nationally active. OCA members submitted articles for professional publications on homelessness and affordable housing; participated in a national panel discussion on citizen-centric reporting at the annual Association of Government Accountants (AGA) conference; and discussed the use of national citizen surveys at the ALGA annual conference. Additionally, OCA audit staff continue to serve on the AGA-Hawaii chapter board of directors and committees; AGA national committees; ALGA national board of directors and committees, including the Knighton award and the education committees. Other staff are active with the Association of Certified Fraud Examiners, the Institute of Internal Auditors, and ISACA.

OCA staff continue to improve professionally. A staff member attained a master degree in accountancy from Rutgers University; another member was awarded the Certified Internal Controls Auditor (CICA) by the Institute for Internal Controls. The CICA designation is granted to accounting and audit professionals who demonstrate expertise in internal controls.

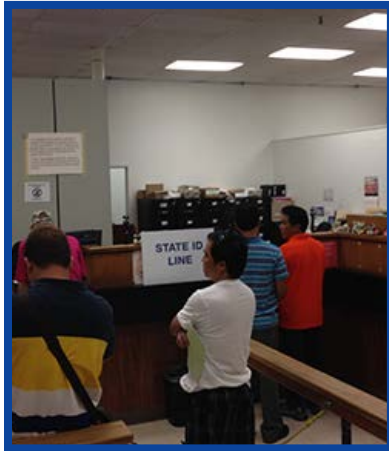
OCA continually strives to provide high quality audits that add value to the City and County of Honolulu. Through our reports, we hope to fulfill our mission of promoting honest, efficient, effective, and fully accountable city government. OCA was privileged to be designated as one of the top 20 performance audit offices in North America by the Institute of Internal Auditors (IIA).

# Summary of Reports to Council

This section summarizes the reports completed in FY2014-15.

## Audit of the Department of Customer Services' Motor Vehicle, Licensing and Permits Program

In March 2013, the Honolulu City Council requested via Council Resolution 13-27, that the city auditor conduct



a performance audit of the Department of Customer Services' Motor Vehicle, Licensing and Permits Division based on public complaints and media scrutiny stemming from long lines and waits experienced by customers at the city's driver license

offices. The audit objectives were to: (1) determine the efficiency of staff to process various motor vehicle licensing and permitting transactions; (2) provide detailed statistics on daily and monthly transactions; (3) provide recommendations on streamlining processes at motor vehicle licensing locations; and (4) provide recommendations for legislation that should be introduced to assist with motor vehicle licensing location efficiency. To address these objectives, our audit assessed the efficiency and effectiveness of staff processing driver licensing and state identification transactions at driver license offices; assessed the management practices related to processing driver licenses and state identification cards; and identified recommendations for improving operational efficiency at driver license offices.

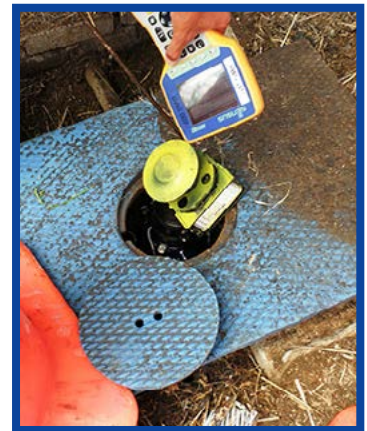
We found the Customer Services Department's Motor Vehicle, Licensing and Permits Division needed to improve customer service in its operations. The department and mayor's office initiated several projects for reducing the long lines and waits at their offices. However, the division did not support or fully implement these initiatives for improving customer service because it did not consider long lines and waits or improving customer service as valid concerns. The division instead placed primary priorities on

correctly processing and completing transactions. As a result, long lines and waits, and complaints continued. Although customer demand increased with the assumption by the city of the state identification card program, the department did not accept all the resources offered for transfer by the state Department of Transportation prior to January 2013.

The audit determined that customer waiting times and lines could be reduced with more proactive (versus reactive) management of customer demand; application of queuing concepts to anticipate demand and improve window coverage and staffing; and analysis of customer demand so as to service customers better. Reducing lines, wait times, and the effects of waiting could also be reduced if better public information were provided; office facilities were improved; and longstanding staff vacancies were filled. The division could also provide better customer service and satisfy customer expectations by emulating the attitudes, practices, and customer service procedures of its intra-departmental counterpart, the satellite city hall division.

## Audit of Select Management and Operational Practices at the Board of Water Supply

Nearly four out of five Board of Water Supply (BWS) customers received bills that were overestimated or underestimated during the first nine months of 2013, after the implementation of a new billing system. The BWS Customer Care Center did not have sufficient staff and resources to handle the increased customer complaint calls, which resulted in long wait times and an increase in abandoned calls. The Honolulu City Council requested this audit



in response to the public uproar that ensued. The overall audit objective was to perform a comprehensive management and performance audit of the Board of Water Supply.

The city council's multiple concerns included management policies and procedures; performance measures; financial tools and controls; and status of the BWS as a semi-autonomous agency. Other concerns related to the new billing system

implementation; conversion from bi-monthly to monthly billing; and operational efficiency and effectiveness. Additional concerns involved improving customer service; transparency; and the BWS rate structure.

The BWS underestimated the cost and time needed to implement its new Customer Care & Billing (CC&B) system. Projected to be completed in 18 months at a cost of \$5 million, actual implementation took over three years at a cost of over \$16 million. We found that the BWS was unprepared for problems related to the system billing errors, and their handling of customer complaints was inadequate.

The BWS was unable to readily justify rate increases and substantiate monthly charges. We found that financial data could not be converted into a format that is useful and easily understood by decision makers, and the BWS lacks transparency and accountability. Even though the BWS has criteria for cost allocation, they were unable to provide us with a substantiated breakdown of their monthly charges, revenues, and expenses.

The BWS meter reading and Automatic Meter Reading (AMR) processes are ineffective and inefficient. The AMR *no read rate* should be no more than 5 percent, but the BWS had a no read rate of 15 percent, which was due to malfunctioning AMR equipment. This required meter readers to physically go to individual properties to obtain meter reads, which increased overtime costs and the number of estimated bills.

The BWS lacked performance measures for customer service and benchmarks to measure its progress in servicing customers. We found that the BWS did not comply with industry best practices related to customer service and stakeholder involvement.

Through our city comparison analysis, we found that changing the BWS governance structure is unlikely to improve operations, effectiveness, or efficiency, but it is ultimately a policy decision for the city council.

### Audit of the Funds Appropriated for Bicycle Projects

This audit focused on the funds appropriated for bicycle projects for the City & County of Honolulu. The Department of Transportation Services (DTS) is responsible for managing Honolulu's bike program. Results for our audit identified opportunities for improving the administration and management of the bike program in order to achieve the bike program goals, objectives, and priorities.

The audit objective was to determine why bike funding lapsed at such a high rate and received low priority. The audit sub-objectives were to: (1) evaluate the administration of the city's bike program; (2) evaluate and assess the adequacy of the controls used to manage the bike project funds; and (3) determine why bike project funds were lapsing.



As of August 2014, the city met 20 of 35 benchmarks in the Oahu Bike Plan and 5 were partially implemented. Since January 2013, several bike projects were started or completed and several bike initiatives were underway. Despite the progress, our office found that DTS could improve its operations by establishing formal policies and procedures;

standardizing terminology and definitions; and strengthening coordination of bike activities, plans, and projects among various city agencies. We found that bike project funds totaling \$3.64 million in grants and appropriations had lapsed or were subject to de-obligation because project managers lacked accurate, complete and reliable information and were not properly managing bike program resources. Management started implementation of the recommendations before the final audit report was released.

### Audit Recommendations Status Report – Fiscal Year 2014

In accordance with Section 3-502.1(d) of the Revised Charter of Honolulu, the Office of the City Auditor monitors the compliance with prior years' audit recommendations by audited entities. This report reviewed the implementation status of 150 outstanding audit report recommendations as of October 2014. The results of this review indicated that 25 recommendations (17%) were completed, 14 recommendations (9%) were resolved, 3 recommendations (2%) were dropped, 71 recommendations (47%) were in process, and 37 recommendations (25%) were not started.

## 2014 Service Efforts & Accomplishments Report

The Office of the City Auditor released the fifth Service Efforts and Accomplishments Report for the City and County of Honolulu in March 2015. 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 survey results offer elected officials, city employees, residents, and other stakeholders an opportunity to identify challenges; to plan for and evaluate improvements; and to 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)<sup>™</sup>, City and County of Honolulu (2014)

The National Citizen Survey<sup>™</sup> report was completed in March 2015. The NCS report was comprised of the following four reports:

[The National Citizen Survey<sup>™</sup>, City and County of Honolulu \(2014\), 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<sup>™</sup>, City and County of Honolulu \(2014\) 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<sup>™</sup>, City and County of Honolulu \(2014\) Trends over Time Report.](#) The report provides trends over time with benchmark comparisons to previous survey results in 2006, 2010, 2011, 2012, and 2013.

[The National Citizen Survey<sup>™</sup>, City and County of Honolulu \(2014\) Technical Appendices.](#) The content of this report includes citizen survey results, benchmark comparisons, survey methodology, and survey materials.

## Citizen-Centric Report for Fiscal Year 2014

The fifth 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, 2014

Included the following reports:

- [City and County of Honolulu Comprehensive Annual Financial Report \(CAFR\), June 30, 2014](#)
- [City and County of Honolulu - Public Transportation System - Bus and Paratransit Operations, Financial Statements and Supplemental Schedules, June 30, 2014 and 2013](#)
- [City and County of Honolulu - Sewer Fund Financial Statements, June 30, 2014 and 2013](#)
- [Financial Audit of the City and County of Honolulu for Fiscal Year Ended June 30, 2014 - Management Letter](#)
- [Single Audit of Federal Financial Assistance Programs for the Fiscal Year Ended June 30, 2014](#)

KMH LLP, the contract auditor, submitted their comments and recommendations for the Comprehensive Financial Audit of the City and County of Honolulu for FY2013-14 to the city council in February 2015.

KMH identified \$40 million in mistatements that resulted in city restated financial statements.

## Status of Council Requests for Audits, FY2010-11 to FY2014-15

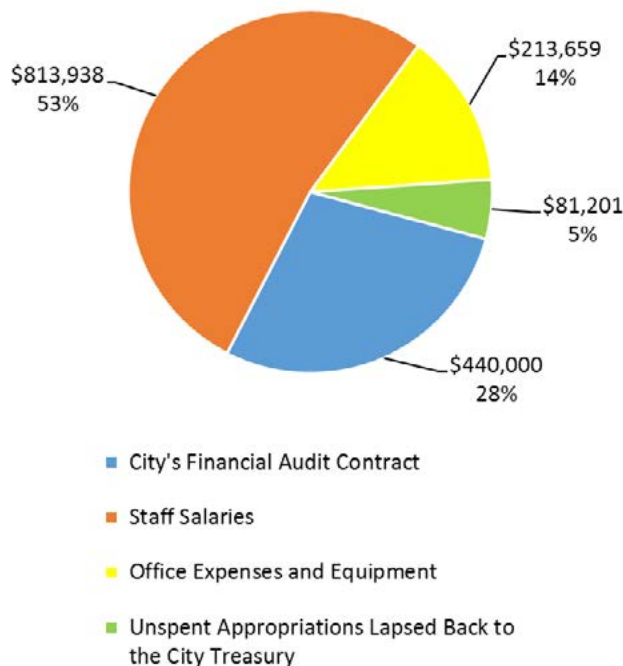
In accordance with the city charter, the city auditor shall conduct performance audits of the funds, programs, and operations of any agency or operation of the city as requested by the council by resolution. We continue to give high priority to city council requests and have completed five of the eight requests adopted by the council from FY2010-11 to FY2014-15. The other three requests are in progress.

<b>No.</b>	<b>Resolution Number</b>	<b>Date Adopted</b>	<b>Resolution Title</b>	<b>Status</b>
1.	10-297	11/22/10	Requesting an Audit of the Funds Appropriated For Bicycle Projects	Completed <i>Report No. 15-03</i>
2.	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>
3.	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>
4.	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 Completed; Draft Report Underway
5.	13-27	03/20/13	Requesting the City Auditor to Audit the Department of Customer Services' Motor Vehicle, Licensing and Permits Program	Completed <i>Report No. 14-02</i>
6.	13-201, FD1	10/09/13	Requesting the City Auditor to Perform a Comprehensive Management and Performance Audit of the Board of Water Supply	Completed <i>Report No. 14-03</i>
7.	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 Completed (Fieldwork started in July 2015)
8.	15-90	05/06/15	Requesting the City Auditor to Conduct a Performance Audit of the Honolulu Rail Transit Project	Preliminary Survey Underway

## FY2014-15 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$1,548,798 in FY2014-15. Of this total, \$440,000 was encumbered for the city's annual financial audit contract, which OCA oversees for the council; \$813,938 was expended for staff salaries; and \$213,659 was expended for office operations and equipment. Unspent appropriations totaling \$81,201 was returned to the city treasury at the end of the fiscal year. Most of the unspent appropriations resulted from salary savings due to the delayed filling of a vacant position at less than the budgeted allocation, as well as early separation of interns from our internship program.

OCA FY2014-15 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, MA, CFE
- Christine Ross, Auditor I, MBA
- Holly Hayden, Intern, MPA
- Sherri Suzawa, Administrative Services Officer



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