

OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

Annual Report FY2012-13



September 2013



**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 FY2012-13. We trust that our reports have been beneficial in your efforts to ensure that the city's resources are being used effectively, efficiently, and economically to satisfy the needs of the public.

The mission of the Office of the City Auditor is to promote honest, efficient, effective, and fully accountable city government. We independently assess and report on city operations and services by conducting performance and financial audits that identify ways to strengthen public accountability and improve the efficiency and effectiveness of City government.

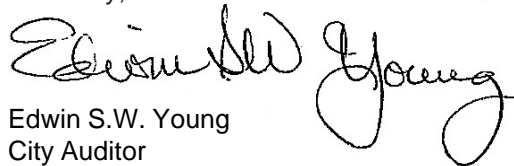
In accordance with the city charter, we conduct and coordinate a variety of performance and financial audits and special studies which are listed in our annual work plan. In providing independent, reliable, and accurate information to the city council and the general public, we strive to provide objective information to the city council and the city administration that can 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.

Our work is conducted in compliance with generally accepted government auditing standards. In our reports, we try to provide the legislative branch and the public 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 welcome your inputs for potential audits that can be used in our annual work plan and annual audit efforts.

Sincerely,


Edwin S.W. Young
City Auditor

City Auditor's Message

In our continuing efforts to increase transparency and accountability in city government, the Office of the City Auditor (OCA) issued two performance audit reports in Fiscal Year 2013. The audit reports, relating to camping operations and the city council's annual contingency allowance, are summarized later in this report. In addition to our audit reports, we issued our second Audit Recommendations Status Report, our third *Service Efforts and Accomplishments* (SEA) report, and the *Citizen-Centric Report for 2012*.



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. Since Accuity LLP's contract will end with the FY 2013 audit, we solicited proposals for the next five fiscal years and a new contract was awarded to PKF Pacific Hawaii LLP.

In December 2012, OCA underwent its third external peer review as required under generally accepted government auditing standards. A two-person review team, with 28 years of combined auditing experience, conducted the triennial review and gave the city auditor's office a clean opinion. The Association of Local Government Auditors' (ALGA) Peer Review Program utilizes a reciprocal approach to staffing review teams. As such, OCA staff members continue to participate in peer reviews of audit shops in other jurisdictions. This fiscal year, the city auditor served as team leader for the peer review of the Office of the City Auditor - City of Oakland, California.

OCA also continues to participate in other professional support activities. We were interviewed by the Oregon Metro Auditor's Office for a presentation at the Pacific Northwest Intergovernmental Audit Forum held in

Alaska. We have also conducted presentations on value-added auditing, service efforts and accomplishments reporting, and transparency and accountability in local government, for audiences such as the American Society of Military Comptrollers, Association of Government Accountants (AGA), The Institute of Internal Auditors (IIA), and Hawai'i Pacific University. Additionally, our audit staff served on the AGA-Hawaii Chapter's Board of Directors and committees as well as ALGA's Knighton Award committees. We continue to mentor college students and graduates through the OCA internship program and continue to participate in 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, five staff members earned The Institute of Internal Auditors' Certification in Risk Management Assurance (CRMA) designation. This certification demonstrates the ability to evaluate as well as provide advice and assurance regarding the dynamic components that comprise an organization's governance and enterprise risk management program.

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.



Congratulations to the Office of the City Auditor staff who earned Certification in Risk Management Assurance designations during Fiscal Year 2013. Left to right: City Auditor Edwin Young, Deputy City Auditor Van Lee, Senior Auditors Wayne Kawamura and Troy Shimasaki, and Deputy City Auditor Susan Hall.

Summary of Reports to Council

This section summarizes the reports completed in FY2012-13.

Audit of the Department of Parks and Recreation's Camping Operations

This audit focuses on the camping program operated by the City and County of Honolulu. The audit objectives were to assess the cost of operations, the condition of campsite facilities, user demand of the facilities, and the management of the city's program. In 2011, the city council enacted Ordinance 11-20 which established a fee structure for the city's camping program and a basis for improving and maintaining city campsites. We found the camping program improvements intended by the ordinance are not likely to be achieved because camping revenues will not be dedicated to the program. We identified \$366,000 in potential revenues that were not collected because the Department of Parks and Recreation implemented an online camping permit system without fee collection capability and opted to amend its camping rules before fee implementation. We also found that administrative and convenience fees



we were not justified; planned fees contradicted the ordinance; and department estimates for program costs, revenues and assumptions were inaccurate. Although security is a top priority, failure to improve security could result in increased complaints, jeopardize the physical security of campers, and expose the city to potential lawsuits. Failure to replace and improve camping facilities could expose the city to environmental violations and could result in a potential loss of campsites. Finally, we found that the department needs to protect the city from potential system breaches before e-commerce is activated, actively monitor its online permitting system, develop standard operating procedures, and make better use of internet capabilities.

Audit Recommendations Status Report – Fiscal Year 2012

This report reviewed the implementation status of all previously made audit report recommendations and fulfills the city charter mandate, Section 3-502.1 (d), that the city auditor follow-up and monitor compliance with audit recommendations by audited entities. This review covered 326 recommendations. The results indicated that 171 recommendations (52%) were completed, 13 recommendations (4%) were resolved, and 76 recommendations (23%) were in-process. Of the remaining recommendations, 48 (15%) were dropped and 18 (6%) were not started. The report also included additional information regarding each specific recommendation: management comments and actions; an update on the latest management actions planned; and, as applicable, the expected date for completing each outstanding recommendation.

Audit of the Policies and Procedures Relating to the Honolulu City Council's Annual Contingency Allowance

This audit was initiated pursuant to City Council Resolution 10-73 which requested that the city auditor conduct a review and make recommendations to improve the policy and procedures relating to the Honolulu City Council's Annual Contingency Allowance (ACA). The objective of the audit was to review and assess the annual contingency allowance policy and procedures, clarifications to the categories of expenses, and the ACA reimbursement process.

In our sampling of ACA reimbursements, we found most claims complied with the revised ACA policy. The potential violations we found indicated additional changes are needed to prevent reimbursements for invalid and unauthorized expenses. The potential violations may have occurred because the revised ACA policy and reimbursement process does not include best practices such as management reviews; clear guidance on what is permitted and reasonable; and a designated entity authorized to verify and deny all unauthorized claims. The result is that improper reimbursements may occur and past violations may recur. To minimize the possibility of future violations, our recommendations addressed the need for these best practices.

Service Efforts and Accomplishments & 2012 Honolulu Citizen Survey

The Office of the City Auditor released the third Service Efforts and Accomplishments Report for the City and County of Honolulu in March 2013. 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.

National Citizen Survey (NCS)™, City and County of Honolulu, HI, 2012

The National Citizen Survey™ report was completed in March 2013. The report provides statistically valid survey results of citizen opinions of city services, programs, and priorities. This is the fourth citizen survey for Honolulu; the first was done in 2006.

National Citizen Survey (NCS)™, City and County of Honolulu, HI, 2012, Benchmark Report

The benchmark report was completed in March 2013. The report benchmarks citizen opinions and ratings for city services, programs, and priorities against national benchmarks, as well as benchmarks for cities with populations over 300,000. This is the third benchmark report for Honolulu; the first was done in 2011.

Citizen Centric Report For Fiscal Year 2012

The third Citizen-Centric Report for Honolulu was published by the Office of the City Auditor in April 2013. The report communicates financial and performance information to the citizens of Honolulu.

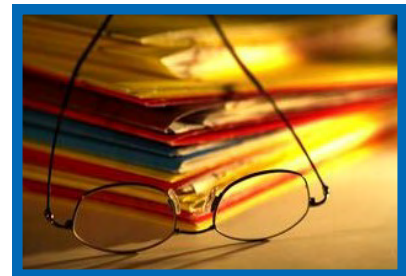
Financial Audit of the City and County of Honolulu, State of Hawai'i, For the Fiscal Year ended June 30, 2012

Includes the following reports:

- ***City and County of Honolulu - Public Transportation System - Bus and Paratransit Operations, Financial Statements and Supplemental Schedules, June 30, 2012 and 2011***
- ***City and County of Honolulu - Sewer Fund Financial Statements, June 30, 2012 and 2011***
- ***Financial Audit of the City and County of Honolulu For Fiscal Year Ended June 30, 2012 - Management Letter***
- ***Single Audit of Federal Financial Assistance Programs For the Fiscal Year Ended June 30, 2012***

Accuity LLP, the contract auditor, submitted their findings and recommendations for the Comprehensive Financial Audit of the City and County of Honolulu for FY2011-12 to the city council in January 2013. There was one finding regarding delayed disbursements of Community Development Block Grant (CDGB) and HOME Investment Partnerships program funds.

Recommendations from prior fiscal years, 2010 and 2011, that remain unresolved include: cash management for the CDGB program, and performing site visits and completing required documents for the City's Shelter Plus Care Program. Prior recommendations regarding accounting for capital assets, improper recording of expenditures, inaccurate timesheets and payroll expenses, documenting inspection extensions for the Section 8 program, required reporting to the State, and updating the year-end physical inventory counting procedures with Oahu Transit Services, Inc. were resolved.



Status of Council Requests for Audits, FY2009-10 to FY2012-13

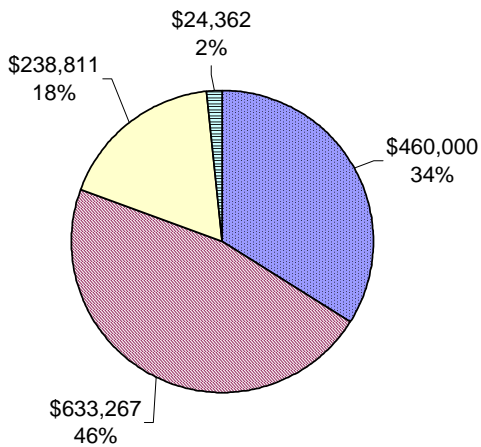
While the city charter authorizes the city auditor to select the audits to undertake, we have given high priority to council's requests. Of the seven requests adopted by the council from FY2009-10 to FY2012-13, two are completed and five are in progress.

No.	Resolution Number	Date Adopted	Resolution Title	Status
1.	10-73	03/17/10	Requesting the Office of the City Auditor to Conduct a Review of and Make Recommendations to Improve the Policy and Procedures Relating to the Honolulu City Council's Annual Contingency Allowance	Completed <i>Report No. 12-07</i>
2.	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	Fieldwork Completed; Draft Report Underway
3.	10-297	11/22/10	Requesting an Audit of the Funds Appropriated For Bicycle Projects	Preliminary Survey Underway
4.	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>
5.	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	Fieldwork Completed; Draft Report Underway
6.	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
7.	13-27	03/20/13	Requesting the City Auditor to Audit the Department of Customer Services' Motor Vehicle, Licensing and Permits Program	Preliminary Survey Underway

FY2012-13 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$1,356,440 in FY2012-13. Of this total, \$460,000 was encumbered for the City's annual financial audit contract, which OCA oversees for the Council. Staff salaries totaled \$633,267, and \$238,811 was expended for office operations and equipment. Unspent appropriations totaling \$24,362 was returned to the City Treasury at the end of the fiscal year. Most of the unspent appropriations resulted from salary savings due to two intern positions being vacant for several months.

OCA FY2012-13 APPLICATION OF RESOURCES



- City's Financial Audit Contract
- Staff Salaries
- Office Expenses and Equipment
- Unspent Appropriations Lapsed Back to the City Treasury

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 H. Kawamura, Senior Auditor, JD, MBA, CISA, CRMA
- Troy Shimasaki, Senior Auditor, CRMA
- Darin Kawamoto, Auditor I, MBA
- Charisma Fojas, Auditor I
- Corey Nakamoto, Intern
- Holly Hayden, Intern
- Sherri S. Suzawa, Administrative Services Officer



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