

OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

Annual Report FY2015-16





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

The Honorable Members of the Honolulu City Council:

We are pleased to submit the Annual Report of the Office of the City Auditor for FY2015-16. We conducted and coordinated a variety of performance and financial audits and special studies that were listed in our annual work plan. These audits and studies independently assess and report on city operations and services and identify ways to improve transparency, accountability, service, efficiency, and the effectiveness of city government.

The Office of the City Auditor's mission is to promote honest, efficient, effective, and fully accountable city government.

The mission of the Office of the City Auditor is to promote honest, efficient, effective, and fully accountable city government. Our work is 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 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 audit staff is coordinated with the activities of external auditors such as independent public accountants.

In our reports, we strive to add value by providing the Legislative and Executive Branches and the public with information regarding the effectiveness of city programs; the efficiency of department and agency operations; and improving public accountability and transparency in government activities. It is our hope that our reports are beneficial in the efforts to improve local government and to ensure city resources are used effectively, efficiently, and economically.

City Council resolutions are assigned first priority. To determine which other areas to audit, we use 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 are incorporated into our annual work plan and used to allocate the limited audit resources.

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

In closing, we 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 your generous support and kind assistance.

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 four performance audit reports in fiscal year 2016. The audit reports, which are summarized later in this report, related to: (1) the Department of Environmental Services' H-POWER contracts and procurement practices; (2) the city's Handi-Van paratransit service; (3) Honolulu Authority for Rapid Transportation (HART); and (4) the city's information security and risk management program. Other reports included our sixth *Service Efforts and Accomplishments (SEA)* report, four *National Citizen Survey* reports, and the *Citizen-Centric Report for 2015*.

Through the efforts of the city auditor office, the National Research Center awarded Honolulu the 2015 Voice of the People Award for Transformation in Safety. The city auditor also received the Association of Government Accountants' distinguished local government leadership award for 2016.

OCA continues to administer the charter-mandated audit of the city's financial statements. KMH LLP, an external accounting firm, completed the following audits for the fiscal year ending June 30, 2015: 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 Governmental Accounting Standards Board (GASB) Statement 68 required the city to restate its financial statements for the bus and paratransit operations and to restate the city CAFR.

OCA passed its fourth peer review in November 2015. The peer review was coordinated under the Association of Local Government Auditors (ALGA) peer review program, which utilizes reciprocal peer review teams. The multi-tasking OCA staff also participated in a peer review of the Clark County, Nevada audit shop.

OCA continued to assist other audit offices by providing professional, administrative, training, audit assistance, and support. This year, the city auditor extended 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; Office of the Auditor – State of Hawai'i; and 11 other entities.

OCA also coordinated continuing professional education meetings and seminars for Hawai'i state and local auditors through its active participation on the University of Hawai'i School of Accountancy Advisory Board and the Association of Government Accountants. In September 2015, OCA helped plan and conduct a two-day seminar for local, state, federal, and private sector auditors. Other activities throughout fiscal year 2016 included eight seminars on federal, state, and local government accounting, auditing, budgeting, and financial management practices; training on information technology security; and introduction to new audit tools such as meta-data and data analytics.

To promote government public service as a career, OCA mentored two 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. The OCA staff also updated the OCA website and Facebook page.

OCA staff remain active in professional organizations. OCA members submitted articles for national and local publications on auditing the board of water supply, and homelessness and affordable housing. Additionally, OCA audit staff continue to serve on the AGA-Hawai'i chapter board of directors and committees; AGA national committees; ALGA national board of directors; and the ALGA award and education committees. Other staff are active with the Association of Certified Fraud Examiners, the Institute of Internal Auditors, the Institute of Internal Controls, and ISACA.

OCA staff continue to improve professionally. A staff member attained a Certified Fraud Examiner (CFE) certification from the Association of Certified Fraud Examiners. The CFE credential denotes proven expertise in fraud prevention and detection. 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 FY2015-16.

Audit of the City's Information Security and Risk Management Program, May 2016

http://www.honolulu.gov/rep/site/oca/oca_docs/DIT_Final_Report_052716.pdf

The self-initiated audit objectives were to: (1) assess the state and effectiveness of the city's information



technology (IT) security management program; (2) assess the implementation of effective user security awareness and security related personnel

policies to support IT security; and (3) assess the capability and effectiveness of the city's cybersecurity operations. Prior audits, reports, and financial information system audits have itemized deficiencies and made recommendations for improving city information system security. Despite recent initiatives, more needs to be done to ensure the city is not vulnerable to unauthorized access to its data assets, and established controls properly address potential threats.

Audit of the Honolulu Authority for Rapid Transportation (HART) (Resolution 15-90), April 2016

http://www.honolulu.gov/rep/site/oca/oca_docs/HART_Final_Report_compressed.pdf

Resolution 15-90 requested a performance audit of HART to determine the adequacy of the HART's processes to ensure that the rail project is constructed and completed economically, effectively, and efficiently. HART's processes can be improved to construct and complete the project more economically, effectively, and efficiently. HART's financial and subsidiary plans are not reliable or current, and its financial plan has not been updated to reflect the rail project's most current financial condition in spite of the significant

cost increases. Controls over financial information reporting is needed to ensure data is complete and readily available; delay claims are adequately tracked, monitored, and reported; and pending utility agreements, contingency allowance figures, and general excise tax surcharge receipts are complete and accurate. Project management and contract administration controls can be improved. HART is paying for vacant office space. Contract administration controls can be improved. Better planning is needed to address and manage future rail project costs; maximize fare box recoveries and ridership; and minimize city subsidies. Cost overruns are expected.

Audit of the City's Paratransit Service (Resolution 14-69, FD1), March 2016

http://www.honolulu.gov/rep/site/oca/oca_docs/Paratransit_Final_Report.pdf

City Council Resolution 14-69, FD1 requested the city auditor to examine many issues, including those raised in an August 2010 report; concerns over paratransit issues that arose and continued over the years; and to assess the city's ability to meet future paratransit challenges and demands. Despite implementing several initiatives, Oahu Transit Services, Inc. (OTS) Handi-Van on-time performance has declined 5% over the past three years; customers experience excessive trip times; and paratransit operations do not fully comply with Americans with Disabilities Act (ADA) requirements. Requests for demand services are difficult to meet and the operational deficiencies exist because OTS has not made full use of scheduling and dispatching technologies; needs to fully implement real-time scheduling; and needs to solve Mobile Data Terminal (MDT) failures that adversely impact paratransit operations. OTS needs to operationally comply with ADA requirements related to subscription trip volume; minimize trying to provide services not required by ADA; and improve internal controls over subscriptions so demand services can be filled. Paratransit revenues and charges can be increased.



Audit of the Department of Environmental Services' H-Power Contracts and Procurement Practices (Resolution 12-150, CD1), December 2015

http://www.honolulu.gov/rep/site/oca/oca_docs/Audit_of_ENVs_H-POWER_Contracts_and_Procurement_Practices_Final_Report.pdf

This audit addresses the H-Power facility, Covanta and consultant contracts.

Resolution 12- 150, CD1 requested the city auditor to audit Environmental Services (ENV) contracts; its, procurement practices; and compliance with all applicable laws and policies. ENV needs to improve its procurement practices; did not fully comply with sole source contract requirements; used cost-plus and time and materials contracts although resources needed to administer the contracts were not assigned. Contract terms were not in the best interests of the city, and ENV approved contract modifications without realizing the contractor's right to operate the H-POWER facility was extended from 20 years to 47 years.

ENV also needs to improve its contract administration practices and needs to assign the resources needed to properly administer the complex H-POWER contracts.



Financial Audit of the City and County of Honolulu, State of Hawai'i for the Fiscal Year ended June 30, 2015

The audit by external auditors under OCA contract was completed and although GASB 68 related issues caused delays, they were resolved and the CAFR was issued in March 2016.

Other CAFR-related financial audit reports were delayed due to a new interpretation of GASB 68 rules. KMH reviewed GASB 68 and identified the need to restate the financial statements for the bus and paratransit

operations as a separate component unit of the city. The restatement required a restatement of the CAFR and delayed the issuance of the city CAFR. Final reports were completed and issued in March 2016.

- City and County of Honolulu Comprehensive Annual Financial Report (CAFR), June 30, 2015
http://www.honolulu.gov/rep/site/oca/oca_docs/CAFRFY2015.pdf
- City and County of Honolulu - Public Transportation System - Bus and Paratransit Operations, Financial Statements and Supplemental Schedules, June 30, 2015 and 2014
http://www.honolulu.gov/rep/site/oca/oca_docs/BusReportFY2015.pdf
- City and County of Honolulu - Sewer Fund Financial Statements, June 30, 2015 and 2014
http://www.honolulu.gov/rep/site/oca/oca_docs/SewerFundFY2015.pdf
- Single Audit of Federal Financial Assistance Programs for the Fiscal Year Ended June 30, 2015
http://www.honolulu.gov/rep/site/oca/oca_docs/SingleAuditFY2015.pdf
- Management Letter - Financial Audit of the City and County of Honolulu for Fiscal Year Ended June 30, 2015
http://www.honolulu.gov/rep/site/oca/oca_docs/ManagementLetterFY2015.pdf

KMH LLP, the external contract auditor, submitted their comments and recommendations for the Comprehensive Financial Audit of the City and County of Honolulu for FY 2015 to the city council in March 2016.

2015 Service Efforts and Accomplishments (SEA) Report, March 2016

http://www.honolulu.gov/rep/site/oca/oca_docs/FY_2015_SEA_Report_rev_031516.pdf

This report contains citywide and department specific statistics, information and data on city missions, goals, services and programs. The report quantifies inputs, outputs, performance measures, comparisons, and trends over five years. This is the sixth SEA for Honolulu.

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 agencies and 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 (2015)

<http://www.honolulu.gov/cms-oca-menu/site-oca-sitearticles/514-service-efforts-and-accomplishments-report.html>

The National Citizen Survey [™] report was completed in March 2016. The NCS report was comprised of the following four reports:

- [National Citizen Survey \(NCS\)[™] City and County of Honolulu \(2015\) 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.
- [National Citizen Survey \(NCS\)[™] City and County of Honolulu \(2015\) 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.
- [National Citizen Survey \(NCS\)[™] City and County of Honolulu \(2015\) Trends Over Time Report](#)
The report provides trends over time with benchmark comparisons to previous survey results in 2006, 2010, 2011, 2012, 2013, and 2014.

- [National Citizen Survey \(NCS\)[™] City and County of Honolulu \(2015\) Technical Appendices](#)
The content of this report includes citizen survey results, benchmark comparisons, survey methodology, and survey materials.

Citizen-Centric Report for Fiscal Year 2015, March 2016

http://www.honolulu.gov/rep/site/oca/oca_docs/2015_CCR_031116.pdf

The fifth Citizen-Centric Report for Honolulu was published by the Office of the City Auditor in March 2016. The report succinctly communicates financial and performance information to the citizens of Honolulu.

Status of Council Requests for Audits, FY2011-12 to FY2015-16

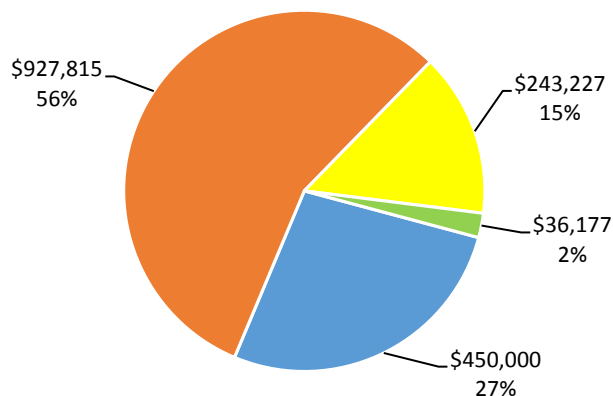
In accordance with the city charter, the city auditor shall conduct performance audits of the funds, programs, and operations of any agency or operation of the city as requested by the council by resolution. We continue to give high priority to council's requests and have completed five of the nine requests adopted by the council from FY2011-12 to FY2015-16. One request is partially completed (Resolution 12-150), while the other three requests are in progress.

No.	Resolution Number	Date Adopted	Resolution Title	Status
1.	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>
2.	12-150	07/11/12	Urging the City Auditor to Conduct an Audit of the Department of Environmental Services' Wastewater Contracts and Procurement Practices	H-POWER: Completed <i>Report No. 15-04</i> Synagro and Beachwalk: Preliminary Survey
3.	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>
4.	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>
5.	14-69, FD1	05/07/14	Requesting the City Auditor to Perform a Comprehensive Management and Performance Audit of the City's Paratransit Service	Completed <i>Report No. 16-02</i>
6.	15-90	05/06/15	Requesting the City Auditor to Conduct a Performance Audit of the Honolulu Rail Transit Project	Completed <i>Report No. 16-03</i>
7.	15-281, CD1	11/04/15	Requesting the City Auditor to Conduct a Performance Audit of the City's Section 8 Tenant-Based Assistance Program	Fieldwork Underway
8.	15-315	12/09/15	Requesting the City Auditor to Conduct a Performance Audit of the City's Recycling Program	Preliminary Survey
9.	16-1	01/27/16	Requesting the City Auditor to Conduct a Performance Audit of How Domestic Violence Cases are Handled, Processed, and Resolved by the City	Preliminary Survey

FY2015-16 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$1,657,219 in FY2015-16. Of this total, \$450,000 was encumbered for the city's FY 16 financial audit contract, which OCA oversees for the council; \$909,789 was expended for staff salaries; and \$243,227 was expended for office operations and equipment. In addition, \$18,026 from salary savings were expended to cover additional charges incurred for the FY 15 financial audit due to a new interpretation of Governmental Accounting Standards Board (GASB) Statement 68. Unspent appropriations totaling \$36,177 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 FY2015-16 Application of Resources



- City's Financial Audit Contract
- Staff Salaries (Note: \$18,026 was used to cover FY 15 CAFR cost adjustments due to GASB 68 interpretation)
- 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, CICA
- Wayne Kawamura, Senior Auditor, JD, MBA, CISA, CRMA
- Troy Shimasaki, Senior Auditor, CRMA
- Amy Cheung, Senior Auditor, MBA, CPA, CFE
- Charisma Fojas, Auditor II, MA, CFE
- Dana Karaffa, Auditor II, CFE
- Christine Ross, Auditor I, MBA
- Darin Kawamoto, Auditor I, MBA, CFE
- Dana Almodova, Intern, MA
- Shena Bocalbos, Intern
- Sherri Suzawa, Administrative Services Officer



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