



OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

Annual Report FY2011-12



August 2012



**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 FY2011-12. 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 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. 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.

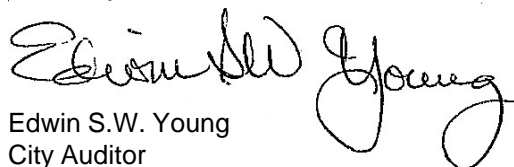
In accordance with the City Charter, we conduct and coordinate a variety of performance and financial audits and special studies which are listed in our annual work plan. In providing independent, reliable, and accurate information to the City Council and the general public, we strive to provide objective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

During FY2011- 2012 the Office of the City Auditor (OCA) continued its efforts to increase transparency and accountability in city government and add value to the city through our audit products. In addition to our audit reports, we issued the second *Service Efforts and Accomplishments* (SEA) report. This informational report provides an independent, transparent assessment of performance trends in city government, and was recognized by the Association of Government Accountants (AGA) with a **Certificate of Achievement in Service Efforts & Accomplishments Reporting – Gold Award**, the highest recognition possible for a SEA report. We are pleased with the recognition of this office's commitment to quality work.

Our office also issued the first citizen-centric reports for Honolulu. The *Citizen-Centric Report for Fiscal Year 2011* received a **Certificate of Achievement in Citizen-Centric Reporting** by the AGA. The AGA initiated the citizen-centric reports to foster communication of government financial information in a concise, timely, clear, understandable, and accurate manner to the general public.

The office's primary means of achieving its mission continues to be conducting audits and examinations of city departments, programs, services and activities. During FY2011-12, three performance audits relating to ambulance operations, span of control, and real property tax delinquency collections, summarized later in this report, were issued. Our *Audit of the City's Ambulance Fleet and Operations* won the Association of Local Government Auditors' (ALGA) **2011 Silver Knighton Award for Medium Audit Shops**. The award was presented at the 2012 ALGA Annual Conference held in Tempe, Arizona in May. All audits are performed in accordance with generally accepted government auditing standards (GAGAS) as specified by the US Government Accountability Office.



City Auditor Edwin Young (center) and Senior Auditor Troy Shimasaki receive the 2011 Silver Knighton Award presented by Pamela Weipert, ALGA Awards Committee.

We also continue to administer the audit of the city's financial statements by an external accounting firm, Accuity, LLP, as contract auditor. 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. Aside from producing award-winning reports, OCA staff have been working diligently to attain various professional certifications. This fiscal year, two staff members went through rigorous qualification processes to earn their certifications. One staff member earned a Certified Fraud Examiner (CFE) certification from the Association of Certified Fraud Examiners (ACFE) and another staff member earned a Certified Information Systems Auditor (CISA) certification from ISACA (formerly Information Systems Audit and Control Association). We continually encourage our staff to attain certifications to improve their professional qualifications and to increase their skills and knowledge. All staff fulfilled their mandatory continuing professional education requirements in accordance with GAGAS.

OCA also continues to participate in professional support activities. An OCA staff member qualified and served as a member of a peer review team for the City of Long Beach, California under ALGA's national peer review program. We have also served on the AGA-Hawaii Board of Directors and committees and provided peer review support for AGA SEA reports and citizen-centric reports issued by other government entities and cities. We also continue to mentor college students and graduates through the OCA internship program. Our interns were involved in various projects for our office such as assisting in audits, redesigning our website, and creating video tutorials. They learned a lot about the auditing profession as well as the different departments and programs within the City and County of Honolulu. We were happy to transition one of the interns into a full-time auditor position this year. We are finding the interns to be great assets and positive contributors to our office.

We look forward to continuing the office's commitment to fulfilling its mission by reinforcing the principles of transparency and accountability and providing high quality audits that add value to the City and County of Honolulu.

Summary of Reports to Council

This section summarizes the reports completed in FY2011-12.

Citizen Centric Report For Fiscal Year 2010

The first Citizen-Centric Report for Honolulu was published by the Office of the City Auditor in September 2011. The report communicates financial and performance information to the citizens of Honolulu.

Audit of the City's Ambulance Fleet and Operations

This audit was performed in accordance with City Council Resolution 09-86 requesting an audit to determine if the city's current fleet of ambulances and emergency notification vehicles was sufficient to meet the emergency assistance needs of O'ahu. The



objectives of this audit were to assess the city's management of its ambulance service operations, including fleet size adequacy, overtime costs, and effective use of budgeted

dollars. Unlike other jurisdictions around the country, the State of Hawai'i (not individual counties) is responsible for providing emergency medical services throughout the state. The City and County of Honolulu's Emergency Medical Services Division is contracted by the State to provide ambulance service on the island of O'ahu. We found that the city did not consistently meet state-imposed ambulance response time guidelines from FY 2008 to FY 2010. This occurred, in-part, because program managers did not maximize use of contract funds and left \$4.7 million unspent over three years. We also found the city relies on costly overtime to provide ambulance service and spent \$15.7 million on overtime costs over three years. As a result, some employees earned incomes over \$200,000 and worked long hours which potentially put employees and the public at risk. Finally, we found that the city did not

collect key data to properly monitor its operations, including patient outcome information, customer service feedback, and subcontractor performance.

Audit of the Span of Control of Selected Departments in the City and County of Honolulu

The results of this audit are intended to encourage the city to evaluate its existing organizational structure and to adopt spans of control that are more consistent with existing management practices. The objective of the audit was to determine whether the city's organizational span of control was compatible with current management practices, and whether opportunities for streamlining the city's organizations are possible. We found that spans of control were generally narrower than recommended by current management practices; the layers of management ranged from five to nine layers which are on the high end for other jurisdictions. The spans of control were further narrowed when vacant positions were considered. We also found that significant potential cost avoidances are possible by increasing (widening) the span of control, reducing the layers of management, and reducing the ratio of supervisory staff to non-supervisory staff. Finally, we found that abolishing positions that have been vacant for five or more years (particularly long vacant supervisory positions) would more accurately reflect budget requirements and could reduce regular salary requirements by over \$5 million.

Audit of the City's Real Property Tax Delinquency Collection

This audit was initiated due to projected increases in delinquency receivables and inadequate reporting regarding the city's real property tax delinquency collection program. The objective of the audit was to review and assess the city's real property tax delinquency collection process. We found that the city cannot foreclose on lessees of government lands, or file timely actions against them due to incomplete or untimely information. Current collection practices allow private land owners to remain on extended payment plans and delinquent taxpayers are rarely foreclosed on. Improving city policies and procedures on timely classification and write-off of uncollectible accounts could improve the accuracy of the amount of delinquent real property taxes outstanding and collection of delinquent taxpayer accounts.

The audit analyzed a judgmentally selected sample of private and government-owned parcels with the largest dollar amounts of delinquent real property taxes owed to the city's treasury. The audit recommended intergovernmental agreements to resolve collection problems from government lands, creating administrative remedies to induce payment, and maintaining accurate and relevant collectible and uncollectible account information.

Service Efforts and Accomplishments & 2011 Honolulu Citizen Survey

The Office of the City Auditor released the second Service Efforts and Accomplishments Report for the City and County of Honolulu in March 2012. 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)TM, City and County of Honolulu, HI, 2011

The National Citizen SurveyTM report was completed in March 2012. The report provides statistically valid survey results of citizen opinions of city services, programs, and priorities. This is the third citizen survey for Honolulu; the first was done in 2006.

National Citizen Survey (NCS)TM, City and County of Honolulu, HI, 2011, Benchmark Report

The benchmark report was completed in March 2012. 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 second benchmark report for Honolulu; the first was done in 2011.

Citizen Centric Report For Fiscal Year 2011

The second Citizen Centric Report for the City and County of Honolulu was published by the Office of the City Auditor in March 2012; the first was published in September 2011. The City and County of Honolulu received a Certificate of Achievement in Citizen-Centric Reporting from the Association of Government Accountants for the 2011 report.

Financial Audit of the City and County of Honolulu, State of Hawai'i, For the Fiscal Year ended June 30, 2011

Includes the following reports:

- ***City and County of Honolulu - Public Transportation System - Bus and Paratransit Operations, Financial Statements and Supplemental Schedules, June 30, 2011 and 2010***
- ***City and County of Honolulu - Sewer Fund Financial Statements, June 30, 2011 and 2010***
- ***Financial Audit of the City and County of Honolulu For Fiscal Year Ended June 30, 2011 - Management Letter***
- ***Single Audit of Federal Financial Assistance Programs For the Fiscal Year Ended June 30, 2011***

Accuity LLP, the contract auditor, submitted their findings and recommendations for the Comprehensive Financial Audit of the City and County of Honolulu for FY2010-11 to the city council in January 2012.

Their findings and recommendations addressed capital assets accounting, period of availability for federal awards ,



timesheets and payroll expenses, documenting inspection extensions for Section 8 Housing, and cash management.

Recommendations from prior fiscal years (FY2008-09 and FY2009-10) for improving sub-recipient monitoring programs, improving accounting for capital assets, ensuring timely submittal of required reports to the State, performing site visits and completing required documents for the City's Shelter Plus Care program, and updating the year-end physical inventory counting procedures with Oahu Transit Services, Inc. were unresolved. Recommendations regarding payroll and fringe benefits reporting, allocation of interest earned on federal programs, organization of supporting files, an

error in the calculation of federal matching requirement, cash management, and improper revenue recognition were resolved.

OCA administers the contract for the City's financial audit. Based on OCA guidance, the external auditor audited the City's internet and internal security systems and operations. The external auditor recommended and the city has already started performing the following: updating IT policies and procedures to include internal control procedures addressing IT risks, identifying methods to ensure IT policies and procedures are consistently followed, and working with vendor programmers to address internal control deficiencies due to system limitations.

Status of Council Requests for Audits, FY2009-10 to FY2011-12

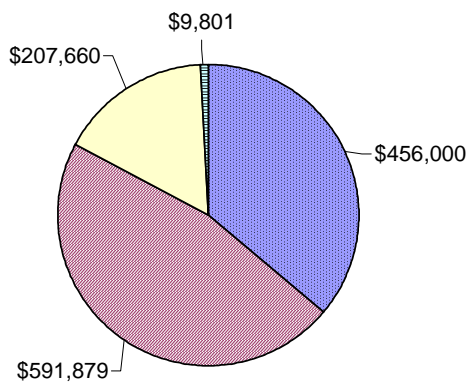
While the city charter authorizes the city auditor to select the audits to undertake, we have given high priority to council's requests. Of the six requests adopted by the council from FY2009-10 to FY2011-12, one is completed and four are in progress. We have recommended dropping Resolution 09-243, *Requesting the City Auditor to Audit the Lobbying Activities of the Board of Water Supply*, due to obsolescence.

No.	Resolution Number	Date Adopted	Resolution Title	Status
1.	09-86	08/26/09	Requesting the City Auditor to Conduct an Audit to Determine Whether the City's Current Fleet of Ambulances and Emergency Notification Vehicles is Sufficient to Meet the Emergency Assistance Needs on Oahu	Completed <i>Report No. 12-01</i>
2.	09-243	08/26/09	Requesting the City Auditor to Audit the Lobbying Activities of the Board of Water Supply	Recommend Dropping
3.	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	Fieldwork Completed; Draft Report Underway
4.	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 Underway
5.	10-297	11/22/10	Requesting an Audit of the Funds Appropriated For Bicycle Projects	Preliminary Survey Underway
6.	11-46	03/16/11	Requesting that the City Auditor Conduct a Performance Audit of the Department of Parks and Recreation's Camping Operations	Fieldwork Completed; Draft Report Underway

FY2011-12 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$1,321,340 in FY2011-12. However, \$56,000 in federal grants were not made available for use for the city's financial audit, bringing our total budget to \$1,265,340. Of this total, \$456,000 was encumbered for the city's annual financial audit contract, which OCA oversees for the council. Staff salaries totaled \$591,879 and \$207,660 was expended for office operations and equipment. Approximately \$9,801 in unspent appropriations was returned back to the City Treasury at the end of the fiscal year. Most of the unspent appropriations resulted from salary savings due to the filling of two auditor positions at entry-level instead of senior auditor level. One of the positions was filled in the second quarter of the fiscal year resulting in additional salary savings.

OCA FY2011-12 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
- Susan Hall, Deputy City Auditor, MPA, CFE
- Van Lee, Deputy City Auditor, MBA
- Wayne H. Kawamura, Senior Auditor, JD, MBA, CISA
- Troy Shimasaki, Senior Auditor
- Darin Kawamoto, Auditor I, MBA
- Charisma Fojas, Auditor I
- Corey Nakamoto, Intern
- Jacques Tan, Intern (11/1/11 to 7/13/12)
- Miguel Acosta, Intern (7/5/11 to 9/14/11)
- Sherri S. Suzawa, Administrative Services Officer



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