



# **OFFICE OF THE CITY AUDITOR**

City and County of Honolulu  
State of Hawai'i

## **Financial Audit of the City and County of Honolulu, State of Hawai'i**

For the Fiscal Year Ended  
June 30, 2013

Management Letter



The Chair and Members of the City Council  
City and County of Honolulu  
Honolulu, Hawaii

In planning and performing our audit of the financial statements of the City and County of Honolulu, State of Hawaii ("City") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration our observations and recommendations designed to help the City improve internal control and achieve operational efficiencies.

This communication is intended solely for the information and use of the City Council, the City Auditor and management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Acuity LLP*

Honolulu, Hawaii  
December 13, 2013

**City and County of Honolulu**  
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**Year Ended June 30, 2013**

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# City and County of Honolulu

## Current Year Comments

### Year Ended June 30, 2013

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#### 2013-01 Accounting for Capital Assets

During our testing of the City's governmental activities capital assets as of June 30, 2013, we noted the following issues:

- Two capital assets totaling \$113.5 million were misclassified as infrastructure rather than buildings and improvements in fiscal year 2012. The City reclassified these capital assets in fiscal year 2013. The cause of this error was due to a lack of proper review by City personnel prior to the capital assets being transferred out of construction work-in-progress.
- Approximately \$25.3 million of capital assets written off in the current year should have been expensed prior to fiscal year 2013. The cause of this error was due to untimely reviews and follow-up with the appropriate project managers to determine that the capital assets should have been written off in prior years.
- Approximately \$6.7 million of capital assets were improperly expensed in the current year rather than being capitalized. The cause of this error was due to untimely reviews and follow-up. The City was also unable to reconcile \$1.4 million in the reconciliation of the governmental funds of capital outlays as expenditures to the change in net position of governmental activities.

#### Recommendation

We recommend that the City improve its accounting for capital assets for accuracy, completeness and existence through proper and timely reviews.

#### 2013-02 Subrecipient Monitoring and Eligibility

During our testing of the Shelter Plus Care program, we noted the following issues:

- No site visit was performed for one subrecipient during fiscal year 2013. Per the Office of Management and Budget Circular A-133 Compliance Supplement, Part 3 for Subrecipient Monitoring, *During-the-Award Monitoring*, "the program should monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved."
- Two out of 19 participant files that we tested did not include a final approval signature by the Housing Program Director.
- Two out of 20 participant files that we tested were missing a current Housing Assistance Payment ("HAP") contract that should be executed annually by the participant, the program staff, and the landlord. The HAP contract indicates the participant's portion of rent owed and the portion the program is responsible to pay on behalf of the participant.

#### Recommendation

We recommend that the City ensures site visits are performed, appropriate reviews and approvals are performed and HAP contracts are updated and executed annually.



**City and County of Honolulu**  
**Current Year Comments**  
**Year Ended June 30, 2013**

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**2013-03 Matching**

During our testing of the Shelter Plus Care program, we noted that the Adult Mental Health Division (“AMHD”) match amount included in the Annual Progress Report (“APR”) did not agree to the City’s calculation by approximately \$141,000, due to incorrect estimates by AMHD.

Per 24 Code of Federal Regulations section 582.110(c), a grantee must provide or ensure the provision of supportive services are at least equal in value to the aggregate amount of rental assistance funded by the Department of Housing and Urban Development (“HUD”).

**Recommendation**

We recommend that the City implements procedures to ensure that the APR is calculated correctly.

**2013-04 Subrecipient Monitoring**

During our testing of the subrecipient monitoring requirements of the Community Development Block Grant (“CDBG”) program, we noted that the “Monitoring Risk Analysis” schedule was not updated for fiscal year 2013. This schedule is utilized as a risk analysis that the City and County of Honolulu Department of Community Services (“DCS”) uses to determine high-risk subrecipients subject to on-site monitoring.

We were informed that the cause of this control deficiency was a lack of knowledge of proper procedures by the Acting Director of DCS.

**Recommendation**

We recommend that the City’s DCS should implement procedures to ensure that the “Monitoring Risk Analysis” schedule is updated at the beginning of each fiscal year and procedures are performed to ensure on-going monitoring occurs.

**2013-05 Procurement**

During the Federal Transit Authority procurement testing for Oahu Transit Services (“OTS”), we noted there was no sign-in sheet with names and addresses of required witnesses at a bid opening.

Per Hawaii Administrative Rules 2-122-30a, the name(s) and address(es) of the required witnesses shall be recorded at the time of the bid opening.

**Recommendation**

We recommend that OTS remind their personnel to ensure that the names and addresses of required witnesses are recorded at every bid opening.

**City and County of Honolulu**  
**Status of Prior Year Comments**  
**Year Ended June 30, 2013**

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The following is the status of the prior year comments.

**2012-01 Cash Management**

During our prior year testing of the cash management of the Community Development Block Grant (“CDBG”) and HOME Investment Partnerships (“HOME”) programs, we noted two transactions where five days and seventeen days passed between cash receipt and disbursement by the City for the CDBG and HOME transactions, respectively. We also noted that there was no written justification for the CDBG disbursement made in excess of three days after receiving the related cash advances.

**Status**

Resolved. No similar instances were noted in the current year.

**2010-06 Site Visits and Completion of Required Documents**

During the fiscal year 2010 audit of the City’s Shelter Plus Care program, we noted the following issues:

- Two of the City’s three subrecipients should have had site visits during fiscal year 2010, but we noted that site visits were not performed.
- Checklists were not completed to ensure that all required documents are filed.
- An annual re-examination of income was not performed.
- Utility allowances used by various subrecipients were calculated differently.
- The prior year’s utility schedule was used by some subrecipients for a portion of the year.
- A tenant was determined to be homeless in accordance with HUD guidelines, but the “Certification of Homeless” form could not be located.
- Although regular site visits of tenant housing were performed by the housing specialist, there were instances where the annual inspection checklist was not completed.

We recommended that the City performs site visits every other year in accordance with the City’s internal control procedures and maintain a tracking schedule to ensure that program personnel are aware of when site visits are required. The City should also ensure that all required checklists are properly completed and filed in a timely manner.

**Status**

Unresolved. No changes were noted in the current year. See current year comment 2013-02.

# **CORRECTIVE ACTION PLAN**

DEPARTMENT OF BUDGET AND FISCAL SERVICES  
**CITY AND COUNTY OF HONOLULU**  
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813  
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KIRK CALDWELL  
MAYOR



NELSON H. KOYANAGI, JR.  
DIRECTOR

GARY T. KUROKAWA  
DEPUTY DIRECTOR

December 19, 2013

Mr. Edwin Young  
Office of the City Auditor  
1001 Kamokila Boulevard, Suite 216  
Kapolei, Hawaii 96707

Dear Mr. Young:

**SUBJECT: Management Advisory Report for the Fiscal Year  
Ended June 30, 2013**

Enclosed is the response to the recommendations included in Accuity LLP's preliminary draft of the management advisory report resulting from the audit of the City and County of Honolulu for the fiscal year ended June 30, 2013. The response includes actions taken or contemplated, anticipated completion dates, and the City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson H. Koyanagi, Jr.", is written over the printed name.

Nelson H. Koyanagi, Jr., Director  
Budget and Fiscal Services

NHK:lt

Enclosures

APPROVED:

A handwritten signature in black ink, appearing to read "Ember Lee Shinn", is written over the printed name.

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Ember Lee Shinn  
Managing Director



**RESPONSE TO MANAGEMENT ADVISORY REPORT  
COMMENTS AND RECOMMENDATIONS**  
Year Ended June 30, 2013

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

**Comment No. 2013-01: Accounting for Capital Assets**

Audit Recommendation: We recommend that the City improve its accounting for capital assets for accuracy, completeness, and existence through proper and timely reviews.

Administration's Comment: The City will work on improving its capital asset accounting procedures to ensure that transactions are properly classified and recorded in a timely manner. Review procedures will be implemented to assist with the timely transfer of assets and to ensure that capital assets are reviewed for accuracy, completeness, and existence. Such review will include checking on status of projects that have no activity in a 12-month period in order to accurately expense projects that have been abandoned or discontinued due to lack of funds. Studies otherwise included in WIP will be reviewed at its first payment to determine if projects are likely to be expensed. Additional analysis of related general ledger accounts will be implemented to ensure completeness of capital assets.

Anticipated Completion Date: June 2014

Contact Person(s): Luz Peirson, Accountant V, Department of Budget and Fiscal Services

**Comment No. 2013-02 and 2010-06: Subrecipient Monitoring and Eligibility**

Audit Recommendation: We recommend that the City ensures site visits are performed, appropriate reviews and approvals are performed and HAP contracts are updated and executed annually.

Administration's Comment: In response to the HAP issues, DCS staff will improve monitoring of service providers through:

- 1) Training of all DCS PH subrecipients,
- 2) Including a test that the audit recommendations are being implemented in DCS PH monitoring procedures, and
- 3) Directing staff to the extent possible, considering fiscal and departmental priorities and limitations, to conduct monitoring according to its schedule.

Anticipated Completion Date: March 2014

Contact Person(s): Keith Ishida, Administrator, Department of Community Services  
Gabe Naeole, Planner, Department of Community Services

**Comment No. 2013-03: Matching**

Audit Recommendation: We recommend that the City implements procedures to ensure that the APR is calculated correctly.

## **RESPONSE TO MANAGEMENT ADVISORY REPORT FINDINGS AND RECOMMENDATIONS**

For the Year Ended June 30, 2013

**Administration's Comment:** The City discussed this issue with its subrecipient. The APR was calculated using the AMHD percentages (which the subrecipient has done historically). After the APR was submitted the subrecipient discovered that AMHD's percentage estimates were not correct. To improve the accuracy of the subrecipient's matching calculation for the future, the subrecipient devised a client hourly rates methodology. Although the different methodologies resulted in minor differences, the overall amount of match funds for both methodologies exceeded the subrecipient's match requirement.

The City's subrecipient will maintain their current methodology in calculating match funds for future APRs and for information shared with auditors.

**Anticipated Completion Date:** March 2014

**Contact Person(s):** Keith Ishida, Administrator, DCS – Community Based Development Division  
Gabe Naeole, Planner, DCS – Community Based Development Division

### **Comment No. 2013-04: Subrecipient Monitoring**

**Audit Recommendation:** We recommend that the City's DCS should implement procedures to ensure that the "Monitoring Risk Analysis" schedule is updated at the beginning of each fiscal year and procedures are performed to ensure on-going monitoring occurs.

**Administration's Comment:** In response to the Subrecipient Monitoring issue, DCS staff will improve its monitoring of service providers through:

- 1) Updating the Monitoring Schedule annually by March 31st, and
- 2) Including in the updated procedures a protocol for the Community Based Development Division to provide the DCS Director with the Monitoring Schedule annually, and to provide staffing, to the extent possible, considering fiscal and departmental priorities and limitations, to conduct monitoring according to its schedule.

**Anticipated Completion Date:** March 2014

**Contact Person(s):** Keith Ishida, Administrator, Department of Community Services

### **Comment No. 2013-05: Procurement**

**Audit Recommendation:** We recommend that OTS remind their personnel to ensure that the names and addresses of required witnesses are recorded at every bid opening.

**Administration's Comment:** OTS updated its "Bid Opening Attendee Log" and "Checklist for Formal Contracts" to ensure that the names and addresses of required witnesses are recorded at every bid opening.

**Anticipated Completion Date:** December 2013

**Contact Person(s):** Gary Nishioka, Procurement Manager, Oahu Transit Services