



# **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, 2012

Management Letter





CERTIFIED PUBLIC ACCOUNTANTS

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

In planning and performing our audit of the basic financial statements of the City and County of Honolulu, State of Hawaii ("City") as of and for the year ended June 30, 2012, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on 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 21, 2012

**City and County of Honolulu**  
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**Year Ended June 30, 2012**

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**City and County of Honolulu**  
**Current Year Comment**  
**Year Ended June 30, 2012**

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**2012-01 Cash Management**

During our 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.

Per the Department of Housing and Urban Development (“HUD”) Training Guide, Chapter 11, section 11.9.2, Financial Management Uniform Administration Requirements, “Disbursements of funds must occur in a timely manner. While there is no explicit time period, the general rule is that payment must take place within three business days of deposit of CDBG funds. If payment takes longer than three business days, written justification should be maintained in the files.”

Per HUD Training Guide Chapter 9, General Administrative and Monitoring Requirements, “All HOME funds must be disbursed to a payee (contractor, etc.) within 15 days of receipt from the U.S. Treasury.”

Disbursements made greater than the stated days after the receipt of funds may result in noncompliance with the requirements of HUD.

We understand that the CDBG disbursement was delayed due to not being able to obtain final approval of the payment documents in a timely manner. The HOME disbursement was delayed due to an accounting system error which improperly processed the payment.

**Recommendation**

We recommend that the City disburses funds within three business days for CDBG funds and 15 days for HOME funds upon receipt of funds as stated in the respective HUD training guides. We also recommend that management ensures that appropriate written justification is maintained for any disbursement made more than three business days after the receipt of funds for the CDBG program.

# City and County of Honolulu

## Status of Prior Year Comments

### Year Ended June 30, 2012

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The following is the status of the prior year comments.

#### **2011-01 Improve Accounting for Capital Assets**

During our prior year testing of the City's governmental activities capital assets as of June 30, 2011, we noted various capital assets that should have been transferred out of work-in-progress to the proper completed capital asset accounts during fiscal 2011. This resulted in an understatement of \$90.8 million and \$50.3 million in completed capital asset accounts (buildings and improvements and infrastructure) for governmental activities and the Solid Waste Fund, respectively.

##### **Status**

Resolved. The City has continued to improve its accounting for capital assets and ensured timely transfers of completed capital asset projects and recordation of depreciation expense in fiscal year 2012.

#### **2011-02 Period of Availability**

During our prior year testing of the period of availability of federal awards under the Workforce Investment Act ("WIA") cluster (CFDAs 17.250 and 17.260), we noted the following errors:

- There was \$6,545 of expenditures incurred subsequent to the end of the grant period of December 31, 2010 for one of the WIA grants.
- There was \$8,000 of tuition expenditures for the period August 23, 2010 to August 20, 2011 that was incorrectly charged to a different WIA grant and those expenditures were incurred subsequent to the end of the grant period.

Although we noted subsequent grants allowed the use of federal awards for the periods noted above, the City improperly recorded the expenditures to grants where the period of availability had already expired.

##### **Status**

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

#### **2011-03 Inaccurate Timesheets and Payroll Expense**

During our prior year testing of allowable costs for federal grants under the Justice Assistance Grants ("JAG") Program cluster (CFDA 16.803) which included grants to the Honolulu Police Department and Prosecuting Attorney Department, we noted an employee was overpaid by 24 hours in one pay period and not paid for another pay period during fiscal year 2011 due to calculation errors in the Honolulu Police Department's payroll system. The total difference for both errors was less than \$1,500.

##### **Status**

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

#### **2011-04 Documenting Inspection Extensions**

During our prior year testing of the Section 8 Housing Choice Vouchers ("Section 8") program (CFDA 14.871) Housing Quality Standards inspections, we noted five instances where it appeared that a reinspection did not occur within the required 30 days of the failed inspection. We were informed that an informal extension was verbally granted by the City inspector in each instance.

**City and County of Honolulu**  
**Status of Prior Year Comments**  
**Year Ended June 30, 2012**

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**Status**

Resolved. No similar instances noted in the current year. We noted that the "Inspection Re-exam Report Cover Sheet" for failed HQS inspections was updated to include the unit failed date, deadline extension date and inspector's initials.

**2011-05 Cash Management**

During our prior year cash management testing over the CDBG cluster (CFDA 14.218 and 14.253), we noted three instances in which the City disbursed the federal funds more than three days after the funds were received with no written justification for the time lag.

We recommended that the City disburse funds within three days as stated in the U.S. Department of Housing and Urban Development Training Guide Chapter 11, section 11.9.2 or ensure that appropriate written justification is maintained for any disbursement made more than three days after the receipt of funds.

**Status**

Unresolved. During our testing of cash management for the CDBG program, we noted one transaction in which more than three days elapsed between cash receipt and cash disbursement dates. There was no written justification for the disbursement made in excess of three days after receiving the related cash advances. Refer to Comment 2012-01. This comment will not be carried forward.

**2010-04 Required Reporting to State**

During our prior year testing of the City's Capitalization Grants for Clean Water State Revolving Funds ("CWSRF") program (CFDA 66.458), we noted that the City failed to submit to the State of Hawaii, Department of Health ("DOH") a report due by December 31<sup>st</sup> as required by the City's revolving fund loan agreements with DOH.

We recommended that the City assign an individual the responsibility to ensure that the annual reports are submitted to DOH in a timely manner. We also recommended that management monitor to ensure the reports are properly completed and submitted after appropriate review.

**Status**

Resolved. The City finalized the standard loan agreement with the DOH to permanently remove the annual reporting requirement.

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

During the fiscal year 2010 audit of the City's Shelter Plus Care program (CFDA 14.238), 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.

**City and County of Honolulu**  
**Status of Prior Year Comments**  
**Year Ended June 30, 2012**

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- 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.

**2010-10 Discrepancies Noted During Physical Inventory Observations**

During our prior year observations of the City's Public Transportation System – Bus and Paratransit Operations ("PTS") year-end physical inventory counts of parts and supplies inventories, we noted numerous discrepancies between the amount of items counted by Oahu Transit Services, Inc. ("OTS") personnel and the quantity we independently verified.

- Lack of organization and consistency in the storage of inventory items. It was noted that Bus and Paratransit inventory items were often commingled within the same storage area without being properly identified. It was also noted that inventory items were maintained at multiple locations throughout the PTS's warehouses without OTS personnel knowledge.
- Errors made by the individuals performing the inventory counts.
- Failure to include infrequently used inventory items in the physical inventory counts.

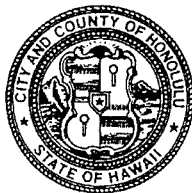
We recommended that the City works with OTS to update the year-end physical inventory counting procedures to address the issues noted above.

**Status**

Resolved. We noted that the City and OTS improved the physical inventory counting procedures and the inventory items were organized in one location versus various locations. Additionally, there were no exceptions found during the current year testing.

DEPARTMENT OF BUDGET AND FISCAL SERVICES  
**CITY AND COUNTY OF HONOLULU**  
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PETER B. CARLISLE  
MAYOR



MICHAEL R. HANSEN  
DIRECTOR

NELSON H. KOYANAGI, JR.  
DEPUTY DIRECTOR

December 21, 2012

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

Dear Mr. Young:

Subject: Management Advisory Report for the Fiscal Year Ended June 30, 2012

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 for the fiscal year ended June 30, 2012. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Hansen".

Michael R. Hansen  
Director

MRH:lt

Attachments

APPROVED:

A handwritten signature in black ink, appearing to read "Douglas S. Chih".

Douglas S. Chih  
Managing Director

cc: BFS- Internal Control  
BFS- Accounting



**RESPONSE TO MANAGEMENT ADVISORY REPORT  
COMMENT AND RECOMMENDATION**  
For the Year Ended June 30, 2012

**CURRENT YEAR COMMENT AND RECOMMENDATION**

**Comment No. 2012-01 and 2011-05: CDBG and HOME Investment – Cash Management**

Audit Recommendation: We recommend that the City try to disburse funds within three business days (CDBG) and 15 days (HOME) as stated in the respective HUD training guides. We also recommend that management ensures that appropriate written justification is maintained for any disbursement made more than three business days after the receipt of funds for the CDBG program.

Administration's Comment: The City staff was reminded to comply with the established procedures for the receipt and disbursement of CDBG funds. In the event of any time delays, written justification will be prepared and filed in the project folder.

Anticipated Completion Date: December 2012

Contact Person(s): Ann Sakurao, Fiscal Officer II, Budget and Fiscal Services  
David C. Hanlon, Acting Chief Accountant, Budget and Fiscal Services

**PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

**Comment No. 2010-06: Site Visits and Completion of Required Documents**

Audit Status: Unresolved. No changes were noted in the current year.

Administration Comment: For Shelter Plus Care grantees, the City will continue to develop and adhere to a schedule of site visits, and will ensure that all required checklists are properly completed and filed in a timely manner.

Anticipated Completion Date: June 2013

Contact Person: Michael Shiroma, Acting Administrator, Community Based Development Division,  
Community Services