



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, 2007

Management Letter

Conducted by
Nishihama & Kishida, CPAs, Inc.

CITY AND COUNTY OF HONOLULU

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NISHIHAMA & KISHIDA, CPAS, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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To 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) and the City's compliance with major federal program requirements as of and for the fiscal year ended June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and its compliance with major federal program requirements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

The comments that accompany this report summarizes the status of our previous findings and recommendations. This letter does not affect our report dated December 31, 2007, on the financial statements of the City.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
December 31, 2007

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the management advisory report for the fiscal year ended June 30, 2006, dated December 12, 2006.

Recommendations	Status
<p>06-1 Monitor Third Party's Landfill Closure Financial Assurance (pages 4 and 5)</p>	<p>Accomplished. The City required the landfill operator to update the closure and postclosure cost estimate and to obtain insurance coverage equivalent to the current cost estimate amount for 2007.</p>
<p>To comply with the financial assurance requirements for the Waimanalo Gulch landfill, the City should perform the following:</p>	
<ol style="list-style-type: none">1. Require the landfill operator to annually adjust the closure cost estimate for inflation, and2. Require the landfill operator to obtain financial assurance through insurance or in combination with other allowable means in an amount equivalent to the current cost estimate for closure costs. This may include a provision that the City provide written guarantee that the City will provide some or all financial assurance for the landfill closure costs. The City should specify the amount of the guarantee, if any.	
<p>06-2 Ensure Adequate Subrecipient Monitoring (pages 6 and 7)</p>	<p>Accomplished. There were no discrepancies noted for the current fiscal year.</p>
<p>The City should implement procedures to adequately monitor whether its subrecipients are audited in accordance with OMB Circular A-133 in a timely manner. This includes correspondence with its subrecipients regarding whether an audit in accordance with OMB Circular A-133 will be required, when the audit will be performed, what federal programs will be audited as major programs, and the expected completion date of the audit. The City should request the audit reports as soon as available to review the report to determine whether any findings necessitate adjustment of the City's records. All audit reports and correspondence regarding the City's decision on any audit findings noted and the sufficiency of the corrective action plan of the subrecipient should be maintained and properly filed. We also recommend that the City consider centralizing the above mentioned responsibilities to ensure consistency in complying with subrecipient monitoring requirements.</p>	

Recommendations

Status

06-3 Resolve Old Outstanding Encumbrances
(page 8)

The City should investigate the status of long outstanding encumbrances and lapse encumbrances that are no longer needed. The City should also review outstanding encumbrances on an annual basis for any unnecessary encumbrances that should be cancelled.

Accomplished. The City investigated contract encumbrances that have been inactive for at least six years as of June 30, 2007 and implemented procedures to lapse encumbrances deemed no longer needed.

06-4 Establish Written Policies and Procedures for Conditional Awards (page 9)

The City should establish written policies and procedures to encumber contracts based on conditional award letters.

Accomplished. Written policies and procedures were revised effective February 2007 to specifically encumber for contracts supported by conditional award letters.

05-1 Demonstrate Financial Assurance for Landfill Postclosure Care Costs Under State Approved Mechanism (page 10)

The City should obtain approval of its landfill financial assurance mechanism from the State of Hawaii Department of Health.

Not accomplished. The State of Hawaii's Department of Health has not approved the mechanism used to demonstrate financial assurance.

02-2 Loan Agreement Should Be Properly Executed (page 11)

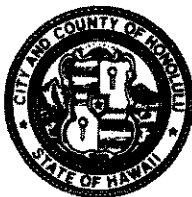
The City should resolve the Kailua Elderly Housing dispute and ensure that the loan agreement is properly executed. The City should also ensure that future loan agreements are fully executed prior to the disbursement of funds.

Not accomplished. The loan agreement has not been executed.

CORRECTIVE ACTION PLAN

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov

MUFI HANNEMANN
MAYOR



MARY PATRICIA WATERHOUSE
DIRECTOR

MARK K. OTO
DEPUTY DIRECTOR

February 21, 2008

Mr. Leslie I. Tanaka, City Auditor
Office of the City Auditor
City and County of Honolulu
1000 Uluohia Street, Suite 120
Kapolei, Hawaii 96707

Dear Mr. Tanaka:

Re: Management Advisory Report for the Fiscal Year 2006-2007

Enclosed is the response to the recommendations included in Nishihama & Kishida, CPA's Inc. 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, 2007. 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 that reads "MP Waterhouse".

MARY PATRICIA WATERHOUSE
Director of Budget and Fiscal Services

MPW:al
Attachment

APPROVED:

A handwritten signature in black ink that reads "Wayne M. Hashiro".

WAYNE M. HASHIRO, P.E.
Managing Director

cc: BFS – Internal Control

**RESPONSE TO MANAGEMENT ADVISORY REPORT
FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2007**

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Finding No. 05-1: Demonstrate Financial Assurance for Landfill Postclosure Care Costs Under State Approved Mechanism

Audit Status: Not accomplished. The State of Hawaii's Department of Health has not approved the mechanism used to demonstrate financial assurance.

Administration's Comment: The City will continue to provide documentation of financial assurance for the landfill postclosure costs to the State of Hawaii as required.

Anticipated Completion Date: June 2008

Contact Person: Beverly Braun, Risk Manager, Budget and Fiscal Services (BFS)

Finding No. 02-2: Loan Agreements Should Be Properly Executed

Audit Status: Not accomplished. The loan agreement has not been executed.

Administration's Comment: The City has implemented and follows procedures to ensure that loan agreements are executed prior to the disbursement of funds and continues to work with the subrecipient to obtain a signature for the one unsigned loan agreement.

Anticipated Completion Date: June 2008

Contact Person(s): Charles Woodward, Division Chief, Facilities Maintenance (DFM)
Randy Wong, Division Chief, DCS