

# 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, 2008

*Management Letter*

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Conducted by  
N&K CPAs, Inc.

**CITY AND COUNTY OF HONOLULU**

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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, 2008, 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.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our current findings and recommendations regarding these matters and the status of our previous audit findings. This letter does not affect our report dated February 25, 2009, on the financial statements of the City.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
February 25, 2009



## CURRENT FINDINGS AND RECOMMENDATIONS

### 08-01 IMPROVE RECORDKEEPING OVER CAPITAL ASSETS

Effective July 1, 2007, the City implemented a new computerized accounting system that included a fixed assets inventory module. We noted the following errors in the capital asset records as of and for the fiscal year ended June 30, 2008:

- Numerous completed construction projects amounting to approximately \$56 million and \$54 million for the Sewer Fund and governmental activities, respectively, were not transferred from work-in-progress to the respective completed capital asset accounts. As a result, depreciation expense and accumulated depreciation were understated by approximately \$575,000 and \$2,900,000 for the Sewer Fund and governmental activities, respectively.
- A pickup truck was erroneously recorded at a cost of \$3,524,813 instead of the actual purchase price of \$35,248. The truck was part of a multiple-item purchase that was initially recorded as one entry in the fixed assets inventory module. A manual entry was made to separately list each asset item and its related cost. Because the manual entry was made after the fiscal year end, the entry was not reviewed by someone independent of the person recording the entry. As a result, equipment was overstated by approximately \$3,490,000.
- Depreciation was not computed for 12 assets of the Sewer Fund. When data was migrated to the new accounting system, the assets were overlooked to be tagged as "final." Assets must be finalized to compute depreciation on the asset. As a result, depreciation expense was understated by approximately \$981,500.
- Repairs and maintenance expenses amounting to approximately \$673,000 that extended the life of capital assets for the Sewer Fund were not capitalized and depreciated. As a result, capital assets were understated and repairs and maintenance expenses were overstated.
- Four assets totaling approximately \$234,000 recorded as equipment additions were duplicates of assets recorded in prior years. This occurred when assets were assigned a new asset number due to transfers or consolidations, but the asset under the old asset number was not recorded as a deduction at the same time that the new asset number was entered into the system. As a result, capital assets and the related accumulated depreciation were overstated.

## **Recommendation**

The City should improve its procedures over the record keeping of its capital assets. Policies and procedures should include:

- Timely identification and reclassification of completed construction projects and capitalizable expenses to the respective completed asset account.
- Additional review for all manual entries into the system to detect input errors.
- Timely deduction of related capital assets if a new record is made for the same capital assets.

**08-02 MONITOR FINANCIAL ASSURANCE FOR THE WAIMANALO GULCH LANDFILL**

The closure and post-closure costs for the Waimanalo Gulch Landfill will be paid by the contractor. The contractor has provided financial assurance for the closure cost through insurance. The City did not compare the amount of insurance coverage to the estimated closure cost to determine financial assurance sufficiency.

Federal regulations require that financial assurance by insurance be equivalent to the estimated current closure cost that is annually adjusted for inflation. As the landfill owner, the City is ultimately responsible for compliance with federal regulations. In addition, there is a risk that the City will have to provide financial funding for any shortfall in landfill closure costs should the third party be unable to finance the final cover costs.

**Recommendation**

The City should annually monitor the sufficiency of the financial assurance for the Waimanalo Gulch Landfill by comparing the amount of insurance coverage in combination with other acceptable financial assurance mechanisms obtained by the contractor to the amount of the estimated closure cost.

## **STATUS OF PRIOR AUDIT FINDINGS**

**City and County of Honolulu**  
**STATUS REPORT**  
**Fiscal Year Ended June 30, 2008**

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, 2007, dated December 31, 2007.

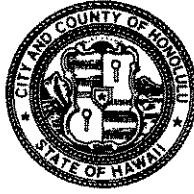
Recommendations	Status
<p><b>05-01 Demonstrate Financial Assurance for Landfill Postclosure Care Costs Under State Approved Mechanism</b> (page 5)</p> <p>The City should obtain approval of its landfill financial assurance mechanism from the State of Hawaii Department of Health.</p>	<p>The State Department of Health has not responded in writing to the City's request for approval on the City's mechanism used to demonstrate financial assurance.</p>
<p><b>02-02 Loan Agreement Should Be Properly Executed</b> (page 5)</p> <p>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.</p>	<p>Not accomplished. The loan agreement has not been executed.</p>



**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



RIX MAURER III  
DIRECTOR

MARK K. OTO  
DEPUTY DIRECTOR

April 14, 2009

Mr. Leslie I. Tanaka, City Auditor  
Office of the City Auditor  
City and County of Honolulu  
1001 Kamokila Boulevard, Suite 216  
Kapolei, Hawaii 96707

Dear Mr. Tanaka:

Re: Management Advisory Report for the Fiscal Year 2007-2008

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, 2008. 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 "Rix Maurer III".

Rix Maurer III  
Director of Budget and Fiscal Services

RM:al:ve  
Attachment

APPROVED:

A handwritten signature in black ink, appearing to read "Kirk W. Caldwell".

Kirk W. Caldwell  
Managing Director

cc: BFS – Internal Control

**RESPONSE TO MANAGEMENT ADVISORY REPORT  
FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2008**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Finding No. 08-1: Improve Recordkeeping Over Capital Assets**

Audit Recommendation: The City should improve its procedures over the record keeping of its capital assets. Policies and procedures should include:

- Timely identification and reclassification of completed construction projects and capitalizable expenses to the respective completed asset account.
- Additional review for all manual entries into the system to detect input errors.
- Timely deduction of related capital assets if a new record is made for the same capital assets.

Administration's Comment: Each of the specific issues identified in the comment have been addressed and the City is in the process of centralizing and streamlining the recordkeeping of capital assets. To accomplish this a new section is being established in the Accounting Division, Budget and Fiscal Services, to oversee the accounting of all capital asset transactions, including additions, deletions, depreciation, and work-in-progress.

Anticipated Completion Date: December 2009

Contact Person: Nelson Koyanagi Jr, Division Chief, Budget and Fiscal Services (BFS)

**Finding No. 08-2: Monitor Financial Assurance For The Waimanalo Gulch Landfill**

Audit Recommendation: The City should annually monitor the sufficiency of the financial assurance for the Waimanalo Gulch Landfill by comparing the amount of insurance coverage in combination with other acceptable financial assurance mechanisms obtained by the contractor to the amount of the estimated closure cost.

Administration's Comment: The contractor for the Waimanalo Gulch Landfill updates the landfill closing costs and related insurance coverage annually. Each year the contractor submits the required filing of financial assurance with the State. The City will annually review the certificate of insurance and estimated closure costs.

Anticipated Completion Date: June 2009

Contact Person: Wilma Namumnart, Assistant Chief, Environmental Services (ENV)  
Beverly Braun, Risk Manager, BFS

**RESPONSE TO MANAGEMENT ADVISORY REPORT  
FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2008**

**PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

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

Audit Status: The State Department of Health has not responded in writing to the City's request for approval on the City's mechanism used to demonstrate financial assurance.

Administration's Comment: The City submitted a timely filing with the State to demonstrate financial assurance for postclosure care costs. As in previous years, the State has not provided any written response to the City regarding the application for alternative mechanism of demonstrating financial responsibility.

Anticipated Completion Date: June 2009

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 procedures in place to ensure that loan agreements are executed prior to the disbursement of funds and efforts to obtain the subrecipient's signature for the one unsigned loan agreement is on-going.

Anticipated Completion Date: June 2009

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