

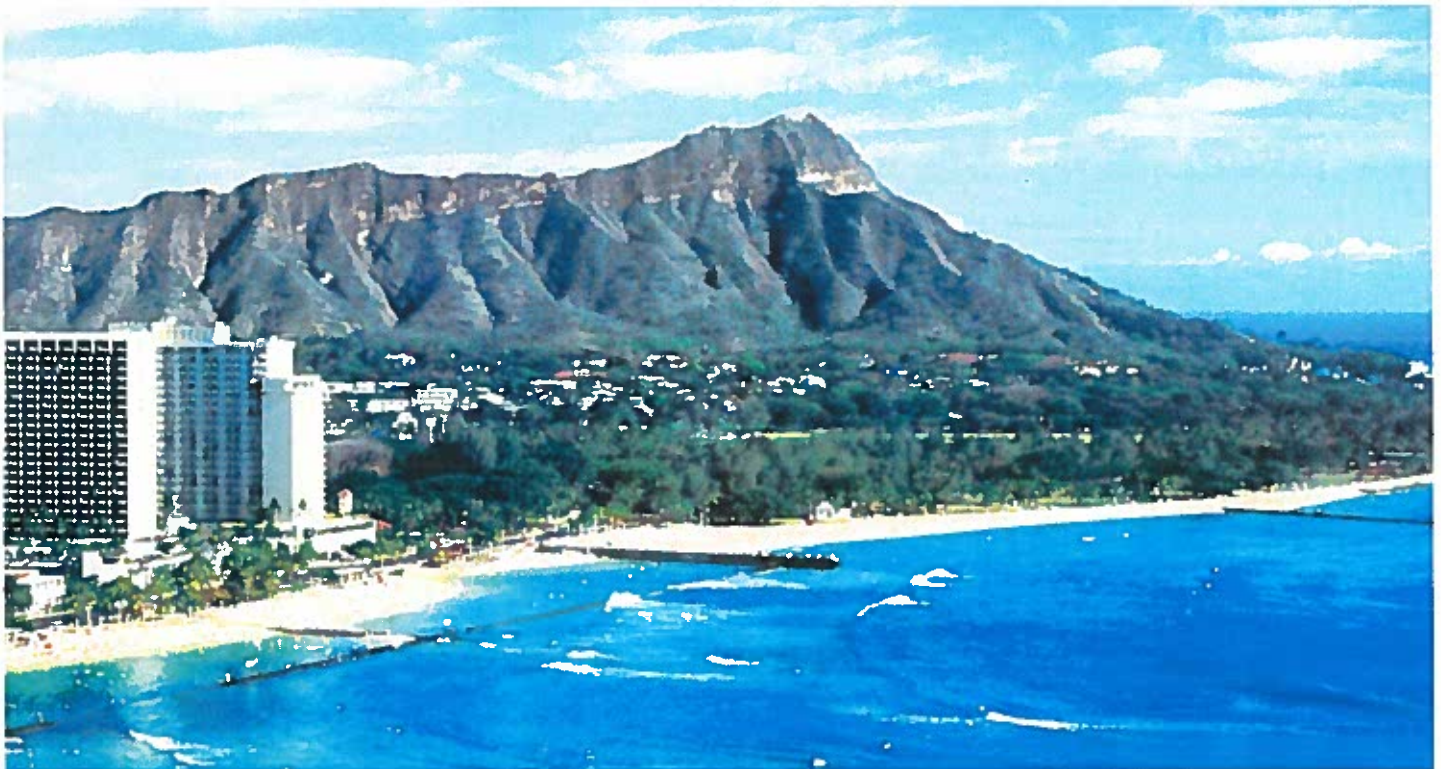
OFFICE OF THE CITY AUDITOR

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, 2016

Management Letter



Conducted by KMH LLP



March 29, 2017

The Chair and Members of the City Council
City and County of Honolulu:

In planning and performing our audit of the financial statements of City and County of Honolulu (the City) as of and for the year ended June 30, 2016, 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, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We communicated the significant deficiencies and material weaknesses identified during our audit in a separate communication dated March 29, 2017. In the accompanying memorandum are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses. These matters were considered by us during our audit and do not modify the opinions expressed in our auditor's report dated December 27, 2016.

We wish to express our appreciation for the courtesies and cooperation extended to our staff. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

KMH LLP

KMH LLP

Honolulu, Hawaii

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City and County of Honolulu State of Hawaii

Management Letter
June 30, 2016

Current Year Comments

Financial Statements:

2016-01 Sewer Fund Inventory

The City's Sewer Fund inventory records are maintained by the City's Department Environmental Services (ENV). Based on certain parameters requested by ENV, the IT department runs a query from the inventory system detailing the inventory existing at year end. This inventory report is utilized by the City's accounting department to record the inventory held by the Sewer Fund at year end.

During the audit, we noted that the query used by the ENV department did not properly include transaction related to the current fiscal year.

Recommendation: Although the resulting difference of approximately \$296,000 was not significant, management should review the parameters of its inventory reports to avoid future errors.

2016-02 – Accruals of Non-Routine Transactions

During the audit, we noted that a non-routine transaction occurred in which amounts were not appropriately accrued for. The transaction amounted to approximately \$786,000, had an incorrect service date inputted, which resulted in the accrual being in the incorrect period.

Recommendation: We recommend that management should proactively identify significant, non-routine transaction and determine the proper accounting treatment.

2016-03 – Governmental Activities Construction in Progress

During the audit, we noted three governmental activities capital asset projects totaling approximately \$843,000 that were not timely transferred into the appropriate classification. All projects were completed prior to year-end and should have been transferred into the proper asset class upon completion.

Although the City has procedures in place to ensure capital assets are recorded in accordance with generally accepted accounting principles, the errors noted above were not initially identified during the City's review process.

City and County of Honolulu State of Hawaii

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Recommendation: Although the resulting difference of approximately \$843,000 was not significant, management should be more diligent in performing its existing procedures.

2016-04 – Schedule of Expenditures of Federal Awards (SEFA)

During the audit we noted that Community Development Block Grant (CDBG) Program amounts passed to subrecipients was understated by approximately \$799,000 due to an error in the calculation on the supporting worksheet. Total expenditures included on the SEFA were correct.

We further noted that the amount reported on the SEFA for the Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions was overstated by approximately \$227,000 due to City funded amounts being included and the incorrect federally-funded percentage was applied.

Program management is responsible for the accuracy of the amounts reported and Budget and Fiscal Services (BFS) personnel are responsible for compiling the SEFA.

Recommendation: Program and BFS management should establish review procedures over the amounts reported on the SEFA to ensure accuracy.

Federal Grant Programs:

2016-05 – Timely Charter Service Report Submittal

49 CFR 604.12(b) states a recipient providing charter service shall post the records required on the Federal Transit Administration's charter registration Web site 30 days after the end of each calendar quarter.

During our audit, we noted all four reports tested were submitted over four months late.

Recommendation: We recommend the City establish procedures to ensure it is in compliance with the charter service timeframe specified in 49 CFR 604.12(b).

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2016

Status of Prior Year Comments

Financial Statements:

2015-01 Sewer Fund Recognition of Deposit in Progress

During the audit, we noted that management incorrectly recorded revenue and cash-in-transit for deposits made subsequent to year-end. Based on discussion with management, we noted that the amount was based on initial description of the entry, but did not look at the details to determine the proper recognition of the amount. The error resulted in an overstatement of revenue and cash-in-transit of approximately \$333,000.

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

2015-02 Public Transportation System

During the audit, we noted that the probe utilized to extract data from the fare box did not provide accurate data of fares collected. Based on discussion with management and audit in prior year, we noted that the probe has been malfunctioning for a number of years. Also, we noted that the probe is unable to distinguish the value of the bills collected. Due to the probe malfunctioning, management is unable to obtain accurate data for analysis.

Status: Resolved. Management has implemented a process to have data re-checked if there is an initial error. Management also reviews the fare data collected on a periodic basis for completeness and reasonableness in relation to cash collections.

2015-03 Component Unit Reporting

During the audit, we identified that Oahu Transit Services, Inc., which was previously reported as a blended component unit of the Public Transportation Systems enterprise fund, should have been reported as a discretely presented component unit. Based on our discussion with management, component unit reporting evaluations occur infrequently.

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

**City and County of Honolulu
State of Hawaii**

Management Letter
June 30, 2016

Federal Grant Programs:

HOME Investment Partnerships Program

2015-04 Activities Allowed and Allowable Cost

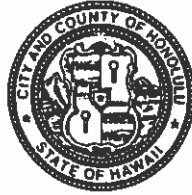
During the testing of the activities allowed and allowable cost requirements of HOME Investment Partnerships Program, we noted the following:

- 1) In accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for HOME Investment Partnerships Program (CFDA No. 14.239), the following are allowed: (a) incentives to develop and support affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations; (b) to provide tenant based rental assistance, including security deposits; (c) the payment of reasonable administrative and planning costs; and (d) the payment of operating expenses of Community Housing Development Organizations (CHDOs).
 - For 2 out of 60 payments tested, we noted payments were made for bus passes, which are unallowable under the program.

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

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. KUOKAWA
DEPUTY DIRECTOR

March 29, 2017

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, 2016

Enclosed is the response to the recommendations included in KMH 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, 2016. 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 a horizontal line.

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

Attachments

APPROVED:

A handwritten signature in black ink, appearing to read "Roy K. Amemiya, Jr.", is written over a horizontal line.

Roy K. Amemiya, Jr.
Managing Director

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENTS AND RECOMMENDATIONS
Year Ended June 30, 2016**

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Comment No. 2016-01: Sewer Fund Inventory

Audit Recommendation: Although the resulting difference of approximately \$296,000 was not significant, management should review the parameters of its inventory reports to avoid future errors.

Administration's Comment: Management will review and update inventory procedures including inventory report parameters to ensure that the proper period is being reported.

Anticipated Completion Date: June 2017

Contact Person(s): Cyndy Aylett, Executive Assistant II, Department of Environmental Services

Comment No. 2016-02: Accruals of Non-Routine Transactions

Audit Recommendation: We recommend that management should proactively identify significant, non-routine transactions and determine the proper accounting treatment.

Administration's Comment: Service dates for all transactions will be reviewed diligently.

Anticipated Completion Date: June 2017

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

Comment No. 2016-03: Governmental Activities Construction Work in Progress

Audit Recommendation: Although the resulting difference of approximately \$843,000 was not significant, management should be more diligent in performing its existing procedures.

Administration's Comment: The City will be more diligent in performing existing procedures on capital assets and will continue to work with agencies involved to ensure capital assets are recorded timely and accurately.

Anticipated Completion Date: June 2017

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

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENTS AND RECOMMENDATIONS
Year Ended June 30, 2016**

Comment No. 2016-04: Schedule of Expenditures of Federal Awards (SEFA)

Audit Recommendation: Program and BFS management should establish review procedures over amounts reported on the SEFA to ensure accuracy.

Administration's Comment: The City will establish review procedures over amounts reported on the SEFA to ensure accuracy.

Anticipated Completion Date: Ongoing

Contact Person(s): Donghwan Kim, Accountant V, Department of Budget and Fiscal Services

Comment No. 2016-05: Timely Charter Service Report Submittal

Audit Recommendation: We recommend that the City establish procedures to ensure it is in compliance with the charter service timeframe specified in 49 CFR 604.12(b).

Administration's Comment: Procedures to ensure timely charter service reporting will be developed.

Anticipated Completion Date: June 2017

Contact Person(s): Eileen Mark, Mass Transit Administrator, Department of Transportation Services