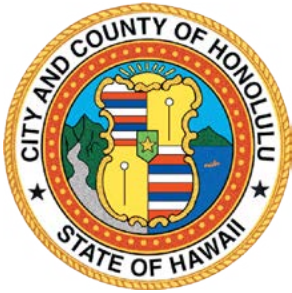




Office of the City Auditor



**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, 2017**

Management Letter

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

Management Letter
For the Year Ended June 30, 2017

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March 23, 2018

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, 2017, 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 23, 2018. 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 26, 2017.

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.

A handwritten signature in black ink that reads "KMH LLP". The letters are stylized and cursive.

KMH LLP

Honolulu, Hawaii

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2017

Current Year Comments

Financial Statements:

2017-001 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: Management should review the parameters of its inventory reports to avoid future errors.

2017-002 – Public Transportation System Farebox Revenue

During the audit, we performed a test of controls over cash deposits from farebox revenues. We identified 11 out of 25 days selected where a debit or credit memo was issued by the bank indicating that the Public Transportation System's cash deposit received and recorded by the bank differed from what was indicated on the deposit slip. We also noted that management is recognizing the debit and credit memos received from the bank in passenger fare revenues instead of accumulating the amounts in a separate over/short account.

Management performed additional research after initial finding and determined that the total net shortage in cash deposits amounted to \$520 out of total passenger farebox revenues recorded of approximately \$21 million for the year ended June 30, 2017. Management could not identify the cause or source of the deposit differences at the time of our audit. Management also indicated the depository bank changed its deposit policies starting from February 2016 to decrease the threshold for the bank's reporting from \$10 to \$1.

Recommendation: Although the individual and aggregate amount of discrepancies are immaterial, we recommend management continue their investigation to determine the cause of the differences and record all debit and credit memos received from the bank in a separate account for tracking and monitoring purposes. Management may also consider establishing a threshold for investigation of future differences.

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2017

Federal Grant Programs:

2017-003 – Timely Charter Service Report Submittal

49 CFR 604.12(c) 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 two out of two reports tested were submitted over four months late. Out of the remaining two quarters, one report was submitted timely and one report was not required.

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

2017-004 – Eligibility – Down Payment Loan

24 CFR 92.203 states that the HOME program has income targeting requirements for the HOME program and for HOME projects. Therefore, the participating jurisdiction must determine each family is income eligible by determining the family's annual income. 24 CFR 92.2 states low-income families means families whose annual incomes do not exceed 80 percent of the median income for the area, as determined by HUD.

During our audit, we noted one out of three recipients tested had the incorrect annual income included on their Eligibility Worksheet. The income used was below the income limits, however, using the incorrect income could result in federal funds being provided to ineligible applicants.

Recommendation: We recommend the City to diligently follow their procedures to ensure they are in compliance with the income requirements.

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2017

2017-005 – Honolulu Authority for Rail Transit (HART and Component Unit) - Timely Submission of Weekly Payroll Information

29 CFR Subtitle A section 5.5 states that the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the appropriate federal agency if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the appropriate federal agency. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

During our audit, we noted one out of sixty weekly payrolls was not received within the required timeframe. In the prior year there were 32 instances where weekly payrolls were not received within the required timeframe.

Recommendation: We recommend HART continue to diligently follow their procedures to ensure they are in compliance with the weekly payroll information requirement.

2017-006 – HART (Component Unit) - Compliance with Change Order Policy

HART's procurement policy was established to comply with City's procurement rules as well as the third party contracting guidance established by the Federal Transit Administration. Included in HART's procurement policy are policies and procedures related to change orders which require completion and retention of various documents, including a Construction Contract Change Order Financial Summary (CFI).

During our audit, we selected 21 change orders for testing and noted that one change order, which reduced a contract balance, was processed without the completion of the required CFI. Management indicated that they misinterpreted the requirement for the completion of a CFI to be applicable only when change orders resulted in increases in contract values.

Recommendation: We recommend HART follow its policy to ensure compliance with the requirement.

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2017

Status of Prior 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 fiscal year.

Status: The comment is still applicable. See management comment 2017-01.

2016-02 Accruals of Non-Routine Transaction

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.

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

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.

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

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

Management Letter
June 30, 2017

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.

Status: The comment is still applicable. See Section III Federal Award Findings and Questioned Costs finding 2017-010 in the Single Audit report.

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.

Status: The comment is still applicable. See management comment 2017-003.

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

MANUEL T. VALBUENA
DEPUTY DIRECTOR

March 23, 2018

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, 2017

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, 2017. 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

Enclosures

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, 2017**

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Comment No. 2017-001: Sewer Fund Inventory

Audit Recommendation: Management should review the parameters of its inventory reports to avoid future errors.

Administration's Comment: ENV has added resources to this process and will be monitoring more closely to ensure that the report is run with the correct parameters.

Anticipated Completion Date: June 2018

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

Comment No. 2017-002: Public Transportation System Farebox Revenue

Audit Recommendation: Although the individual and aggregate amount of discrepancies are immaterial, we recommend management continue their investigation to determine the cause of the differences and record all debit and credit memos received from the bank in a separate account for tracking and monitoring purposes. Management may also consider establishing a threshold for investigation of future differences.

Administration's Comment: OTS will establish procedures to minimize and help identify cash count and deposit errors, and an appropriate threshold to help ensure that larger deposit differences are further reviewed and investigated upon receipt of a debit or credit memo from the bank. In addition, the miscellaneous revenue code for Cash Over/Short will be used to record unreconciled deposit differences.

Anticipated Completion Date: June 2018

Contact Person(s): John J. Kim, Oahu Transit Services, Inc., VP of Finance and Administration

Comment No. 2017-003: Timely Charter Service Report Submittal

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

Administration's Comment: The City established procedures to ensure it is in compliance with the charter service timeframe specified in 49 CFR 604.12(c).

Anticipated Completion Date: January 2018

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

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENTS AND RECOMMENDATIONS
Year Ended June 30, 2017**

Comment No. 2017-004: Eligibility – Down Payment Loan

Audit Recommendation: We recommend the City to diligently follow their procedures to ensure they are in compliance with the income requirements.

Administration's Comment: Loan officers will be required to follow standard procedures by using the most current income documentation in determining income eligibility.

Anticipated Completion Date: March 2018

Contact Person(s): Alan Tamanaha, Department of Community Services, Rehabilitation Loan Branch Chief

Comment No. 2017-005: Honolulu Authority for Rapid Transportation (HART, Component Unit) – Timely Submission of Weekly Payroll Information

Audit Recommendation: We recommend HART continue to diligently follow their procedures to ensure they are in compliance with the weekly payroll information requirement.

Administration's Comment: HART will follow its procedures diligently to ensure compliance with the weekly payroll information requirement.

Anticipated Completion Date: June 2018

Contact Person(s): Robert Yu, HART, Program Administrator
Michael D. McGrane, HART, Fiscal Officer II

Comment No. 2017-006: HART (Component Unit) – Compliance with Change Order Policy

Audit Recommendation: We recommend HART follow its policy to ensure compliance with the requirement.

Administration's Comment: HART will follow its policy to ensure compliance with the change order requirement.

Anticipated Completion Date: June 2018

Contact Person(s): Robert Yu, HART, Program Administrator
Michael D. McGrane, HART, Fiscal Officer II