



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, 2004

Single Audit of Federal Financial
Assistance Programs

Conducted by
PricewaterhouseCoopers LLP

**City and County of Honolulu
State of Hawaii
Single Audit Report
Year Ended June 30, 2004**

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SECTION 1
INTRODUCTION

December 23, 2004

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

We have completed our financial 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, 2004. Our report containing our opinion on those basic financial statements is included in the City's *Comprehensive Annual Financial Report*. We have also audited the City's compliance with requirements applicable to its major federal financial programs. We submit herein our reports on compliance and internal control over financial reporting and over federal awards, the schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

The audit objectives and scope of our audits, as defined in our contract with the City, are as follows:

OBJECTIVES

1. To provide a basis for an opinion on the fair presentation of the City's basic financial statements and operations for which the City is responsible.
2. To determine whether the City's internal controls are adequate in assuring that:
 - a) there is effective control over and proper accounting of revenues, expenditures, assets and liabilities;
 - b) the City has established sufficient internal controls to properly manage federal financial assistance programs; and
 - c) the City complies with applicable laws and regulations regarding internal controls.
3. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the City is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the City, the State of Hawaii, and the federal government (where applicable).
4. To determine the City has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program.
5. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the City with information to plan, evaluate, control, and correct program activities of the City and the operations for which the City is responsible.

6. To recommend improvements to the City's systems and procedures, including, but not limited to, the management information system and the accounting and operating procedures.
7. To provide a basis for two separately issued opinions on the fair presentation of the City's financial statements relating to two enterprise funds – the sewer system and the public transportation system.

SCOPE OF AUDITS

1. We performed our audits of the City's financial statements as of and for the year ended June 30, 2004 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
2. As part of our audit of the City's financial statements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. We also evaluated the City's internal control over financial reporting, which included an assessment of the internal controls in place to ensure effective control over and proper accounting of financial information and compliance with laws and regulations.
3. We performed our audit of the City's federal financial assistance programs for the year ended June 30, 2004 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards*, certain provisions of the *Office of Management and Budget ("OMB") Circular A-133* and the applicable sections described in the *OMB's Circular A-133 Compliance Supplement*.

ORGANIZATION OF REPORT

This report is organized into six sections as follows:

1. Section 1, entitled "Introduction," briefly describes the objectives and scope of our audits and the organization and contents of this report.
2. Section 2, entitled "Internal Control Over Financial Reporting and Compliance and Other Matters," contains our report on the City's internal control over financial reporting and compliance and other matters.
3. Section 3, entitled "Compliance and Internal Control Over Federal Awards," contains our report on the City's compliance and internal control over federal awards and a schedule of expenditures of federal awards for the year ended June 30, 2004.
4. Section 4, entitled "Schedule of Findings and Questioned Costs," consists of current year findings and questioned costs.
5. Section 5, entitled "Prior Year Findings and Questioned Costs," consists of the status of the internal control and findings noted in the prior year's report.
6. Section 6, entitled "Corrective Action Plan," includes the City's corrective action plan for the internal control and compliance matters noted in this report.

Our reports on the City's basic financial statements, the sewer system and the public transportation system financial statements as of and for the year ended June 30, 2004 have been issued separately. A separate management letter dated December 23, 2004 has also been issued.

We will be pleased to discuss any questions that you or your associates may have regarding our report.

Very truly yours,

PricewaterhouseCoopers LLP

SECTION 2

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City and County of Honolulu, State of Hawaii ("City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 23, 2004. We did not audit the financial statements of the Board of Water Supply, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Water Supply, is based on the report of the other auditors. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01 and 04-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and,

accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the City in a separate letter dated December 23, 2004.

This report is intended solely for the information and use of the City Council, management of the City and County of Honolulu, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Francis Waterhouse Cooper LP

Honolulu, Hawaii
December 23, 2004

SECTION 3

COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the City and County of Honolulu, State of Hawaii (“City”), with the types of compliance requirements described in the U.S. Office of Management and Budget (“OMB”) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, we noted immaterial instances of noncompliance with those requirements that we have reported to the City in a separate letter dated December 23, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance and its operation that we have reported to the City in a separate letter dated December 23, 2004.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2004, and have issued our report thereon dated December 23, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We did not audit the financial statements of the Board of Water Supply, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Water Supply, is based on the report of the other auditors. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management of the City and County of Honolulu, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Price Waterhouse Coopers LLP

Honolulu, Hawaii
December 23, 2004

SECTION 4

**SCHEDULE OF
FINDINGS AND QUESTIONED COSTS**

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Department of Agriculture:					
Summer Food Service Program for Children	10.559	12-351523	Department of Education	Parks and Recreation	\$ 246,197
Volunteer Fire Assistance	10.664	02-DG-11052012-149, 03-DG-11052012-106	Department of Land and Natural Resources	Honolulu Fire Department	80,894
Total Department of Agriculture					<u>327,091</u>
Department of Commerce:					
Coastal Zone Management Administration Awards	11.419	51,105	Office of State Planning	Planning and Permitting	156,250
Department of Education:					
Twenty-First Century Community Learning Centers	84.287	13023	Department of Education	Parks and Recreation	5,413
Department of Energy:					
State Energy Program Special Projects	81.119	L-02-143	Department of Business and Economic Development and Tourism	Design and Construction	13,496
Department of Health and Human Services:					
Metropolitan Medical Response System	93.000	Various	Department of Health	Emergency Services Department	40,815
Special Programs for the Aging-Disease Prevention and Health Aging Cluster:	93.043	3D-2-02, 3D-2-03, 3D-2-04	Department of Health	Community Services	102,998
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	3B-2-03, 3B-2-04	Department of Health	Community Services	1,426,321
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	Various	Department of Health	Community Services	1,077,308
<i>Total Aging Cluster</i>					<u>2,503,629</u>
National Family Caregiver Support Centers for Disease Control and Prevention Investigations and Technical Assistance	93.052	3E-2-02, 3E-2-03, 3E-2-04	Department of Health	Community Services	587,248
Block Grants for Prevention and Treatment of Substance Abuse	93.283	U90/CCU916969-03-3	Department of Health	Medical Examiner	2,500
Total Department of Health and Human Services	93.959	MOA 04-05	Department of Health	Honolulu Police Department	<u>22,220</u>
					<u>3,259,410</u>
Department of Homeland Security:					
State Domestic Preparedness Equipment Support Program	97.004	Various	Department of Defense	Honolulu Fire Department/Oahu Civil Defense Agency	373,472
Urban Area Security Initiatives Grant Program	97.008	2003-EU-T3-0020	Department of Defense	Oahu Civil Defense Agency	25,172
Total Department of Homeland Security					<u>398,644</u>

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Department of Housing and Urban Development:					
Community Development Block Grants -- Entitlement Grants	14.218	--	--	Community Services/Design and Construction/ Transportation Services/Facilities	17,944,538
Emergency Shelter Grants Program	14.231	--	--	Maintenance/Budget and Fiscal Services	114,613
Supportive Housing Program	14.235	--	--	Community Services	770,455 *
Shelter Plus Care Program	14.238	--	--	Community Services	1,097,979
HOME Investment Partnerships Program					
Housing Opportunities for Persons with AIDS	14.241	--	--	Community Services	4,243,000
Youthbuild Program	14.243	--	--	Community Services	375,070
Community Development Block Grants -- Brownfields	14.246	--	--	Community Services	339,144
Economic Development	14.854	--	--	Planning and Permitting	925,000
Public and Indian Housing Drug Elimination Program	14.856	--	--	Honolulu Police Department	99,677
Lower Income Housing Assistance Program - Section 8	14.871	--	--	Community Services	100,944
Moderate Rehabilitation	14.871	--	--	Community Services	33,520,719 *
Section 8 Housing Choice Vouchers					59,531,139
Total Department of Housing and Urban Development					
Department of the Interior:					
Wildland Urban Interface Community and Rural Fire Assistance	15.228	--	--	Honolulu Fire Department	5,000
Outdoor Recreation - Acquisition, Development and Planning	15.916	--	--	Design and Construction	100,000
Total Department of the Interior					
Department of Justice:					
Domestic Cannabis Eradication/Suppression Program	16.000	--	--	Honolulu Police Department	492,988
State Domestic Equipment Support Program	16.007	2002-TE-CX-0140	Department of Defense	Honolulu Fire Department	173,278
Juvenile Justice Center	16.523	Various	Department of Human Services	Community Services	886,736
Title V Youth Program	16.548	Various	Department of Human Services	Community Services	126,934
Expanded Forensic DNA Testing	16.560	3-DN-01	Attorney General	Honolulu Police Department	27,561
Crime Victim Assistance	16.575	00-VA-2, 01-VA-2, 02-VA-2	Attorney General	Prosecuting Attorney	599,571
Byrne Formula Grant Program	16.579	01-DB-15, 01-DB-20, 03-DB-13	Attorney General	Honolulu Police Department	89,031
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	02-DB-4	Attorney General	Prosecuting Attorney	2,376
Violence Against Women Formula Grants					
	16.588	Various	Attorney General	Prosecuting Attorney/Honolulu Police Department	229,703

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Arrest Policies and Enforcement of Protection Orders	16.590	03-WE-1	Attorney General	Prosecuting Attorney	80,027
Local Law Enforcement Block Grants Program	16.592	---	---	Prosecuting Attorney/Honolulu Police Department	1,156,358
Community Prosecution and Project Safe Neighborhoods	16.609	---	---	Prosecuting Attorney	40,000
Public Safety and Partnership and Community Policing Grants (COPS)	16.710	---	---	Honolulu Police Department	2,121,800
Enforcing Underage Drinking Laws Program	16.727	ASO 03-048	Department of Health	Honolulu Police Department	33,754
Total Department of Justice					6,060,117
Department of Labor:					
Workforce Investment Act - Administration	17.250	Various	Department of Labor	Community Services	866,672
Welfare-to-Work Grants to States and Localities	17.253	Various	Department of Labor	Community Services	182,561
<i>Workforce Investment Act Cluster:</i>					
Adult Program	17.258	Various	Department of Labor	Community Services	1,839,217
Youth Activities	17.259	Various	Department of Labor	Community Services	1,862,304
Dislocated Workers	17.260	Various	Department of Labor	Community Services	1,949,588
<i>Total Workforce Investment Act Cluster</i>					5,651,109
Employment and Training Administration Pilots, Demos and Research Project	17.261	AF-12102-02-60 Z597400	Research Corporation of the University of Hawaii	Community Services	620,670
Total Department of Labor					7,321,012
Department of Transportation:					
Highway Planning and Construction	20.205	Various	Department of Transportation	Design and Construction/Transportation Services/Planning and Permitting	6,463,970 *
<i>Federal Transit Cluster:</i>					
Federal Transit - Capital Investment Grants	20.500	---	---	Design and Construction/Transportation Services	19,400,343 *
Federal Transit - Formula Grants	20.507	---	---	Design and Construction/Transportation Services	34,472,338 *
<i>Total Federal Transit Cluster</i>					53,872,681
Transit Planning and Research	20.514	---	---	Design and Construction/Transportation Services	1,082
State and Community Highway Safety	20.600	Various	Department of Transportation	Honolulu Police Department/Transportation Services	314,956
Total Department of Transportation					60,652,689

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Department of the Treasury: Gang Resistance Education and Training	21.053	---	---	Honolulu Police Department	118,489
Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Funds (Note 3)	66.458	Various	Department of Health	Design and Construction	8,058,282 *
Federal Emergency Management Agency:					
Project Impact Honolulu	83.551	---	---	Oahu Civil Defense Agency	206,244
Emergency Management - State and Local Assistance	83.552	Various	Department of Defense	Oahu Civil Defense Agency	112,262
Assistance to Firefighters Grant	83.554	---	---	Honolulu Fire Department	361,128
Emergency Operations Planning	83.562	EMF-2003-CR-0321	Department of Defense	Oahu Civil Defense Agency	68,449
Community Emergency Response Team	83.563	Various	Department of Defense	Oahu Civil Defense Agency	88,576
Total Federal Emergency Management Agency					<u>836,659</u>
Office of National Drug Control Policy:					
High Intensity Drug Trafficking Area Program	7.000	---	---	Honolulu Police Department	1,602,145
Total Expenditure of Federal Awards					<u>\$ 148,445,836</u>

(*)Denotes major federal financial assistance program as defined by OMB Circular A-113.

**City and County of Honolulu
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and County of Honolulu ("City") and is presented on the accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Loans Outstanding

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2004, which are not presented in the schedule of expenditures of federal awards.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Loans/Advances Awarded in Year Ended June 30, 2004</u>	<u>Loans Outstanding as of June 30, 2004</u>
Major programs			
Community Development Block Grants – Entitlement Grants	14.218	\$ 2,086,151	\$ 43,667,429
HOME Investment Partnership Programs	14.239	126,576	12,535,174
Section 8 Housing Choice Vouchers	14.871	-	3,359,879
		<u>\$ 2,212,727</u>	<u>\$ 59,562,482</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2004, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 7,341,945
State	<u>716,337</u>
	<u>\$ 8,058,282</u>

City and County of Honolulu
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

4. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

Federal Grantor/Program/Grant	Federal CFDA Number	Amount Provided to Subrecipients
Department of Health and Human Services		
Special Programs for the Aging – Disease Prevention and Health	93.043	\$ 102,998
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	1,426,321
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	794,869
National Family Caregiver Support	93.052	587,248
Total Department of Health and Human Services		<u>2,911,436</u>
Department of Housing and Urban Development		
Community Development Block Grants – Entitlement Grants	14.218	14,694,650
Emergency Shelter Grants Program	14.231	114,613
Supportive Housing Program	14.235	770,225
Shelter Plus Care Program	14.238	1,097,979
HOME Investment Partnerships Program	14.239	3,121,763
Housing Opportunities for Persons with AIDS	14.241	375,070
Community Development Block Grants – Brownfields Economic Development	14.246	925,000
Total Department of Housing and Urban Development		<u>21,099,300</u>
Department of Justice		
Juvenile Justice Center	16.523	336,743
Title V Youth Program	16.548	126,934
Crime Victim Assistance	16.575	280,743
Violence Against Women Formula Grants	16.588	169,882
Total Department of Justice		<u>914,302</u>
Department of Labor		
Workforce Investment Act – Administration	17.250	88,427
Workforce Investment Act – Adult Program	17.258	57,835
Workforce Investment Act – Youth Activities	17.259	1,597,564
Workforce Investment Act – Dislocated Workers	17.260	119,625
Employment and Training Administration Pilots, Demos and Research Project	17.261	239,501
Total Department of Labor		<u>2,102,952</u>
Total Provided to Subrecipients		<u>\$ 27,027,990</u>

**City and County of Honolulu¹
 State of Hawaii
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

 Material weaknesses identified? yes no

 Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

 Material weaknesses identified? yes no

 Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Type of auditor’s reports issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Department of Housing and Urban Development
14.235	Supportive Housing Program
14.871	Section 8 Housing Choice Vouchers
	Department of Transportation
20.205	Highway Planning and Construction
20.500/ 20.507	Federal Transit Cluster
	Environmental Protection Agency
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs \$3,000,000

Auditee qualified as low-risk auditee? yes no

¹The City’s federal entity identification number is 99-6001257.

**City and County of Honolulu
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

Section II – Financial Statement Findings

Internal Control Over Financial Reporting

Reportable Conditions

Finding No. 04-01: Inaccurate Accounting of Capital Assets

During our current year testing, we noted certain land improvements, structures and infrastructure were completed as of June 30, 2004, but had not been transferred from work in progress to the respective capital asset accounts. Accordingly, adjustments were made to the City's financial statements in 2004 to transfer projects that were completed in fiscal year 2004 and prior to fiscal year 2004 of \$42 million and \$23 million, respectively, to capital assets. Additionally, depreciation expense was understated in prior years and additional depreciation expense was recorded in fiscal year 2004. We also noted certain costs recorded in work in progress that should have been expensed in fiscal year 2004.

Due to these errors, significant time was incurred to identify and properly account for these assets, which contributed to the delays in completing the City's Comprehensive Annual Financial Report for fiscal year 2004.

Recommendation –

The City should ensure that all capital assets are properly and timely accounted for in the City's general ledger. The operating agencies should comply with established procedures to transfer completed projects or assets to the fixed asset account on a timely basis and to record the related depreciation expense. Additionally, costs of capital assets should be properly reviewed and accounted for in accordance with the City's capitalization policy.

**City and County of Honolulu
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

Finding No. 04-02: Delays in the Completion of the Financial Statements

The City completed its June 30, 2004 Comprehensive Annual Financial Report (“CAFR”) at the end of December 2004, six months after its year end, similar to the completion of the 2003 CAFR. The delay in the completion and issuance of the 2004 CAFR was due to the following:

- The City had inaccurately accounted for certain capital assets which resulted in various adjustments, revisions and delays in the current year. See reportable condition Finding No. 04-01 in this report.
- The City continued to encounter difficulties in determining the proper balances of the Sewer Fund’s inventories of materials and supplies in 2004 due to errors noted in the unit prices. Further testing and investigation was required.
- Although the City has taken measures to ensure account analysis and financial statement schedules prepared for the audit were generally reviewed by a supervisor, we continued to discover certain errors which required subsequent revisions and corrections.
- We also experienced delays in obtaining account analysis and financial statement schedules requested for the audit based upon agreed-upon deadlines with the City.

Recommendation –

The City should ensure these issues are appropriately and timely addressed in fiscal 2005. The agreed-upon deadlines for the completion of the CAFR should be strictly enforced to ensure timely completion of future CAFRs.

**City and County of Honolulu
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

Section III – Federal Award Findings and Questioned Costs

There were no matters reported for the year ended June 30, 2004.

SECTION 5

**PRIOR YEAR FINDINGS AND
QUESTIONED COSTS**

This section reports findings and questioned costs that were reported in the June 30, 2003 report. Finding number relates to the sequence reported in the respective years.

**City and County of Honolulu
State of Hawaii
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2004**

Financial Statement Findings

Internal Control Over Financial Reporting

Material Weaknesses

Findings No. 03-01 and 02-01: Inaccurate Accounting of Capital Assets

During the fiscal 2003 audit, certain capital assets were identified which should have been recorded in the City's financial statements in prior years. Storm drains and traffic lights were underreported in prior years, while other capital assets were below the City's capitalization threshold amount and should not have been capitalized. Additionally, certain land improvements and structures amounting to \$51 million were completed in prior years but were not transferred from work in progress to the respective capital asset accounts until fiscal 2003. Therefore, depreciation expense, which is required under Governmental Accounting Standards Board Statement No. 34, was understated in fiscal 2002. These adjustments resulted in an increase to capital assets, net of accumulated depreciation, and an increase to the other general revenues account of \$28 million in the City's 2003 financial statements.

Additionally, certain infrastructure and buildings amounting to \$7 million were completed in prior years but were not transferred from work in progress to the respective capital asset accounts until fiscal 2003 in the City's Sewer Fund financial statements. Therefore, depreciation expense was understated in prior years.

During the fiscal 2002 audit, we identified certain capital assets that should have been recorded in the Sewer Fund's financial statements in prior years and certain contributed assets which had never been recorded. Therefore, proper adjustments were made to the 2002 financial statements and the Sewer Fund's 2001 financial statements were restated to reflect these additional assets, related depreciation expense and contributed capital. This resulted in an increase of approximately \$213.7 million to the June 30, 2001 capital assets, net of accumulated depreciation, an increase of \$1.2 million in the changes in net assets previously reported for 2001 and a prior period adjustment of \$212.5 million to the 2001 beginning net assets of the Sewer Fund. We were informed that these additional infrastructure assets had not been properly reflected and accounted for in the City's geographic information system ("GIS") due to a staffing shortage.

Additionally, during fiscal 2002, certain property and equipment were identified which should have been recorded in the City's Public Transportation System separate financial statements in prior years. This resulted in an increase of approximately \$20 million to property and equipment, net of accumulated depreciation, and to the July 1, 2001 net asset balance previously reported. We were informed that this oversight was due to a miscommunication between two City departments as to which department was to record this asset.

Significant time was incurred to identify and properly account for these additional assets, which contributed to the significant delays in completing the City's 2003 and 2002 Comprehensive Annual Financial Report and the City's 2002 Sewer Fund financial statements.

City and County of Honolulu
State of Hawaii
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2004

We recommended that the City ensure that all capital assets are properly and timely accounted for in the City's general ledger. The operating agencies should comply with established procedures to transfer completed projects or assets to the fixed asset account on a timely basis.

Status –

Unresolved. During the 2004 audit, we noted additional adjustments to the capital asset accounts which should have been recorded in the City's financial statements in fiscal year 2004 and in prior years. However, as the financial statement effect was not as significant as the prior year findings, the current year finding is reported as a reportable condition. See current year reportable condition Finding No. 04-01.

**City and County of Honolulu
State of Hawaii
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2004**

Reportable Conditions

Findings No. 03-02 and 02-02: Delays in the Completion of the Financial Statements

The City completed its June 30, 2003 Comprehensive Annual Financial Report (“CAFR”) at the end of December 2003 and its June 30, 2002 CAFR in April 2003, ten months after the City’s year end. The delay was primarily due to the following:

- The City encountered various problems and difficulties in determining the proper capital asset balances and classification of assets, which resulted in numerous revisions and delays by the City in completing this significant area. See material weakness Findings No. 03-01 and 02-01 in this report.
- The City had inaccurately accounted for capital assets in the Sewer Fund, which resulted in significant adjustments in fiscal year 2002 and a restatement of the Sewer Fund’s 2001 financial statements. See material weakness Findings No. 03-01 and 02-01 in this report.
- Significant time was incurred during fiscal year 2002 to inventory the City’s infrastructure assets and to value these assets due to the lack of historical records. The City determined the value of these assets based on current replacement costs and discounted the costs based on the date the assets were placed in service.
- The City encountered difficulties in determining the proper balances of the Sewer Fund’s inventories of materials and supplies, related expense and the inventory write-down due to inventory obsolescence. Adjustments were made during the course of the audit and the Sewer Fund’s 2001 financial statements were restated.
- Although the City has taken measures to ensure account analysis and financial statement schedules prepared for the audit were generally reviewed by a supervisor, we noted certain errors which required subsequent revisions.
- We also experienced delays in obtaining information requested for the audit based upon agreed-upon deadlines with the City.

We recommended that the City ensure these issues are appropriately and timely addressed in fiscal 2004. The agreed-upon deadlines for the completion of the CAFR should be strictly enforced to ensure timely completion of future CAFRs.

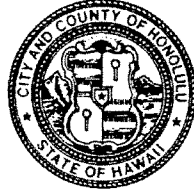
Status –

Unresolved. Although the City continued to take certain measures to complete the 2004 CAFR in a timely manner, we continued to experience problems and delays in completing the 2004 audit. See current year reportable condition Finding No. 04-02.

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) 523-4616 • FAX: (808) 523-4771 • INTERNET: www.honolulu.gov

MUFI HANNEMANN
MAYOR



MARY PATRICIA WATERHOUSE
DIRECTOR

PATRICK T. KUBOTA
DEPUTY DIRECTOR

March 21, 2005

Mr. Leslie I. Tanaka, City Auditor
Office of the City Auditor
City and County of Honolulu
1000 Uluohia Street, Suite 313
Honolulu, Hawaii 96707

Dear Mr. Tanaka:

RE: SINGLE AUDIT REPORT FOR THE FISCAL YEAR 2003-2004

Attached is the City Administration's response to PricewaterhouseCoopers LLP preliminary draft of the findings and recommendations included in the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2004. 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 "M. Waterhouse".

MARY PATRICIA WATERHOUSE
Director of Budget and Fiscal Services

MPW:ve
Attachments

FORWARDED:

A handwritten signature in black ink, appearing to read "Jeff J. Coelho".

JEFF J. COELHO
Acting Managing Director

cc: BFS – Internal Control

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 04-01: Inaccurate Accounting of Capital Assets

Audit Recommendation: The City should ensure that all capital assets are properly and timely accounted for in the City's general ledger. The operating agencies should comply with established procedures to transfer completed projects or assets to the fixed asset account on a timely basis and to record the related depreciation expense. Additionally, costs of capital assets should be properly reviewed and accounted for in accordance with the City's capitalization policy.

Administration's Comment: The City will continue to encourage operating agencies to comply with established accounting policy and procedures to ensure that capital assets are properly and timely accounted for in the general ledger.

Anticipated Completion Date: Implemented in June 2004

Contact Person(s): Nelson Koyanagi Jr, Chief Accountant, Budget and Fiscal Services
Diane Murata, Property Management Officer, Budget and Fiscal Service

Finding No. 04-02: Delays in the Completion of the Financial Statements

Audit Recommendation: The City should ensure these issues are appropriately and timely addressed in fiscal 2005. The agreed-upon deadlines for the completion of the CAFR should be strictly enforced to ensure timely completion of future CAFRs.

Administration's Comment: The City will continue to follow established procedures for the preparation and review of all documents, schedules and statements to allow for timely and accurate submission to the auditors. We will also continue to monitor agreed-upon deadlines and progress of the audit throughout the engagement. The City issued the 2004 CAFR by the required due date without any major problems or delays and will follow similar procedures for the fiscal 2005 audit.

Anticipated Completion Date: Implemented in June 2004

Contact Person: Nelson Koyanagi Jr, Chief Accountant, Budget and Fiscal Services

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 03-01 and 02-01: Inaccurate Accounting of Capital Assets

Audit Status: Unresolved. During the 2004 audit, we noted additional adjustments to the capital asset accounts which should have been recorded in the City's financial statements in fiscal year 2004 and in prior years. However, as the financial statement effect was not as significant as the prior year findings, the current year finding is reported as a reportable condition. See current year reportable condition Finding No. 04-01.

Administration's Comment: Refer to Comment No. 04-01.

Finding 03-02 and 02-02: Delays in the Completion of the Financial Statements

Audit Status: Unresolved. Although the City continued to take certain measures to complete the 2004 CAFR in a timely manner, we continued to experience problems and delays in completing the 2004 audit. See current year reportable condition Finding No. 04-02.

Administration's Comment: Refer to Comment No. 04-02.