

**City and County of Honolulu**  
**Single Audit of Federal Financial Assistance**  
**Programs**  
**June 30, 2010**

**City and County of Honolulu**  
**Index**  
**Year Ended June 30, 2010**

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# **PART 1**

## **INTRODUCTION**

February 4, 2011

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, 2010. 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 the 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 whether 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, 2010 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, 2010 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 the following parts:

1. Part 1, entitled "Introduction," briefly describes the objectives and scope of our audits and the organization and contents of this report.
2. Part 2, entitled "Compliance and Internal Control" includes the "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*" report on the City's internal control over financial reporting and compliance and other matters, the "Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133" 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, 2010.
3. Part 3, entitled "Schedule of Findings and Questioned Costs," consists of current year findings and questioned costs, and the status of findings noted in the prior year's report.
4. The "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, 2010 have been issued separately. A separate management letter dated December 30, 2010 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,

*Accuity LLP*

DMT/CY

## **PART 2**

# **COMPLIANCE AND INTERNAL CONTROL**



CERTIFIED PUBLIC ACCOUNTANTS

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**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***

To the Chair and Members of the City Council  
City and County of Honolulu

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 (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 2010. Our report includes a reference to 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. Other auditors audited the financial statements of the Board of Water Supply, which is the City's discretely presented component unit, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 material weakness is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we and the other auditors identified certain deficiencies in internal control over financial reporting, described in Finding No. 2010-1 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency



in internal control over financial reporting. 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.

### **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 and those of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the City Council in a separate letter dated December 30, 2010.

The City's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

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

*Accuity LLP*

Honolulu, Hawaii  
December 30, 2010

**Report of Independent Auditors on Compliance with Requirements That  
Could Have a Direct and Material Effect on 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

**Compliance**

We have audited the City and County of Honolulu's, State of Hawaii ("City"), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditors' 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.

The City's basic financial statements include the operations of the Board of Water Supply, a discretely presented component unit, which expended \$6,803,419 in federal awards which is not included in the schedule during the year ended June 30, 2010. Our audit, described below, did not include the operations of the Board of Water Supply because it engaged other auditors to perform an audit in accordance with Circular A-133.

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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2010-2 and 2010-3.

## **Internal Control Over Compliance**

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **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, 2010, and have issued our report thereon dated December 30, 2010. We did not audit the financial statements of the Board of Water Supply, which is the City's discretely presented component unit. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. 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 as a whole.

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the City's responses and, accordingly, we express no opinion on it.

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

*Accuity LLP*

Honolulu, Hawai'i  
February 4, 2011

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<b>Federal Grantor/Program/Grant</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Pass-Through Identifier</b>	<b>Federal Expenditures</b>
<b>Office of National Drug Control Policy</b>			
High Intensity Drug Trafficking Area Program	7.000	—	\$ 1,822,214
<b>Total Office of National Drug Control Policy</b>			<u>1,822,214</u>
<b>U.S. Department of Agriculture</b>			
Pass-through from the State Department of Education Summer Food Service Program for Children	10.559	12-351523	321,295
Pass-through from the State Department of Human Services Food Stamp Employment Training	10.561	DHS-06-BESSD-3000SA2	37,391
Pass-through from the State Department of Land and Natural Resources Cooperative Forestry Assistance – Volunteer Fire Assistance	10.664	08-DG-11052012-160	50,000
<b>Total U.S. Department of Agriculture</b>			<u>408,686</u>
<b>U.S. Department of Commerce</b>			
Economic Adjustment Assistance	11.307	—	20,199
Oahu Technology and Innovation Center	11.307	—	28,231
			<u>48,430</u>
Public Safety Interoperable Communications Grant Program	11.555	—	1,208,605
<b>Total U.S. Department of Commerce</b>			<u>1,257,035</u>
<b>U.S. Navy</b>			
Pass-through from the State Department of Health Wahiawa WWTP Influent Pumping Station and Appurtenances	12.000	N62742-75-C-9101	2,000,000
<b>Total U.S. Navy</b>			<u>2,000,000</u>
<b>U.S. Department of Housing and Urban Development</b>			
Supportive Housing for Persons with Disabilities	14.181	—	1,528,966
<i>CDBG Entitlement Grants Cluster</i>			
Community Development Block Grants – Entitlement Grants	14.218	—	13,287,378
ARRA – Community Development Block Grants – Entitlement Grants	14.253	—	96,911
<i>Total CDBG Entitlement Grants Cluster</i>			<u>13,384,289 *</u>
Economic Development Initiative, Special Purpose Grant	14.225	—	497,050
Emergency Shelter Grants Program	14.231	—	1,014,665
Supportive Housing Program	14.235	—	301,246
Shelter Plus Care Program	14.238	—	3,678,163 *
HOME Investment Partnerships Program	14.239	—	6,303,072
Housing Opportunities for Persons with AIDS	14.241	—	437,437
Makiki Library	14.246	—	70,660
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	—	1,103,180
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	—	149,659
Section 8 Housing Choice Vouchers	14.871	—	45,363,245
Pass-through Hawaii Public Housing Authority Section 8 Housing Choice Vouchers	14.871	PMB 02-04	379,824
			<u>45,743,069 *</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>74,211,456</u>
<b>U.S. Department of Justice</b>			
Domestic Cannabis Eradication/Suppression Program	16.000	—	191,552
Federal Asset Forfeiture	16.000	—	317,983
Pass-through from the State Department of Attorney General Hawaii Coalition Against Human Trafficking	16.320	08-VT-01	66,119
Pass-through from the State Department of Human Services Juvenile Accountability Block Grants	16.523	06-OYS-3035	213,175
Gang-Free Schools and Communities – Community-Based Gang Intervention	16.544	—	18,355
National Institute of Justice Forensic DNA Laboratory Improvement Program	16.564	—	191,554

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
Pass-through from the State Department of Attorney General			
Crime Victim Assistance	16.575	04-VA-2, 05-VA-2	893,042
Violence Against Women Formula Grants	16.588	06-WF-04, 06-WF-17 08-WF-04, 06-WF-19, 06-WF-18	93,837
ARRA – Public Safety Partnership and Community Policing Grants	16.710	—	1,025,602
Public Safety Partnership and Community Policing Grants	16.710	—	453,226
			<u>1,478,828 *</u>
Pass-through from the State Department of Health			
Enforcing Underage Drinking Laws Program	16.727	MOU 08-211, Mod. 1	51,406
Pass-through from the State Department of Defense			
Enforcing Underage Drinking Laws Program	16.727	MOA 10/20/08	26,284
			<u>77,690</u>
Edward Byrne Memorial Justice Assistance Grant	16.738	—	244,624
Pass-through from the State Attorney General			
Edward Byrne Memorial Justice Assistance Grant	16.738	06-DJ-13 08-DJ-05 05-DJ-11 08-DJ-04	2,538 43,865 25,380 19,128
			<u>335,535 *</u>
Pass-through from the State Attorney General			
ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to States and Territories	16.803	09-SU-19 09-SU-21 MOA	2,738 * 4,405 * 10,663 *
ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	—	1,146,104
Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	—	23,081
<i>Total Justice Assistance Grant Program Cluster</i>			<u>1,169,185 *</u>
<b>Total U.S. Department of Justice</b>			<u>5,064,661</u>
<b>U.S. Department of Labor</b>			
Pass-through from the State Department of Labor and Industrial Relations			
Unemployment Insurance	17.225	REED-06-0	1,708,580
Pass-through from the State Department of Labor and Industrial Relations			
<i>Workforce Investment Act Cluster</i>			
ARRA – Work Investment Act – Administration	17.250	WIA-05-LAC-0, WIA-06-LAC-0	220,971
Work Investment Act – Administration	17.250	WIA-07-LAC-0, WIA-08-LAC-0 WIA-07-LAC-0, WIA-08-LAC-0 WIA-09-LAC-0	103,949 70,023
ARRA – Work Investment Act – Adult Program	17.258	WIA-07-AP-0, WIA-08-AP-0	296,686
Work Investment Act – Adult Program	17.258	WIA-07-AP-0, WIA-08-AP-0	681,539
ARRA – Work Investment Act – Youth Activities	17.259	WIA-08-ARRA-YP-0	346,750
Work Investment Act – Youth Activities	17.259	WIA-07-YP-0, WIA-08-YP-0	1,346,412
ARRA – Work Investment Act – Dislocated Workers Program	17.278	WIA-ARRA-08-DW-0	735,357
Work Investment Act – Dislocated Workers Program	17.278	WIA-07,08,09, DWP-0	833,106
<i>Total Workforce Investment Act Cluster</i>			<u>4,634,793 *</u>
WIA Pilots, Demonstrations, and Research Projects	17.261	—	344,070
Pass-through from the Youthbuild U.S.A.			
WIA Pilots, Demonstrations, and Research Projects	17.261	007	1,104
Pass-through from the RCUH Maui Community College			
WIA Pilots, Demonstrations, and Research Projects	17.261	PO Z715801	384
			<u>345,558</u>

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<b>Federal Grantor/Program/Grant</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Pass-Through Identifier</b>	<b>Federal Expenditures</b>
Pass-through from the State Department of Labor and Industrial Relations Incentive Grants – WIA Section 503	17.267	WIA DEMO CAA-07-01	169,394
ARRA – Youthbuild	17.274	—	170,134
Youthbuild	17.274	—	345,897
			<u>516,031</u>
Pass-through from the State Department of Labor and Industrial Relations Work Investment Act – National Emergency Grants	17.277	WIA-06-NEG-DM-0 WIA-08-NEG-AA-0	194,831
<b>Total U.S. Department of Labor</b>			<u>7,569,187</u>
<b>U.S. Department of Transportation</b>			
Pass-through from the State Department of Transportation Highway Planning and Construction	20.205	STP-0001 SRS-1500(37) BR-NBIS(40) BR-NBIS(42) STP-8810(1) FLH-0300(90), STP-8920(1)	1,385,109 31,256 105,173 540,390 31,106 738,583
ARRA – Highway Planning and Construction	20.205	STP-0001	17,883
Pass-through from the Oahu Metropolitan Planning Organization Highway Planning and Construction	20.205	PL-052(30) PL-052(26) WE 201.65-07 FHWA 203.74-08, FHWA 203.77-09 WE 203.30-00	40,124 73,662 116,818 327,278 13,550
			<u>3,420,932 *</u>
<i>Federal Transit Cluster</i>			
Federal Transit – Capital Investment Grants	20.500	—	3,351,910
			88,682
Federal Transit – Formula Grants	20.507	—	112,400
			234,850
			1,314
			21,000,000
ARRA – Federal Transit – Formula Grants	20.507	—	24,400,571
<i>Total Federal Transit Cluster</i>			<u>49,189,727 *</u>
Pass-through from the State Department of Transportation State and Community Highway Safety	20.600	PS08-09(04-)-01), 163-PS06-08, PS10-09(03-O-01)	14,316
<b>Total U.S. Department of Transportation</b>			<u>52,624,975</u>
<b>U.S. Environmental Protection Agency</b>			
Congressionally Mandated Projects	66.202	—	29,389
Pass-through from the State Department of Health Capitalization Grants for Clean Water State Revolving Funds	66.458	C150046-55 C150048-60 C150048-68 C150046-70 C150070-45 C150051-70	40,349 505,836 359,901 22,970,021 16,845,211 8,626,334
ARRA – Capitalization Grants for Clean Water State Revolving Funds	66.458		49,347,652 *
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	—	48,520
<b>Total U.S. Environmental Protection Agency</b>			<u>49,425,561</u>

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<b>Federal Grantor/Program/Grant</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Pass-Through Identifier</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education</b>			
Pass-through from the State Department of Human Services			
Vocational Rehabilitation	84.126	DHS-07-VR-4028	6,163
ARRA – Vocational Rehabilitation	84.390	DHS-10-VR-151	<u>68,619</u>
			<u>74,782</u>
Pass-through from the State Department of Education			
Twenty-First Century Community Learning Center	84.287	13023	<u>54,841</u>
<b>Total U.S. Department of Education</b>			<u>129,623</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through from the Executive Office on Aging			
Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	93.043	HON-2007 to 10-1	62,798
<i>Aging Cluster</i>			
Pass-through from the Executive Office on Aging			
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	HON-2007-1, 2008-1, 2009-1, 2010-1	952,007
Supportive Services – FY07, FY08, FY09 and FY10	93.045	HON-2007-1, 2008-1, 2009-1, 2010-1	746,373
Home Delivered Meals – FY10	93.045	HON-2008-1, 2009-1, 2010-1	403,259
ARRA – Aging Home-Delivered Nutrition Services for States	93.705	—	50,476
ARRA – Aging Congregate Nutrition Services for States	93.707	—	<u>80,530</u>
<i>Total Aging Cluster</i>			<u>2,232,645</u>
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048	HON-ADRC-07-N HON-EBI-CDSMP-09	46,224
Pass-through from the Executive Office on Aging			
National Family Caregiver Support, Title III, Part E	93.052	HON-2007-1, 2008-1, 2009-1, 2010-1	477,073
Pass-through from the State Department of Health			
Suicide Prevention Services	93.243	09-127	218,286
Pass-through from the State Department of Human Services			
First to Work and Case Management Services	93.558	DHS-08-BESSD-5043	1,447,322
Pass-through from the State Department of Human Services			
ARRA – Emergency Contingency Fund for TANF State Program	93.714	DHS-08-BESSD-5042	159,607
Pass-through from the Research Corporation of the University of Hawaii			
Demonstration to Maintain Independence and Employment	93.769	—	30,049
Provision of Medicare Part D Drugs	93.794	—	1,406
Pass-through from the State Department of Health			
Enforcement of Retail Tobacco Outlets in the City and County of Honolulu	93.959	ASO Log No. 09-010, Mod.1	33,169
Strategic Prevention Framework State Incentive Grant	93.959	ASO Log No. 10-038	<u>92,620</u>
			<u>125,789</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>4,801,199</u>

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<b>Federal Grantor/Program/Grant</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Pass-Through Identifier</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Pass-through from the State Civil Defense			
2008 Pre-Disaster Mitigation	97.017	PDMC-09-HI-2008	26,466
Pass-through from the State Department of Defense			
October 2004 Flood	97.036	FEMA-1575-DR-HI	394,902
March 2006 Flood	97.036	FEMA-1640-DR-HI	19,835
			<u>414,737</u>
2008 Assistance to Firefighter Grant	97.044	—	136,640
<i>Homeland Security Grant Cluster</i>			
Pass-through from the State Civil Defense			
Law Enforcement Terrorism Prevention Program	97.067	2007-GE-T7-0013	1,121,666
Citizen Corp Program	97.067	2006-GE-T6-0033	34,723
		2007-GE-T7-0013	
		2009-SS-T9-0006	
Metropolitan Medical Response System Program	97.067	2005-GE-T5-0034	139,109
		2006-GE-T6-0033	
		2007-GE-T7-0013	
		2009-SS-T9-0006	
Urban Areas Security Initiative Program	97.067	2005-GE-T5-0034	4,702,804
		2006-GE-T6-0033	
		2007-GE-T7-0013	
		2008-GE-T8-0022	
		2009-SS-T9-0006	
State Homeland Security Program	97.067	2005-GE-T5-0034	318,253
		2008-GE-T8-0022	
		2009-SS-T9-0006	
			<u>6,316,555</u>
<i>Total Homeland Security Grant Program</i>			
Pass-through from the State Department of Defense			
Rail and Transit Security Grant Program	97.075	2006-RL-T6-0009	589,395
		2007-RL-T7-0016	
		2007-RL-T7-0106	
		2008-RL-T8-0023	
Regional Catastrophic Preparedness Grant Program	97.111	2008-CP-T8-0020	50,462
			<u>7,534,255</u>
<b>Total U.S. Department of Homeland Security</b>			
<b>Total Expenditure of Federal Awards</b>			<u>\$ 206,848,852</u>

(\*)Denotes major federal financial assistance program as defined by OMB Circular A-133.



**City and County of Honolulu**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30 2010**

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**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 cash basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. Loans Outstanding**

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2010, which are not presented in the schedule of expenditures of federal awards.

Program Title	CFDA Number	Loans/Advances	Loans Outstanding
<b>Major programs</b>			
Community Development Block Grants – Entitlement Grants	14.218	\$ 1,810,000	\$ 33,747,318
HOME Investment Partnership Programs	14.239	1,959,750	16,110,511
Section 8 Housing Choice Vouchers	14.871	-	3,478,770
		<u>\$ 3,769,750</u>	<u>\$ 53,336,599</u>

**3. Capitalization Grants for Clean Water State Revolving Funds**

At June 30, 2010, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 49,347,652
State	<u>859,446</u>
	<u>\$ 50,207,098</u>

**City and County of Honolulu**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30 2010**

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**4. Subrecipients**

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

Program Title	CFDA No.	Amount Provided to Subrecipients
<b>U.S. Department of Commerce</b>		
Economic Adjustment Assistance	11.307	\$ 20,000
Oahu Technology and Innovation Center	11.307	28,231
<b>Total U.S. Department of Commerce</b>		<u>48,231</u>
<b>U.S. Department of Housing and Urban Development</b>		
Community Development Block Grants – Entitlement Grants	14.218	8,728,299
ARRA – Community Development Block Grants – Entitlement Grants	14.253	96,911
Economic Development Initiative, Special Purpose Grant	14.225	488,682
Emergency Shelter Grants Program	14.231	1,014,665
Supportive Housing Program	14.235	297,450
Shelter Plus Care Program	14.238	3,678,163
HOME Investment Partnerships Program	14.239	3,948,512
Housing Opportunities for Persons with AIDS	14.241	437,437
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	1,065,515
<b>Total U.S. Department of Housing and Urban Development</b>		<u>19,755,634</u>
<b>U.S. Department of Justice</b>		
Crime Victim Assistance	16.575	384,604
<b>Total U.S. Department of Justice</b>		<u>384,604</u>
<b>U.S. Environmental Protection Agency</b>		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	43,328
<b>Total U.S. Environmental Protection Agency</b>		<u>43,328</u>
<b>U.S. Department of Health and Human Services</b>		
Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	93.043	62,798
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	952,007
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	1,017,069
Special Programs for the Aging - Title IV and Title II, Discretionary Projects	93.048	13,000
National Family Caregiver Support, Title III, Part E	93.052	413,144
<b>Total U.S. Department of Health and Human Services</b>		<u>2,458,018</u>
<b>Total Provided to Subrecipients</b>		<u>\$ 22,689,815</u>

**PART 3**

**SCHEDULE OF  
FINDINGS AND QUESTIONED COSTS**

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

**Identification of Major Programs**

<b>CFDA Number</b>	<b>Federal Program or Cluster</b>	
14.218, 14.253	Community Development Block Grants/Entitlement Grants	
14.238	Shelter Plus Care	
14.871	Section 8 Housing Choice Vouchers	
16.710	Public Safety Partnership and Community Policing Grants	
16.738, 16.803, 16.804	Justice Assistance Grant Program Cluster	
17.250, 17.258, 17.259, 17.278	Workforce Investment Act Cluster	
20.205	Highway Planning and Construction	
20.500, 20.507	Federal Transit Cluster	
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

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

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**Section II – Financial Statement Findings**

**Finding No. 2010-1 Deficiencies in Information Technology Controls (Significant Deficiency)**

**Condition**

Information technology (“IT”) is a strategic element of the City and County of Honolulu’s (the “City”) operations. Because of the high volume transactions at the City, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit for the year ended June 30, 2010, we performed an IT general controls review of the following systems operated by the City:

- Windows Domain
- AMS Advantage Financial Management System
- AMS Advantage Human Resources Management System
- City Human Resources Management System
- Personnel Time and Attendance System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

Our review resulted in several IT control deficiencies in the areas of physical and logical security, change management and recovery as follows:

Physical and logical security

- System password configurations were inconsistent with the City’s IT security policy.
- Several terminated employees continued to have access to the City’s IT systems.
- No effective periodic review performed to detect whether terminated individuals are able to log-in to the IT systems or physically access the server room.
- No review performed to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Lack of documentation evidencing approval to provide new or transferred employees access to the IT systems.
- Lack of segregation of duties in certain areas of security administration, operating system and database security.
- Lack of monitoring controls to identify unauthorized changes within the IT systems.
- Lack of formal monitoring controls to identify suspicious attempts to gain access to the City’s network.

Change management

- System changes were made prior to the completion of testing and approval.
- Lack of segregation of duties among City and vendor programmers.
- Lack of a formalized change management process for certain systems.

# City and County of Honolulu

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2010

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#### Recovery

- No full restoration testing from backup media.

Collectively, the number and related nature of the IT control deficiencies resulted in an overall significant deficiency.

#### **Criteria**

When IT is used to initiate, record, process, and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

#### **Effect**

Internal controls in the following areas address the following risks:

#### Physical and logical security

Unauthorized access to these systems could result in either the destruction of data, unauthorized or nonexistent transactions being made or transactions being inaccurately recorded.

#### Change management

Unauthorized or untested changes promoted to the production environment could cause the systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

#### Recovery

Untested back-up media could be unreadable, resulting in backed-up data being unrecoverable in the event a restoration of the production environment is necessary.

#### **Cause**

The primary causes of these deficiencies were due to the City's IT policies and procedures not including internal control procedures addressing the IT risks noted above and not being consistently followed.

#### **Recommendation**

As the City Human Resources Management System was replaced with the AMS Advantage Human Resources Management System in February 2010, any internal control deficiencies associated with that system will be inherently addressed. However, for the remaining systems, we recommend that the City perform the following:

- Update its IT policies and procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.
- Work with vendor programmers to address any internal control deficiencies due to system limitations.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

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**Section III – Federal Award Findings and Questioned Costs**

		<b>Questioned Cost</b>
<b>Finding No. 2010-2:</b>	<b>Cash Management</b>	<b>\$ _____</b>
<b>Federal Agency:</b>	United States Department of Transportation	
<b>CFDA Number and Title:</b>	20.205 Highway Planning and Construction	
<b>Award Year</b>	2004	
<b>Award Number:</b>	PL-052(26) PL-052(30)	

**Condition**

The City’s Highway Planning and Construction program is 80% federally funded on a reimbursement basis. During our cash management testing of the City’s program, we noted invoices paid subsequent to the receipt of cash from the Oahu Metropolitan Planning Organization (“OMPO”), the pass-through entity. We noted reimbursements in the amount of \$24,401 were deposited into the City’s account on September 14, 2009, while the invoices were paid on September 16, 2009 and on January 20, 2010.

**Criteria**

The United States Department of Transportation (“DOT”) Federal Highway Administration publication “Financing Federal-Aid Highways” describes the reimbursable nature of the program as follows:

“It is important to understand that the FAHP is not a “cash up-front” program. That is, even though the authorized amounts are “distributed” to the States, no cash is actually disbursed at this point. Instead, States are notified that they have Federal funds available for their use. Projects are approved and work is started; then the Federal government makes payments to the States for costs as they are incurred on projects.”

31 CFR 205.11 states “reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

**Effect**

Noncompliance could jeopardize future federal funding for the City’s Highway Planning and Construction program.

**Cause**

We were informed that the project has both City and Federal coded accounts within the City’s Advantage system, which are set up for funding according to the respective matching requirement. As projects are on a reimbursement basis, only City funds are initially used for payments. As such, City funds initially pay for 100% of invoices and then reimbursement is requested. Once City funds are fully utilized, federal funds are requested in advance of payments of invoices, which is not in compliance with the program and grant requirements.

**Recommendation**

We recommend that the City’s Highway Planning and Construction program ensure invoices are paid prior to the receipt of federal funds. The City could also inquire with pass-through entities and the federal government if the City can obtain future federal funding through advances rather than reimbursements.

**City and County of Honolulu  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010**

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		<b>Questioned Cost</b>
<b>Finding No. 2010-3:</b>	<b>Cash Management</b>	<b>\$ _____</b>
<b>Federal Agency:</b>	United States Department of Labor	
<b>CFDA Number and Title:</b>	17.258 – 17.260 Workforce Investment Act Cluster	
<b>Award Year</b>	2008	
<b>Award Number:</b>	WIA-07-AP-0 WIA-08-AP-0 WIA-07-YP-0 WIA-08-YP-0 WIA-08-ARRA-YP-0 WIA-ARRA-08-DW-0 WIA-07,08,09 DWP-0	

**Condition**

The City’s Workforce Investment Act (“WIA”) Cluster programs are federally funded on a reimbursement or advance basis. During our cash management testing, we noted one instance out of forty drawdowns tested of funds being advanced but held for an extended period of time. We noted \$187,610 was received on August 14, 2009 and was used to fund payroll for the pay periods ended August 14, 2009 and August 31, 2009. Therefore, approximately \$94,000 of the funds received on August 14, 2009 were an advance for payroll expenditures incurred from August 15, 2009 through August 31, 2009.

**Criteria**

31 CFR, part 205 states that when funds are advanced, recipients must follow procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement. Based on our testing of three other federally funded programs for which the City receives advance funding, we noted the City was able to disburse funds received between two to five business days after receipt.

**Effect**

Noncompliance could jeopardize future federal funding for the City’s WIA programs. Furthermore, interest earned on any advances in excess of \$100 annually is required to be tracked and remitted back to the federal government.

**Cause**

The City is a subrecipient of the federal funding for its WIA programs, which is passed through the State of Hawaii, Department of Labor and Industrial Relations (“DLIR”). According to the program’s fiscal officer, the requested funds are often not received from DLIR for eleven to fourteen days after requests are made. Therefore, per the program fiscal officer, the City was attempting to minimize the number of funding requests to increase efficiency between the City and DLIR. However, we noted that the City submitted its request for the advanced funds in question on July 31, 2009. Consequently, although the requested funds were not received from DLIR until August 14, 2009, the \$94,000 related to the payroll for the second half of August 2009 was not disbursed in a timely manner.

**Recommendation**

We recommend that the City’s WIA program establish policies and procedures to minimize the time lapsing between the receipt of federal funds advanced and disbursement of those funds.



**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

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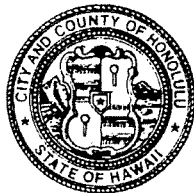
**Section IV – Summary Schedule of Prior Audit Findings**

None

# **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

PETER B. CARLISLE  
MAYOR



MICHAEL R. HANSEN  
ACTING DIRECTOR

February 4, 2011

Mr. Edwin Young  
Office of the City Auditor  
1001 Kamokila Blvd. #216  
Kapolei, HI 96707

Dear Mr. Young:

RE: SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Enclosed is the response to the recommendations included in Accuity LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2010. The response includes action taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink that reads "Michael R. Hansen".

Michael R. Hansen  
Acting Director

*mm*  
MRH:lt  
Attachments

APPROVED:

A handwritten signature in black ink that reads "Douglas S. Chin".

Douglas S. Chin  
Managing Director

cc: BFS -Internal Control

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2010**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Finding No. 2010-1 Deficiencies in Information Technology Controls (Significant Deficiency)**

Audit Recommendation: As the City Human Resources Management System was replaced with the AMS Advantage Human Resources Management System in February 2010, any internal control deficiencies associated with that system will be inherently addressed. However, for the remaining systems, we recommend that the City perform the following:

- Update its IT policies and procedures to include internal control procedures addressing IT risks noted.
- Identify methods to ensure that IT policies and procedures are consistently followed.
- Work with vendor programmers to address any internal control deficiencies due to system limitations.

Administration's Comment: The City is in the process of updating its IT policies and procedures in accordance with the auditor's recommendations and the staff will be informed of the updates. The City will work with vendor programmers to address any internal control deficiencies.

Anticipated Completion Date: December 31, 2011

Contact Person(s): Gordon J. Bruce, Director and CIO, Department of Information Technology  
Keith Ho, Chief of Data Processing, Department of Information Technology

**Finding No. 2010-2: Cash Management**

Audit Recommendation: We recommend that the City's Highway Planning and Construction program ensure invoices are paid prior to the receipt of federal funds. The City could also inquire with pass-through entities and the federal government if the City can obtain future federal funding through advances rather than reimbursements.

Administration's Comment: The City will ensure that project costs are paid before submitting reimbursement requests to the State Department of Transportation.

Anticipated Completion Date: December 31, 2010

Contact Person(s): Nelson Koyanagi Jr., Chief Accountant, Budget and Fiscal Services  
Ann Sakurao, Fiscal Officer, Budget and Fiscal Services

**RESPONSE TO SINGLE AUDIT REPORT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2010

**Finding No. 2010-3: Cash Management**

Audit Recommendation: We recommend that the City's WIA program establish policies and procedures to minimize the time elapsing between the receipt of federal funds advanced and disbursement of those funds.

Administration's Comment: The City will continue to request funds based on the projected needs of each grant and minimize the time lapsed between the receipt and the disbursement of such funds.

Anticipated Completion Date: Implemented.

Contact Person(s): Nelson Koyanagi Jr., Chief Accountant, Budget and Fiscal Services  
Beryle Matsumura, Fiscal Officer, Budget and Fiscal Services