

# **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, 2011

Single Audit of Federal Financial  
Assistance Programs



**City and County of Honolulu**  
**Index**  
**Year Ended June 30, 2011**

---

**Page(s)**

**Part 1 – Introduction**

**Part 2 – Compliance and Internal Control**

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*

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

Schedule of Expenditures of Federal Awards..... 9–13

Notes to Schedule of Expenditures of Federal Awards ..... 14–15

**Part 3 – Schedule of Findings and Questioned Costs**

Section I – Summary of Auditors’ Results..... 16

Section II – Financial Statement Findings..... 17–18

Section III – Federal Award Findings and Questioned Costs ..... 19–24

Section IV – Summary Schedule of Prior Audit Findings..... 25–26

**Corrective Action Plan**

# **PART 1**

## **INTRODUCTION**

December 19, 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, 2011. 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, 2011 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, 2011 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, 2011.
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, 2011 have been issued separately. A separate management letter dated December 19, 2011 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

---

**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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2011. 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 auditors' testing of internal controls 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**

Management of the City is responsible for establishing and maintaining effective 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 a deficiency in internal control over financial reporting, described in Finding No. 2011-1 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 19, 2011.

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, 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 19, 2011



CERTIFIED PUBLIC ACCOUNTANTS

---

**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, 2011. 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 \$3,905,727 in federal awards which is not included in the schedule during the year ended June 30, 2011. 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 OMB 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, 2011. 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. 2011-2 to 2011-5.

## **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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Finding No. 2011-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

## **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, 2011, and have issued our report thereon dated December 19, 2011. 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 the responses.

This report is intended solely for the information and use of the City Council, management, 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, Hawaii  
December 19, 2011

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
<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	\$ 110,402
Pass-through from the State Department of Human Services Food Stamp Employment Training	10.561	DHS-06-BESSD-3000SA4, DHS-06-BESSD-3000SA5, DHS-11-SNAP-301	22,046
<b>Total U.S. Department of Agriculture</b>			<u>132,448</u>
<b>U.S. Department of Commerce</b>			
Economic Adjustment Assistance	11.307	—	314
Statewide Comprehensive Economic Development Strategy	11.307	—	12,487
			<u>12,801</u>
Pass-through from the State Department of Defense Public Safety Interoperable Communications Grant Program	11.555	2007-GS-H7-0005	141,667
<b>Total U.S. Department of Commerce</b>			<u>154,468</u>
<b>U.S. Department of Housing and Urban Development</b>			
Supportive Housing for Persons with Disabilities	14.181	—	1,454,010
<i>CDBG Entitlement Grants Cluster</i>			
Community Development Block Grants – Entitlement Grants	14.218	—	7,793,740
ARRA – Community Development Block Grants – Entitlement Grants	14.253	—	538,790
<i>Total CDBG Entitlement Grants Cluster</i>			<u>8,332,530</u> *
Emergency Shelter Grants Program	14.231	—	368,674
Supportive Housing Program	14.235	—	272,574
Shelter Plus Care Program	14.238	—	3,942,883
HOME Investment Partnerships Program	14.239	—	3,383,017
Housing Opportunities for Persons with AIDS	14.241	—	419,194
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	—	702
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	—	1,783,009
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	—	137,849
Section 8 Housing Choice Vouchers	14.871	—	43,667,220
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	14.877	PMB 09-03	334,616
<b>Total U.S. Department of Housing and Urban Development</b>			<u>64,096,278</u>
<b>U.S. Department of the Interior</b>			
Honolulu Land Information System (“HoLIS”) Web Site Project	15.808	—	17
Historic Preservation Fund Grants-In-Aid	15.904	—	36,553
ARRA – Geiger Community Park	15.916	—	632,554
<b>Total U.S. Department of Interior</b>			<u>669,124</u>
<b>U.S. Department of Justice</b>			
Domestic Cannabis Eradication/Suppression Program	16.000	—	95,388
Federal Asset Forfeiture	16.000	—	113,549
Pass-through from the State Department of Human Services Juvenile Accountability Block Grants	16.523	06-OYS-3035 MOA-CA-1130	141,334
Violence Against Women Formula Grants	16.588	08-WF-13, 09-EF-07	77,334
Project Safe Neighborhoods	16.609	07-GP-01, 07-GP-02 09-GP-01	65,247
ARRA – Public Safety Partnership and Community Policing Grants	16.710	—	1,676,150
Public Safety Partnership and Community Policing Grants	16.710	—	357,329
			<u>2,033,479</u> *
Pass-through from the State Department of Attorney General Crime Victim Assistance	16.575	04-VA-02, 08-VA-02	847,529
ARRA – Back On Track Project	16.588	06-WF-21, 08-WF-21	70,624

**City and County of Honolulu  
State of Hawaii  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2011**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
		09-EF-06	
Pass-through from the State Department of Health Enforcing Underage Drinking Laws Program	16.727	MOU 08-211, Mod. 2, 3	31,585
<i>JAG Program Cluster</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	—	352,202
Pass-through from the State Attorney General Edward Byrne Memorial Justice Assistance Grant	16.738	07-DJ-16, 07-DJ-18 09-DJ-11	103,401
Pass-through from the State Attorney General ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to States and Territories	16.803	09-SU-11, 09-SU-21	166,509
ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	—	<u>702,062</u>
<i>Total JAG Program Cluster</i>			<u>1,324,174</u> *
Forensic DNA Backlog Reduction Program	16.741	—	242,081
Pass-through from the State Department of Attorney General Gang Busters	16.744	07-PG-01, 07-PG-02 09-EF-06	35,104
<b>Total U.S. Department of Justice</b>			<u>5,077,428</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	285,448
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-08-ARRA-LAC-0	74,310
Work Investment Act – Administration	17.250	WIA-09-LAC-0, WIA-10-LAC-0	328,367
ARRA – Work Investment Act – Adult Program	17.258	WIA-08-ARRA-AP-O	78,194
Work Investment Act – Adult Program	17.258	WIA-09-AP-0, WIA-10-AP-0	1,049,580
ARRA – Work Investment Act – Youth Activities	17.259	WIA-08-ARRA-YP-0	913,813
Work Investment Act – Youth Activities	17.259	WIA-08-YP-0, WIA-09-YP-0, WIA-10-YP-0	987,804
ARRA – Work Investment Act – Dislocated Workers Program	17.260	WIA-09-DW-O WIA-ARRA-08-DW-0 WIA-09-NEG-OJT-O	890,814
Work Investment Act – National Emergency Grants	17.277	WIA-08-NEG-AA-O	94,155
Work Investment Act – Dislocated Workers Program	17.278	WIA-10-DW-O	<u>625,065</u>
<i>Total Workforce Investment Act Cluster</i>			<u>5,042,102</u> *
WIA Pilots, Demonstrations, and Research Projects	17.261	AF-12383-02-60	201,161
Pass-through from the Youthbuild U.S.A. WIA Pilots, Demonstrations, and Research Projects	17.261	007	3,543
Pass-through from the RCUH Maui Community College WIA Pilots, Demonstrations, and Research Projects	17.261	PO Z715801	<u>51,570</u>
			<u>256,274</u>
Pass-through from the State Department of Labor and Industrial Relations Incentive Grants – WIA Section 503	17.267	WIA DEMO CAA-07-01	91,128
ARRA – Youthbuild	17.274	—	463,203
Youthbuild	17.274	—	<u>15,069</u>
			<u>478,272</u>
Pass-through from the State Department of Labor and Industrial Relations ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	WDC-ARRA-2010-12	114,402
<b>Total U.S. Department of Labor</b>			<u>6,267,626</u>

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
<b>U.S. Department of Transportation</b>			
Pass-through from the State Department of Transportation Highway Planning and Construction	20.205	STP-0001, STP-7139(1), STP-0300, STP-0001(39), STP-0001(40), STP-0300(76), STP-8810(1), BR-NBIS(46)	5,297,693
ARRA – Highway Planning and Construction	20.205	ARR-0001, ARR-095-1(1)	1,004,198
Pass-through from the Oahu Metropolitan Planning Organization Highway Planning and Construction	20.205	PL-052(6), WE 201.65-07, FHWA 203.74-08, FHWA 203.75-09, FHWA 203.77-09, FHWA 203.79-10	809,364
			<u>7,111,255</u>
<i>Federal Transit Cluster</i>			
Federal Transit – Capital Investment Grants	20.500	HI-03-0047	22,948,611
Federal Transit – Formula Grants	20.507	HI-90-0017, HI-03-0037, HI-90-0026, HI-04-0005, HI-03-0040, HI-90-0026, FTA HI-90-X028, FTA HI-90-X029	7,128,895
ARRA – Federal Transit – Formula Grants	20.507	HI-96-0001	6,433,854
<i>Total Federal Transit Cluster</i>			<u>36,511,360</u>
<i>Transit Services Program Cluster</i>			
Job Access Reverse Commute	20.516	FTA HI-37-X002	233,462
New Freedom Program	20.521	FTA HI-57-X002	176,101
<i>Total Transit Services Program Cluster</i>			<u>409,563</u>
Pass-through from the State Department of Transportation State and Community Highway Safety	20.600	PS10-09(03-O-01), EM09-04(01-O-01), PS 10-09 (02-O-01), SC 11-06 (01-O-01), TR 10-03 (04-O-01), AL 10-02 (08-O-01)	708,228
<b>Total U.S. Department of Transportation</b>			<u>44,740,406</u>
<b>U.S. Environmental Protection Agency</b>			
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	3,336,805
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	—	49,346
<b>Total U.S. Environmental Protection Agency</b>			<u>3,386,151</u>
<b>U.S. Department of Energy</b>			
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000810	278,896
<b>Total U.S. Department of Energy</b>			<u>278,896</u>

**City and County of Honolulu**  
**State of Hawaii**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
<b>U.S. Department of Education</b>			
<i>Vocational Rehabilitation Cluster</i>			
Pass-through from the State Department of Human Services			
Vocational Rehabilitation	84.126	DHS-06-BESSD-3000-SA5	2,793
ARRA – Vocational Rehabilitation	84.390	DHS-1-VR-305	63,643
<i>Total Vocational Rehabilitation Cluster</i>			<u>66,436</u>
Pass-through from the State Department of Education			
Twenty-First Century Community Learning Center	84.287	13023	<u>9,053</u>
<b>Total U.S. Department of Education</b>			<u>75,489</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 11-1	80,481
<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, 2011-1	1,079,354
Supportive Services – FY07, FY08, FY09 and FY10	93.045	HON-2008-1, 2009-1, 2010-1, 2011-1	770,415
Home Delivered Meals – FY10	93.045	HON-2008-1, 2009-1, 2010-1, 2011-1	402,012
ARRA – Aging Home-Delivered Nutrition Services for States	93.705	—	52,419
ARRA – Aging Congregate Nutrition Services for States	93.707	—	128,476
<i>Total Aging Cluster</i>			<u>2,432,676</u>
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048	HON-ADRC-07-N HON-EBI-CDSMP-09	2,873
National Family Caregiver Support, Title III, Part E	93.052	HON-2008-1, 2009-1 2010-1, 2011-1	429,774
Pass-through from the State Department of Health			
Suicide Prevention Services	93.243	09-127 Mod. 4, 5, 6	182,415
<i>TANF Cluster</i>			
Pass-through from the State Department of Human Services			
First to Work and Case Management Services	93.558	DHS-08-BESSD-5042 DHS-08-BESSD-5043	1,240,090
Pass-through from the State Department of Human Services			
ARRA – Emergency Contingency Fund for TANF State Program	93.714	DHS-10-ETPO-199	<u>927,357</u>
<i>Total TANF Cluster</i>			<u>2,167,447</u>
Pass-through from the Executive Office on Aging			
ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	HON-ARRA-CDSMP-10N	8,309
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	HON-MIPPA-2010	33,482
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, 2	18,145
Strategic Prevention Framework State Incentive Grant	93.959	ASO Log No. 10-038, 10-190	441,019
			<u>459,164</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>5,796,621</u>
<b>Corporation for National and Community Service</b>			
Retired and Senior Volunteer Program	94.002	—	<u>19,435</u>
<b>Total Corporation for National and Community Service</b>			<u>19,435</u>



**City and County of Honolulu  
State of Hawaii  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2011**

<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. Executive Office of the President</b>			
High Intensity Drug Trafficking Areas Program	95.001	—	1,592,194
<b>Total U.S. Executive Office of the President</b>			<u>1,592,194</u>
<b>U.S. Department of Homeland Security</b>			
Pass-through from the State Department of Defense			
March 2006 Flood	97.036	FEMA-1640-DR-HI, FEMA-1147-DR-HI	1,493,894
Emergency Management Performance Grants	97.042	2008-EM-E8-0039, 2009-EP-E9-0032	224,524
Pre-Disaster Mitigation	97.047	PDMC-09-HI-2008	62,827
2008 Assistance to Firefighter Grant	97.044	—	244,402
<i>Homeland Security Grant Cluster</i>			
Pass-through from the State Department of Defense			
Law Enforcement Terrorism Prevention Program	97.067	2007-GE-T7-0013	555,091
Citizen Corp Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	14,794
Metropolitan Medical Response System Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	288,437
Urban Areas Security Initiative Program	97.067	2006-GE-T6-0033, 2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	4,034,652
State Homeland Security Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	1,635,615
<i>Total Homeland Security Grant Program</i>			<u>6,528,589</u>
Pass-through from the State Department of Defense			
Rail and Transit Security Grant Program	97.075	2006-RL-T6-0009, 2007-RL-T7-0016, 2008-RL-T8-0023, 2010-RA-T0-0036	430,065
Regional Catastrophic Preparedness Grant Program	97.111	2008-CP-T8-0020, 2009-CA-T9-0009	594,072
<b>Total U.S. Department of Homeland Security</b>			<u>9,578,373</u>
<b>Total Expenditure of Federal Awards</b>			<u><b>\$ 141,864,937</b></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 2011**

---

**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 schedule does not include the federal grant activity of the Board of Water Supply, a discretely presented component unit of the City. 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, 2011, 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	\$ 367,796	\$ 33,123,430
HOME Investment Partnerships Program	14.239	-	16,088,538
Section 8 Housing Choice Vouchers	14.871	-	3,691,532
		<u>\$ 367,796</u>	<u>\$ 52,903,500</u>

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

At June 30, 2011, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 3,336,805
State	<u>689,070</u>
	<u>\$ 4,025,875</u>

**City and County of Honolulu**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30 2011**

---

**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 Housing and Urban Development</b>		
Community Development Block Grants – Entitlement Grants	14.218	\$ 4,386,293
ARRA – Community Development Block Grants – Entitlement Grants	14.253	538,790
Emergency Shelter Grants Program	14.231	368,674
Shelter Plus Care Program	14.238	3,942,883
HOME Investment Partnerships Program	14.239	2,857,974
Housing Opportunities for Persons with AIDS	14.241	311,529
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	<u>1,777,804</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u>14,183,947</u>
<b>U.S. Department of Justice</b>		
Crime Victim Assistance	16.575	285,605
Edward Byrne Memorial Justice Assistance Grant Program/ Grants to States and Territories	16.803	<u>59,880</u>
<b>Total U.S. Department of Justice</b>		<u>345,485</u>
<b>U.S. Environmental Protection Agency</b>		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	<u>48,447</u>
<b>Total U.S. Environmental Protection Agency</b>		<u>48,447</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	70,272
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	1,075,496
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	938,042
ARRA – Aging Home-Delivered Nutrition Services for States	93.705	52,419
ARRA – Aging Congregate Nutrition Services for States	93.707	128,476
National Family Caregiver Support, Title III, Part E	93.052	387,525
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>44,254</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>2,696,484</u>
<b>Total Provided to Subrecipients</b>		<u>\$ 17,274,363</u>

**PART 3**

**SCHEDULE OF  
FINDINGS AND QUESTIONED COSTS**

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

---

**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?	Yes
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB 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	CDBG Entitlement Grants Cluster	
14.257	Homeless Prevention and Rapid Re-Housing Program	
14.871	Section 8 Housing Choice Vouchers	
16.710	Public Safety Partnership and Community Policing Grants	
16.738, 16.803, 16.804	JAG Program Cluster	
17.250, 17.258, 17.259, 17.260, 17.277, 17.278	Workforce Investment Act Cluster	
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, 2011**

---

**Section II – Financial Statement Findings**

**Finding No. 2011-1: 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 of 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, 2011, 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
- 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.
- 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.

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.

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.

# City and County of Honolulu

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2011

---

#### **Effect**

Internal controls in the areas of physical and logical security and change management 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.

#### **Cause**

The City's IT policies and procedures did not include internal control procedures that address the IT risks discussed above and were not consistently followed.

#### **Recommendation**

We recommend and the City has already started performing 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, 2011**

---

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

		<b>Questioned Cost</b>
<b>Finding No. 2011-2:</b>	<b>Suspension and Debarment (Significant Deficiency)</b>	<b>\$ _____ -</b>
<b>Federal Agency:</b>	United States Department of Justice United States Department of Labor Employment Training Program	
<b>CFDA Number and Title:</b>	16.803 Edward Byrne Memorial Justice Assistance Grant Program 17.258 ARRA Workforce Investment Act (“WIA”) – Adult Program 17.258 WIA Adult Program 17.259 WIA ARRA Youth Activities 17.259 WIA Youth Activities 17.260 WIA ARRA Dislocated Worker Program	
<b>Award Year</b>	2009 to 2011	
<b>Award Number:</b>	09-SU-11 WIA-08-ARRA-AP-O, WIA-09-AP-0, WIA-10-AP-0, WIA-08-ARRA-YP-0, WIA-08-YP-0, WIA-09-YP-0, WIA-10-YP-0. WIA-09-DW-O, WIA-ARRA-08-DW-0, WIA-09-NEG-OJT-O	

**Condition**

For the Justice Assistance Grant (“JAG”) cluster and WIA contracts that we tested, the City did not obtain a federal suspension and debarment certification nor did the City perform a verification on the federal Excluded Parties List System (“EPLS”). However, we noted no contracts were awarded to suspended or debarred entities for the contracts we tested for the two programs.

**Criteria**

To comply with OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments*, the City must verify that the vendor used for a federally funded contract is not suspended or debarred.

**Effect**

There is a risk that contracts are entered into with entities that are suspended or debarred from receiving any federal funds, which could jeopardize the City’s future federal funding. The City may also be required to repay any federal funds disbursed to suspended or debarred entities.

**Cause**

The noncompliance was due to a lack of knowledge of the suspension and debarment compliance requirement and no formal procedures to ensure compliance with the requirement.



**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

---

**Recommendation**

We recommend that the City provide training related to the procurement and suspension and debarment requirements to all personnel involved with the procurement of federally funded contracts. The City should also develop formalized procedures to perform a suspension and debarment verification on the EPLS and assign responsibility for the performance of the verification.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

---

		<b>Questioned Cost</b>
<b>Finding No. 2011-3:</b>	<b>Housing Inspections</b>	<b>\$ _____ -</b>
<b>Federal Agency:</b>	United States Department of Housing and Urban Development	
<b>CFDA Number and Title:</b>	14.871 Section 8 Housing Choice Vouchers	
<b>Award Year</b>	2010, 2011	
<b>Award Number:</b>	PMB 02-04	

**Condition**

During our testing of the City's Section 8 Housing Choice Vouchers ("Section 8") program, we noted four instances out of 40 items tested where the City did not perform housing inspections.

**Criteria**

To comply with Title 24 Code of Federal Regulations ("CFR") 982.405(a), the City must inspect the unit leased to a family at least annually to determine if the unit meets the Housing Quality Standards of the U.S. Department of Housing and Urban Development ("HUD").

**Effect**

Noncompliance could jeopardize future federal funding for the City's Section 8 program.

**Cause**

We were informed by the City that noncompliance was due to an error in the system used to monitor the annual inspection dates. System corruptions in the participants' system files caused those participants to be excluded from the inspection list used to monitor upcoming inspections.

**Recommendation**

We recommend that, and the City has already ensured that, the corrupted system files were corrected and other participants' system files were not corrupt.

**City and County of Honolulu  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2011**

---

		<b>Questioned Cost</b>
<b>Finding No. 2011-4:</b>	<b>Reporting</b>	<b>\$ _____ -</b>
<b>Federal Agency:</b>	United States Department of Housing and Urban Development	
<b>CFDA Number and Title:</b>	14.218, 14.253 Community Development Block Grant	
<b>Award Year</b>	2011	
<b>Award Number:</b>	CDBG-R-B-09-MY-15-0001	

**Condition**

As the City was unable to provide a copy of the fiscal year 2011 HUD Form 60002 performance report for the Community Development Block Grant (“CDBG”) cluster, we were unable to test the City’s compliance with the related reporting requirements.

**Criteria**

To comply with 24 CFR section 135.90 and the March 2011 OMB Circular A-133 Compliance Supplement Part IV, Performance Reporting, the prime recipient must submit HUD Form 60002 for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

**Effect**

There is a risk that the report may not be in compliance with the performance reporting requirements and that key line items are improperly reported.

**Cause**

The HUD Form 60002 is submitted electronically, but the City did not maintain a copy of the report for its file and is unable to retrieve the report online. We were informed by the City that HUD personnel were also unable to retrieve a copy of the report but stated they did not receive any notification of a failure to submit the report.

**Recommendation**

We recommend that the City retain a copy of all reports submitted to HUD in its CDBG program files.

**City and County of Honolulu  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2011**

---

		<b>Questioned Cost</b>
<b>Finding No. 2011-5:</b>	<b>HUD Monitoring</b>	<b>\$ _____</b>
<b>Federal Agency:</b>	United States Department of Housing and Urban Development	
<b>CFDA Number and Title:</b>	14.218, 14.253 Community Development Block Grant	
<b>Award Year</b>	2011	
<b>Award Number:</b>	B-10-MC-15-0001	

**Condition**

On-site Monitoring

HUD performed a monitoring review of the City and its subrecipient, Opportunities and Resources, Inc. ("ORI"), in April 2011. Based on HUD's review and as reported in a May 27, 2011 letter to the City, HUD identified the following items:

- HUD determined the program and facilities of a subrecipient were significantly underutilized, identified two ineligible events planned at a subrecipient's facility, found CDBG funds were inappropriately utilized to pay for certain salaries, and determined there was insufficient documentation of client eligibility at another subrecipient.
- The City and a subrecipient did not track CDBG program income generated, and another subrecipient denied HUD's requests for access to the subrecipient's agreements with outside organizations and revenue generated.
- A manager within the City's Department of Community Services failed to disclose a conflict of interest, and for the most recent CDBG project selections, two of the seven member selection committee with conflicts of interest failed to recuse themselves.

Period of Availability

On May 3, 2011, HUD also informed the City that the City was not in compliance with carrying out its CDBG program in a timely manner. The letter stated that when the 60-day test was conducted on May 2, 2011, HUD calculated that the City had a balance in its line-of-credit of 1.66 times its annual grant, which is more than the ratio allowed of 1.5 times the annual grant.

**Criteria**

On-site Monitoring

CDBG regulations at 24 CFR 570.208, 570.505, and 570.506 provide guidance on CDBG national objectives and eligible use of funds. Per 24 CFR 570.502(a)(4), grantees are required to have a system for tracking CDBG program income generated by subrecipients or other entities to which funds are passed through. Conflict of interest provisions are included in 24 CFR 570.611 and 24 CFR 85.36.

Period of Availability

Per 24 CFR 570.902, a grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the grantee's annual grant.

# City and County of Honolulu

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2011

---

#### Effect

##### On-Site Monitoring

The City and several subrecipients did not meet the CDBG eligible use and national objective requirements. The City cannot ensure that program income generated by subrecipients on CDBG assisted property are reported timely and accurately. Although the City was not in compliance with the CDBG conflict of interest provisions, HUD concluded that the conflicts of interest did not result in an unfair advantage for any applicants.

##### Period of Availability

As the City failed the timeliness test under CDBG regulations, the City is now subject to HUD's sanctions policy and has until May 2, 2012 to reach the timeliness standard. If the City fails to meet the timeliness standard by that date, HUD may reduce the 2012 program year grant by the amount in excess of 1.5 the annual grant.

#### Cause

##### On-Site Monitoring

- HUD found that the City's ongoing management of open activities and completed activities still within the eligible use period was weak due to the limited post development monitoring performed. HUD also noted that a subrecipient's project was funded despite concerns raised by City staff over the ability of the subrecipient to comply with CDBG requirements.
- HUD found that the City does not have a formal system for tracking program income generated by subrecipients from the use or rental of real property acquired or constructed with CDBG funds.
- The City failed to establish quality controls to prevent any conflicts of interest.

##### Period of Availability

The City prepares and distributes a Timeliness Analysis after each drawdown (at least twice a month) to monitor the expenditures of all open projects and to calculate its current timeliness ratio. In spite of this ongoing monitoring, the City failed to meet the timeliness requirement due to the delay of several capital projects from major issues and concerns, including ongoing bid protests and questions on environmental compliance that required clarification from HUD prior to proceeding with several projects.

#### Recommendation

##### On-Site Monitoring

HUD instructed the City to perform a number of corrective actions, and we noted that HUD's October 11, 2011 letter to the City acknowledged the City's implementation of several of the corrective actions. It also reiterated that the City must implement the remaining corrective actions which included submitting detailed plans on meeting CDBG national program objectives; developing a formal system for tracking, verifying, and reporting CDBG program income generated by subrecipients; and provide progress reports to HUD every 15 days until the remaining findings are resolved.

##### Period of Availability

We recommend that the City implement controls to ensure that it is in compliance with the CDBG timeliness standard by working with its subrecipients to meet the 1.5 threshold. In addition, we recommend that the City ensures that it complies with its workout agreement with HUD, which outlines the details of the corrective actions to be taken by the City.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

---

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

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2010-1	Deficiencies in Information Technology Controls	Significant deficiency		X	2011-1
2010-2	Cash Management		X		
2010-3	Cash Management		X		

Partial corrective actions taken to address Finding 2010-1 are as follows:

Physical and Logical Security

- The Department of Information Technology (“DIT”) IT Security Policy was updated to discourage the re-use of passwords.
- The password settings for several systems were updated to comply with DIT’s IT Security Policy.
- Effective July 2011, DIT receives reports that identify unauthorized terminated users in certain systems.
- All consultant access to the IAS Oracle database was removed in July 2010. Temporary access is given to the consultant when needed and requires a Change Request E-Form approved by appropriate individuals including the change request administrator.
- All developer access to the Advantage application was removed with the exception of custom reports and system interfaces. Temporary access is provided as needed and all developers are physically monitored while temporary access is granted. After the developer’s work is completed, access is removed.
- A formal process is in place whereby changes to the firewall require an online Change Request E-Form approved by appropriate individuals including the change request administrator.
- A formal process is in place regarding identification badges. The DIT Administrative Services Officer is responsible for adding and deleting users to the datacenter using the Access Control and Monitoring System.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

---

Change Management

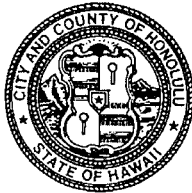
- Advantage system administrators no longer perform programming of the Advantage application.
- All changes to the Advantage and Personnel Time and Attendance system production environments are approved and user acceptance testing is performed.
- All vendor access to the IAS operating system and Oracle database was removed in July 2010. Temporary access is given to the vendor when needed and requires a Change Request E-Form approved by appropriate individuals including the change request administrator.
- DIT configured a test environment for the Revenue Collection application in the Treasury Division in May 2011.

# **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  
DIRECTOR

NELSON H. KOYANAGI, JR.  
DEPUTY DIRECTOR

December 19, 2011

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

Dear Mr. Young:

Subject: Single Audit Report for the Fiscal Year Ended June 30, 2011

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, 2011. 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 that reads "Michael R. Hansen".

Michael R. Hansen  
Director

MRH:lt

Attachments

APPROVED:

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

Douglas S. Chin  
Managing Director

cc: BFS- Internal Control  
BFS- Accounting

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Finding No. 2011-1 and 2010-1: Deficiencies in Information Technology Controls (Significant Deficiency)**

Audit Recommendation: We recommend 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.

Administration's Comment: The City has made significant progress in addressing the prior audit issues. Compensating controls have also been implemented to minimize IT risks. DIT will continue to review its policies and procedures to meet the ever changing technological demands and work with its vendors to include the City's more stringent IT controls in their respective systems.

Anticipated Completion Date: June 2012

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

**Finding No. 2011-2: Suspension and Debarment**

Audit Recommendation: We recommend that the City provide training related to the procurement and suspension and debarment requirements to all personnel involved with the procurement of federally funded contracts. The City should also develop formalized procedures to perform a suspension and debarment verification on the EPLS and assign responsibility for the performance of the verification.

Administration's Comment: The City will develop procurement procedures to identify federally funded procurements and implement internal procedures to perform suspension and debarment verifications prior to awards being made.

Anticipated Completion Date: June 2012

Contact Person(s): Mike Hiu, Assistant Central Purchasing and Contracts Administrator, Budget and Fiscal Services

**Finding No. 2011-3: Housing Inspections**

Audit Recommendation: We recommend that, and the City has already ensured that, the corrupted system files were corrected and other participants' system files were not corrupt.

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011**

**Administration's Comment:** The City has developed and implemented procedures to ensure that units involved with this federal housing program are inspected annually and have corrected the files that were corrupted by the program system. The City has tested a large sample of other participants' files to confirm that the system is now running properly and in accordance with the newly developed procedures.

**Anticipated Completion Date:** September 2011

**Contact Person(s):** Jayne Lee, Rental Assistance Administrator, Community Services

**Finding No. 2011-4: Reporting**

**Audit Recommendation:** We recommend that the City retain a copy of all reports submitted to HUD in its CDBG program files.

**Administration's Comment:** The City implemented procedures to ensure compliance with HUD reporting requirements.

**Anticipated Completion Date:** December 2011

**Contact Person(s):** Holly Kawano, Federal Grants Coordinator, Budget and Fiscal Services

**Finding No. 2011-5: HUD Monitoring**

**Audit Recommendations:**

**On-Site Monitoring**

HUD instructed the City to perform a number of corrective actions, and we noted that HUD's October 11, 2011 letter to the City acknowledged the City's implementation of several of the corrective actions. It also reiterated that the City must implement the remaining corrective actions which included submitting detailed plans on meeting CDBG national program objectives; developing a formal system for tracking, verifying, and reporting CDBG program income generated by subrecipients; and provide progress reports to HUD every 15 days until the remaining findings are resolved.

**Period of Availability**

We recommend that the City implement controls to ensure that it is in compliance with the CDBG timeliness standard by working with its subrecipients to meet the 1.5 threshold. In addition, we recommend that the City ensures that it complies with its workout agreement with HUD, which outlines the details of the corrective actions to be taken by the City.

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011**

**Administration's Comments:**

On site monitoring

The City is implementing the corrective actions required by HUD in its May 27, 2011 on-site monitoring letter. Some of the corrective actions have been closed by HUD, including actions related to improvements to post-development monitoring, a system for tracking and verifying program income, and conflict of interest. The City is awaiting a response from HUD to a follow-up report addressing the remaining corrective actions, and will work to resolve any remaining corrective actions.

Period of availability

The City has agreed to comply with the HUD workout agreement to achieve the 1.5 timeliness threshold by May 2, 2012, including monthly reporting on the City's progress in meeting the timeliness standard. The City calculates the timeliness ratio monthly and is working closely with subrecipients to help them expend CDBG grant funds in a timely manner.

**Anticipated Completion Date:** June 2012

**Contact Person(s):** Michael Shiroma, Acting Administrator, Community Based Development Division, Community Services  
Connie Kaneshiro, Chief Fiscal/CIP Analyst, Budget and Fiscal Services