



OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

Financial Audit of the City and County of Honolulu, State of Hawai'i

For the Fiscal Year Ended
June 30, 2016

Single Audit of Federal Financial
Assistance Programs



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INTRODUCTION



A Hawaii Limited Liability Partnership

March 29, 2017

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

Dear Chair and Members of the City Council:

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii (the City) as of and for the fiscal year ended June 30, 2016. 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. Our audit was performed in accordance with the terms of our contract with the City and with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

OBJECTIVES OF THE AUDIT

1. To provide an opinion on the fairness of the presentation of the City's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.
2. To consider the City's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.
5. To report on the status of prior year findings and questioned costs.

SCOPE OF THE AUDIT

We performed an audit of the City's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2016, 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 the provisions of the Uniform Guidance.

Our report on the basic financial statements of the City as of and for the year ended June 30, 2016 is included under a separate cover. A separate management letter containing our observations regarding the City's internal controls dated March 29, 2017 has also been issued to the City Council.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the management and staff of the City.

Sincerely,

A handwritten signature in black ink that reads "Wilcox Choy". The signature is written in a cursive, slightly slanted style.

Wilcox Choy
Partner

**REPORT 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***



A Hawaii Limited Liability Partnership

**Report 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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2016. Our report includes a reference to other auditors who have audited the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., 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 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 of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We and the other auditors did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs*, items 2016-01 and 2016-02, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2016-03 through 2016-09.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 27, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON
INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**



A Hawaii Limited Liability Partnership

Report on Compliance for Each Major Federal Program, Report on Internal Control over Compliance, and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City and County of Honolulu, State of Hawaii's (the City's) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Community Development Block Grant Program, HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster

As described in the accompanying *Schedule of Findings and Questioned Costs*, the City did not comply with requirements regarding the following:

Finding No.	CFDA No.	Program Name	Compliance Requirement
2016-03	14.218	Community Development Block Grant Program	Period of Performance
2016-04	14.218	Community Development Block Grant Program	Reporting
2016-05	14.218	Community Development Block Grant Program	Subrecipient Monitoring
2016-06	14.239	HOME Investment Partnerships Program	Subrecipient Monitoring
2016-07	14.267	Continuum of Care	Reporting
2016-08	14.267	Continuum of Care	Subrecipient Monitoring
2016-09	20.500, 20.507	Federal Transit Cluster	Special Test – Wage Rate

Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

Qualified Opinion on Community Development Block Grant Program, HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grant Program, HOME Investment Partnerships Program, Continuum of Care, and Federal Transit Cluster for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the other major federal programs identified in the Summary of Auditor’s Results section of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2016.

Other Matters

The City's responses to the noncompliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-03 through 2016-09 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-10 through 2016-12 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying *Corrective Action Plan*. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on this response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 27, 2016, which contained an unmodified opinion on those financial statements. We did not audit the financial statements of the Board of Water Supply and Oahu Transit Services, Inc., which are discretely presented component units of the City. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 29, 2017, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 27, 2016

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:				
Pass-through from the State Department of Education-- Summer Food Service Program for Children	10.559	12-351523	\$ -	\$ 125,349
Pass-through from the State Department of Human Services-- Supplemental Nutritional Assistance Program	10.561	DHS-11-SNAP-301 SA4 DHS-16-SNAP-3078	-	21,165
Pass-through from the State Department of Land and Natural Resources-- Cooperative Forestry Assistance	10.664	14-DG-11052012-122	-	18,750
Total U.S. Department of Agriculture			<u>-</u>	<u>165,264</u>
U.S. Department of Commerce:				
Pass-through from the University of Hawaii-- Sea Grant Support	11.417	MA130019	-	13,968
Pass-through from the Hawaii Emergency Management Agency-- Meteorologic and Hydrologic Modernization Development	11.467	NA13NWS4670017(NA6)	-	8,450
Total U.S. Department of Commerce			<u>-</u>	<u>22,418</u>
U.S. Department of Defense:				
Community Economic Adjustment Assistance for Reductions in Defense Spending	12.604	-	-	6,844
Total U.S. Department of Defense			<u>-</u>	<u>6,844</u>
U.S. Department of Housing and Urban Development:				
Community Development Block Grants/Entitlement Grants	14.218	-	1,631,344	3,341,656
Emergency Solutions Grant Program	14.231	-	568,979	568,979
Shelter Plus Care	14.238	-	120,002	120,002
HOME Investment Partnerships Program	14.239	-	4,434,698	5,574,633
Housing Opportunities for Persons with AIDS	14.241	-	219,437	359,450
Continuum of Care Program	14.267	-	5,848,662	5,877,315
Resident Opportunity and Supportive Services - Service Coordinators	14.870	PMB 13-04, SC02	-	97,272
Pass-through from the State Hawaii Public Housing Authority: Public and Indian Housing	14.850	PMB 13-04, SA1 & SA2	-	47,869
Family Self-Sufficiency Program	14.896	-	-	161,515
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	-	-	169,478
<i>Housing Voucher Cluster:</i>				
Mainstream Vouchers	14.879	-	-	1,449,453
Section 8 Housing Choice Vouchers	14.871	-	-	51,030,348
Pass-through from the State Hawaii Public Housing Authority Section 8 Housing Choice Vouchers: FSS	14.871	PMB 13-04, SA1 & SC02	-	46,335
<i>Total Housing Voucher Cluster</i>			<u>-</u>	<u>52,526,136</u>
Total U.S. Department of Housing and Urban Development			<u>12,823,122</u>	<u>68,844,305</u>
U.S. Department of Justice:				
Domestic Cannabis Eradication/Suppression Program	16.000	-	-	151,278
Equitable Sharing Program	16.922	-	-	2,080,854
Pass-through from the State Department of Human Services-- Juvenile Accountability Block Grants	16.523	DHS-12-OYS-264, SA5 & SA6	-	61,367
Pass-through from the State Department of Human Services: Crime Victim Assistance	16.575	12-VA-02 13-VA-02	349,950	866,300
Violence Against Women Formula Grants	16.588	13-WF-08; 14-WF-0811-WF-08 13-WF-04 14-WF-04	-	188,591
Public Safety Partnership and Community Policing Grants	16.710	-	-	199,800
Pass-through from the State Department of the Attorney General: DNA Backlog Reduction Program	16.741	-	-	129,371
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	-	327,985
Pass-through from the State Department of the Attorney General-- Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	11-DJ-0211-DJ-13 12-DJ-04 & 09 13-DJ-01 & 08	-	298,840
Total U.S. Department of Justice			<u>\$ 349,950</u>	<u>\$ 4,304,386</u>

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Labor:				
Pass-through from the State Department of Labor & Industrial Relations:				
(WIA) National Emergency Grant	17.277	WIA-12-NEG-DWT-0 WIA-14-NEG-JD-0	\$ -	\$ 220,340
Trade Adj. Asst. Comm. College and Career Training (TAACCCT) Grants	17.282	C3T-Oahu	-	17,129
Homeless Veterans Reintegration Project	17.805	-	-	2,356
<i>Workforce Investment Act (WIA) Cluster:</i>				
Workforce Investment Act - Adult Program	17.258	WIA-14-AP-0WIA-14-LAC-0	-	928,609
Workforce Investment Act - Youth Activities	17.259	WIA-14-YP-0WIA-14-LAC-0	-	917,630
WIA Dislocated Worker Formula Grants	17.278	WIA-14-DW-0WIA-14-LAC-0	-	835,864
<i>Total Workforce Investment Act Cluster</i>			-	2,682,103
Reintegration of Ex-Offenders	17.270	-	-	267,309
Youthbuild	17.274	-	-	249,710
Total U.S. Department of Labor			-	3,438,947
U.S. Department of Transportation:				
Pass-through from the State Department of Transportation & Oahu Metropolitan Planning Organization:				
<i>Highway Planning & Construction Cluster:</i>				
Highway Planning and Construction	20.205	ARR-095-1; 8915(2); BR-NBIS(53) (56) (60); CMAQ-0001(41); 0300(128); STP-0001(35) (36) (37) (40) (42) (43) (46) (47) (50) (51) (52) (55) (56) (57) (58); STP-0300 (63) (112) (132) (141); STP- 6010(1); STP-6012(1); STP-7139(1); STP- 7411(1); STP-7542(1); STP-8920(2) (3); WE201.65-07 STP-0001(36)	-	5,963,274
Highway Planning and Construction	20.205	Various (see above row)	-	5,978,763
Highway Planning and Construction	20.205	-	-	93,906
Highway Planning and Construction	20.205	-	-	325,834
Highway Planning and Construction	20.205	FHWA-206-01-12	-	20,908
Highway Planning and Construction	20.205	FLEX 2016-Project 18	-	176,986
Highway Planning and Construction	20.205	FHWA 201.01-12 202.84-11 203.05-14 203.75-09 203.83-11 203.84-13 FLEX2014 Project 4&5 FLEX2015 Project 4&11 FLEX2016 Project 9	-	319,982
<i>Total Highway Planning & Construction Cluster</i>			-	12,879,653
<i>Federal Transit Cluster:</i>				
Federal Transit - Capital Investment Grants	20.500	-	-	160,927,196
Federal Transit - Formula Grants	20.507	-	-	28,079,384
<i>Total Federal Transit Cluster</i>			-	189,006,580
<i>Transit Services Programs Cluster:</i>				
Job Access and Reverse Commute	20.516	-	-	342,209
New Freedom Program	20.521	-	-	161,923
<i>Total Transit Services Programs Cluster</i>			-	504,132
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	-	-	4,684,586
<i>Highway Safety Cluster:</i>				
Pass-through from the State Department of Transportation:				
State and Community Highway Safety	20.600	OP 15-05(01-O-01), PT16-01(01-O-01), PS16- 09(01-O-01)(02-O-01), SC15&16-06(01-O-01), TR15-03(03-O-01), DD16-10(01-O-01) EM15-04 (01-O-01)	-	978,705
National Priority Safety Programs	20.616	AL16-02(01-O-01), OP16-05(01-O-01), TR16- 03(03-O-01)	-	657,455
<i>Total Highway Safety Cluster</i>			-	1,636,160
Total U.S. Department of Transportation			\$ -	\$ 208,711,111

**City & County of Honolulu
State of Hawaii**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Environmental Protection Agency				
Pass-through from the State Department of Health-- Nonpoint Source Implementation Grants	66.460	15-066	\$ -	\$ 210,000
<i>Clean Water State Revolving Fund Cluster:</i>				
Capitalization Grants for Clean Water SRF	66.458	C150048-00	-	1,816,471
Capitalization Grants for Clean Water SRF	66.458	SOH Dept. of Health	-	3,803
Capitalization Grants for Clean Water SRF	66.458	C150046-70	-	195,979
<i>Total Clean Water State Revolving Fund Cluster</i>			-	2,016,253
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	-	-	60,021
Total Environmental Protection Agency			-	2,286,274
U.S. Department of Education:				
Pass-through from the State Department of Human Services-- Rehabilitation Services: -Vocational Rehabilitation Grants to States	84.126	DHS-12-VR-640 (SA 2, 4-5) DHS-13-VR-758-SA1 DHS-15-VR-2113 (SA1) DHS-16-VR-3071, 3074, 3075 & 3125	-	541,375
Pass-through from the State Department of Education-- 21st Century Community Learning Center	84.287	13023	-	10,231
Total U.S. Department of Education			-	551,606
U.S. Department of Health and Human Services:				
Pass-through from the State Executive Office on Aging-- Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	HON2015N03 HON2016N03	55,244	55,244
<i>Aging Cluster:</i>				
Pass-through from the State Executive Office on Aging: Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	HON2013N03 HON2015N03 HON2016N03	948,614	1,082,797
Nutrition Services Incentive Program	93.053	HON2014NSIP HONNSIPPY15	-	174,427
Special Programs for the Aging-Title III, Part C- Nutrition Services Supportive Services, (Title IIIC-1) Home Delivered Meals (Title IIIC-2)	93.045	HON2013N03 HON2015N03 HON2016N03	1,436,911	1,583,048
<i>Total Aging Cluster</i>			2,385,525	2,840,272
Pass-through from the State Executive Office on Aging-- National Family Caregiver Support, Title III, Part E	93.052	HON2013N03 HON2015N03 HON2016N03	493,637	539,566
Pass-through from the State Department of Health-- State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	PO215034 PO219784	-	46,446
Pass-through from the State Department of Human Services-- Social Services Block Grant	93.667	DHS-15-OYS-506	-	14,919
Pass-through State Department of Health-- Block Grants for Community Mental Health Services	93.958	N/A	-	456,281
Total U.S. Department of Health and Human Services			2,934,406	3,952,728
Corporation for National and Community Service				
Retired and Senior Volunteer Program	94.002	-	-	87,962
Total Corporation for National and Community Service			-	87,962
Executive Office of the President				
High Intensity Drug Trafficking Area Program	95.001	-	-	2,081,225
Total Executive Office of the President			-	2,081,225
U.S. Department of Homeland Security:				
Pass-through from the State Civil Defense <i>Homeland Security Grant</i>				
Homeland Security Grant Program:				
Citizen Corp Program	97.067	EMW-2013-SS-00003	-	28,604
Metropolitan Medical Response System Program	97.067	EMW-2014-SS-00003	-	24,920
Urban Areas Security Initiative Program	97.067	EMW-2015-SS-00003	-	635,755
State Homeland Security Program	97.067	-	-	896,920
<i>Total Homeland Security Grant</i>			-	1,586,199
Assistance to Firefighters Grant	97.044	-	-	370,482
Pass-through from the State Department of Defense Emergency Management Performance Grants	97.042	2013-EP-00006 2014-EP-00010	-	321,855
Total U.S. Department of Homeland Security			-	2,278,536
Total Expenditures of Federal Awards			\$ 16,107,478	\$ 296,731,606

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City and County of Honolulu (the City) and is presented on the cash basis of accounting and in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Schedule does not include the federal grant activity of the Board of Water Supply and Oahu Transit Services, Inc., discretely presented component units of the City.

2. Loans Outstanding

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2016, which are not presented in the Schedule.

Program Title	CFDA Number	Loans/ Advances	Loans Outstanding
Major programs			
Community Development Block Grants – Entitlement Grants	14.218	\$ -	\$ 34,780,376
HOME Investment Partnerships Program	14.239	2,000,000	21,605,468
Section 8 Housing Choice Vouchers	14.871	-	3,647,688
		<u>\$ 2,000,000</u>	<u>\$ 60,033,532</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2016, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 2,016,253
State	<u>237,027</u>
	<u>\$ 2,253,280</u>

3. Indirect Cost Rate

The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes None reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section I – Summary of Auditor’s Results (continued)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant Program
14.239	HOME Investment Partnerships Program
14.267	Continuum of Care Program
16.922	Equitable Sharing Program
20.205	Highway Planning and Construction Cluster
20.500, 20.507	Federal Transit Cluster
20.523	Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions

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

Auditee qualified as low-risk auditee? Yes No

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section II – Financial Statement Findings

Finding No. 2016-01: Deficiencies in Information Technology Controls

Type of Finding: Significant Deficiency

Criteria: 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, the establishment of internal controls over processes incorporating IT is critical to its operations. As IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should have internal controls to prevent or detect potential misstatements.

Condition: During the audit, we noted several IT control deficiencies that, when considered collectively, may impact the City’s financial statements.

Context: As part of our financial statement audit for the year ended June 30, 2016, 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 (PT&A) System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

Our review resulted in several IT control deficiencies in the areas of logical security as follows:

Logical security

- One terminated employee continued to have access to the City’s IT systems.
- No review of existing user accounts to determine the appropriateness of access rights.
- Access to a server administrator account is shared.
- Backup and monitoring alerts do not alert users of success or failure.
- Ineffective vulnerability scanning.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section II – Financial Statement Findings (continued)

Cause: The primary cause of the internal control deficiencies is that the City’s IT procedures do not incorporate internal control procedures addressing the items discussed above.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2015-01.

Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section II – Financial Statement Findings (continued)

Finding No. 2016-02: Improve Internal Controls over Accounting for Significant Nonroutine Transactions

Type of Finding: Significant Deficiency

Criteria: Accounting for nonroutine transactions may require the application of accounting principles that an entity's personnel may not be familiar with. Management should proactively identify these types of transactions and determine the proper accounting treatment in accordance with accounting principles generally accepted in the United States of America (GAAP). Management should also be actively involved in the timely review of the nonroutine transactions that are posted to the entity's accounting system to ensure that the transactions are properly recorded.

Condition: The 2015 financial statements of the BWS were restated to correct errors in the accounting for the deferred loss on refunding of debt and state revolving fund notes payable. The misstatement of the deferred loss on refunding was the result of amortizing the loss over a period shorter than the period required by GAAP. The misstatement of notes payable was due to the inclusion of the principal portion of the obligation that had been forgiven as of June 30, 2015. The resulting effect on the change in net position for the fiscal year ended June 30, 2015 was an increase of \$6,611,890 from the previously reported amount.

Cause: Both errors involved accounting for significant transactions occurring during the fiscal year ended June 30, 2015 that were outside the normal course of business for the BWS: 1) the issuance of the Series 2014A and 2014B water system revenue bonds and certain state revolving loans that were used to advance refund a portion of previously issued bonds and, 2) the receipt of state revolving fund loan proceeds under a loan agreement that contained a principal forgiveness clause.

Effect: Because of the infrequent nature of significant, nonroutine transactions, they are inherently more susceptible to material misstatement than routine transactions that an entity's personnel are accustomed to accounting for. As a result, these type of transactions have a significantly higher risk of a material error occurring.

Recommendation: Management should proactively identify significant, nonroutine accounting transactions and ensure that a process is established whereby management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and the timely review of the transactions posted to the BWS's accounting system.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs

Finding No. 2016-03: **Timeliness**

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.218
Program: Community Development Block Grant Program
Requirement: Period of Performance
Type of Finding: Material Weakness and Non-Compliance

Criteria: In accordance with 24 CFR 570.902, the U.S. Department of Housing and Urban Development (HUD) will consider a grantee to be “failing to carry out its CDBG activities in a timely manner if sixty days prior to the end of the grantee’s current program year, the amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year.”

Condition: Program funds were not expended in a timely manner.

Context: HUD notified the City via a letter dated May 2, 2016 that the City was not in compliance with the sixty-day timeliness test conducted on May 2, 2016 as the City had a line of credit of 2.17 times its annual grant. Additionally, taking into account the City’s current balance of CDBG program income and revolving loan funds, the City’s timeliness ratio increased to 2.47 for the second tier of the CDBG timeliness test.

Cause: Most of the CDBG grant funding for capital projects were awarded to nonprofit sub-recipients who had difficulty expending the funding quickly enough to meet the timeliness requirement.

Effect: 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, 2017 to reach the timeliness standard. If the City fails to meet the timeliness standard at that time, HUD may reduce the 2017 program year grant by 100 percent of the amount in excess of 1.5 times the annual grant, except where HUD determines that the untimeliness resulted from factors beyond the City’s reasonable control.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned costs: None

Recommendation: We recommend the City establish procedures to ensure that it is in compliance with the CDBG timeliness standard specified in 24 CFR 570.902. In addition, we recommend that the City ensures that it complies with the final workout agreement provided by HUD.

Contact Person: Holly Kawano, Department of Budget and Fiscal Services, Federal Grants Coordinator

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-04: Accurate Reporting and Policies and Procedures over Federal Awards

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.218
Program: Community Development Block Grant Program
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: Grantees are required to submit an annual performance and evaluation report within 90 days after the end of a grantee’s program year.

Condition: The program expenditures reported in the Consolidated Annual Performance and Evaluation Report (CAPER) was not accurate.

Context: The rehabilitation loan program expenditures reported in the CAPER Appendix C of \$834,703 does not match the \$636,799 of loan expenditures reported in the Schedule of Expenditures of Federal Awards. In the current fiscal year, there was a new employee involved with the preparation of the CAPER.

Cause: Management indicated that the difference was caused by the inclusion of encumbrances in the amount reported in the CAPER. In addition, we noted that the City does not have a uniform policy or procedures manual for federal awards.

Effect: Failure to report accurate information results in noncompliance with the reporting requirement. In addition, without a uniform policy or procedures manual and as personnel involved with the program change, there is an increased risk of non-compliance with program requirements.

Questioned costs: None

Recommendation: We recommend the City ensure that expenditure amounts reported is accurate and consider creating uniform policies and procedures related to federal awards and provide training to City employees regarding the overall federal and program-specific requirements.

Contact Person: Holly Kawano, Department of Budget and Fiscal Services, Federal Grants Coordinator

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-05: Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.218
Program: Community Development Block Grant Program
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR section 200.331 states that depending on the pass-through entity’s assessment of risk posed by the subrecipient, one monitoring tool that may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals is an on-site review of the subrecipient’s program operations.

Condition: The on-site review for one subrecipient was not performed.

Context: During our audit, we selected a non-statistical sample of 5 projects (3 Open and 2 Post-Development Monitoring projects), out of a population of 49 projects, for testing and noted one open project which did not have an on-site review completed.

Cause: Management indicated that the on-site review was not performed due to staffing shortages and other competing priorities.

Effect: Failure to perform an on-site review annually results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-06: Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.239
Program: HOME Investment Partnerships Program
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR section 200.331 states that depending on the pass-through entity’s assessment of risk posed by the subrecipient, one monitoring tool that may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals is an on-site review of the subrecipient’s program operations.

Condition: The on-site review for one subrecipient was not performed.

Context: During our audit, we selected a non-statistical sample of 7 subrecipients, out of a population of 19 subrecipients, for testing and noted one subrecipient who did not have an on-site review completed.

Cause: Management indicated that the on-site visit was not performed due to staffing shortages and other competing priorities.

Effect: Failure to perform an on-site review annually results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2015-04.

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-07: Submit Reports in a Timely Manner

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 24 CFR section 578.109(b), states applicants must submit all reports required by HUD no later than 90 days from the date of the end of the project’s grant term. Under the reporting requirements of Continuum of Care, the annual progress report (APR) must be completed and submitted timely.

Condition: Reporting requirements for two APR’s were not met.

Context: The City was required to submit two APR’s during FY 2016. During the audit, we noted that both APR’s were not submitted.

Cause: Management indicated that the APRs were not submitted due to incorrect data obtained from HMIS (Homeless Management Information System) and competing priorities.

Effect: Failure to submit reports results in noncompliance with the reporting requirement.

Questioned costs: None

Identification of repeat finding: This is a repeat finding from the immediate previous audit, 2015-06

Recommendation: We recommend the City be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-08: Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 24 CFR section 578.7(a)(6) states that program management should monitor recipient and subrecipient performance, evaluate outcomes, and take action against poor performance.

Condition: Subrecipient monitoring was not performed for all subrecipients.

Context: During our audit, management indicated that no subrecipient monitoring was performed in the current year.

Cause: Management indicated that the above exception was due to staffing shortages.

Effect: Failure to monitor subrecipients results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2015-05.

Recommendation: We recommend the City follow its procedures to monitor subrecipients.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-09: Wage Rate

Federal Agency: United States Department of Transportation
CFDA No.: 20.500, 20.507
Program: Federal Transit Cluster
Requirement: Special Tests and Provisions – Wage Rate
Type of Finding: Non-Compliance and Material Weakness

Criteria: 29 CFR Subtitle A section 5.5(ii)(A) states that the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the United States Department of Transportation (DOT) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the DOT.

Conditions: Below are the conditions noted related to the Honolulu Authority for Rapid Transportation (HART) and the Department of Transportation Services (DTS):

1. 32 instances where certified payrolls were not submitted within seven days of pay period ending (HART); and
2. No documented procedures for wage rate requirement (DTS).

Context: HART - We selected a non-statistical sample of 60 payroll submissions for testing and noted the following:

- Prior to March 2016, 40 selections were made with 26 instances where certified payrolls were not submitted within 7 days (weekly) of the pay period end date.
- Subsequent to March 2016, 20 selections were made with 6 instances where certified payrolls were not submitted within 7 days (weekly) of the pay period end date.

DTS – We tested all payroll submissions for the only contract with wage rate requirements and noted all that certified payroll were received on a timely basis. We did note that there were no controls or procedures by management to ensure the accuracy of the certified payroll. As a result, we noted 1 of 14 certified payrolls tested had an error.

Cause: HART – Although HART has established policies and procedures in place to ensure compliance with statutory, regulatory, and contractual requirements, there was a lack of diligence in following the established policies and procedures.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

DTS - There are no documented procedures related to controls over certified payrolls. As a result, DTS personnel did not review certified payrolls.

Effect: HART – Failure to provide weekly payroll information within the required timeframe resulted in non-compliance with the program requirements.

DTS – A lack of policies and procedures related to certified payrolls demonstrates a material weakness that may lead to material non-compliance with the program requirements.

Questioned costs: None

Identification of repeat finding: This is a repeat finding from the immediate previous audit, 2015-07

Recommendation: HART – We recommend that management diligently and consistently follow its policies and procedures.

DTS - We recommend that management create procedures to recalculate and check certified payrolls to ensure accuracy.

Contact Person: Douglas Cullison, Planner VI, Honolulu Authority for Rapid Transportation
Jon Nouchi, Deputy Director, Department of Transportation Services

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-10: Perform Excluded Parties Listing Search (EPLS)

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: Continuum of Care
Requirement: Procurement
Type of Finding: Significant Deficiency

Criteria: In accordance with 2 CFR 215.13, "subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities." To ensure compliance, the City performs an EPLS check prior to the execution of the subrecipient agreement.

Condition: The EPLS check was not performed prior to the execution of a contract with a vendor.

Context: For all four contracts tested, a non-statistical sample out of a population of seven new contracts, we noted no documentation that an EPLS check was performed prior to the execution of the subrecipient agreement. In the current fiscal year, we noted that all of the program's subrecipients had agreements with the City in the prior year. We also re-performed the EPLS check for the contracts tested and noted no subrecipients were debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Cause: Management indicated the check was performed; however, documentation was not retained.

Effect: Failure to perform EPLS checks could result in noncompliance with the procurement requirement.

Questioned costs: None

Identification of repeat finding: This is a repeat finding from the immediate previous audit, 2015-08

Recommendation: We recommend the City establish procedures to perform and retain EPLS check documentation prior to executing a subrecipient agreement to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Contact Person: Keith Ishida, Department of Community Services Division Chief

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-11: Perform Excluded Parties Listing Search (EPLS)

Federal Agency: United States Department of Justice
CFDA No.: 16.922
Program: Equitable Sharing Program
Requirement: Procurement
Type of Finding: Significant Deficiency

Criteria: In accordance with 2 CFR 200.213, “regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.” To ensure compliance, the City performs an EPLS check prior to the execution of the contract.

Condition: The EPLS check was not performed prior to the execution of a contract with a vendor.

Context: For 1 out of 2 contracts tested, a non-statistical sample out of a population of six new contracts, there was no documentation that an EPLS check was performed prior to the execution of the contract.

We re-performed the EPLS check for the contracts tested and noted no vendors were debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Cause: Management indicated the EPLS check was overlooked for this contract due to initial uncertainty in whether the contract would be federally or locally funded.

Effect: Failure to perform EPLS checks could result in noncompliance with the procurement requirement.

Questioned costs: None

Recommendation: We recommend the City follow their procedures to perform and retain EPLS check documentation prior to executing a contract to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Contact Person: Mike Hiu, Assistant Central Purchasing and Contracts Administrator

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No. 2016-12: Perform Excluded Parties Listing Search (EPLS)

Federal Agency: United States Department of Transportation
CFDA No.: 20.205
Program: Highway Planning and Construction
Requirement: Procurement
Type of Finding: Significant Deficiency

Criteria: In accordance with 2 CFR 1201.317, subrecipients of States shall follow such policies and procedures allowed by the State when procuring property and services under a Federal award. Further, in accordance with 2 CFR 200.213, “regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.” To ensure compliance, the City performs an Excluded Party Listing Search (EPLS) check prior to the execution of the contract.

Condition: The EPLS check was not performed prior to the execution of a contract with a consultant.

Context: For 1 out of 2 contracts tested, a non-statistical sample out of a population of 4 new contracts, there was no documentation that an EPLS check was performed prior to the execution of the contract. We re-performed the EPLS check for the contracts tested and noted no vendors were debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Cause: Management indicated that there are documented procedures to perform the EPLS check prior to execution of the contract, however, no documentation was retained for 1 out of the 2 contracts tested.

Effect: Failure to retain copies of executed contracts or perform EPLS checks could result in noncompliance with the procurement requirement.

Questioned costs: None

Recommendation: We recommend the City follow their procedures to perform and retain EPLS check documentation prior to executing a contract to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Contact Person: Mike Hiu, Assistant Central Purchasing and Contracts Administrator

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Financial Statement Findings

Finding No.: 2015-1 Deficiencies in Information Technology Controls (Significant Deficiency)

Condition, cause, and context: As part of our financial statement audit for the year ended June 30, 2015, 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 (PT&A) System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

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

Logical security

- No effective periodic reviews of certain servers/databases were performed to detect whether terminated individuals are able to log in to the IT systems.
- No effective periodic reviews of certain servers/databases performed to recertify if access rights granted to employees were commensurate with their job responsibilities.
- Lack of segregation of duties in certain areas of security administration for a particular system.
- User IDs to directly access the database is shared.
- Excessive user accounts with domain administrative privileges.
- Password configurations for a specific server do not meet standards.
- Developers of a specific application have access to application production.
- Ineffective vulnerability scanning.

Change Management Review

- Direct Data Changes – direct data changes are not restricted, monitored or approved as shared IDs are utilized.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2016

The primary cause of the internal control deficiencies is that the City's IT procedures do not incorporate internal control procedures addressing the items discussed above.

Recommendation: We recommend that the City perform the following:

- Update its IT 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 systems limitations.

Status: Partially resolved. See finding 2016-01.

Finding No.: 2015-2 Real Property Tax Exemptions (Significant Deficiency)

Condition, cause, and context: During the audit, we noted that 2 out of the 73 real property tax exemptions tested did not have documentation to support the exemptions granted. Management indicated that eight years ago, hard copies of the exemptions were scanned by a vendor and subsequently destroyed. Maintenance of this documentation is important because real property taxes is the City's largest source of revenue and these signed forms are the only evidence of a proper tax exemption. During our discussion with management, due to the structure of the exemption database, there is currently no simple way to determine the extent of the missing documentation.

Recommendation: We recommend the City investigate to determine if there are any additional documentation missing from its records. Also, we recommend the City improve internal controls to ensure adequate records are kept.

Status: The comment is no longer applicable.

Finding No.: 2015-3 Sewer Fund Capital Asset (Significant Deficiency)

Condition, cause, and context: During the audit, we noted two capital asset projects totaling approximately \$1.1 million that were improperly capitalized resulting in proposed adjustments (unrecorded) to the Sewer Fund financial statements. One project was inactive/abandoned in the current year and should have been expensed in the current year. The other project was completed prior to year-end and should have transferred into the proper asset class upon completion.

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2016

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

Recommendation: We recommend the City be more diligent in performing its existing procedures.

Status: The comment is no longer applicable.

HOME Investment Partnerships Program CFDA 14.239

Finding No.: 2015-4 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

Condition, cause and context: For 1 out of 10 subrecipients tested, we noted that no on-site subrecipient monitoring was performed. The subrecipient was assessed and scheduled for on-site monitoring, however management indicated that due to staffing shortages, the on-site visit was not performed.

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Status: The comment is still applicable. See finding 2016-06.

Continuum of Care CFDA No. 14.267

Finding No.: 2015-5 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

Condition, cause and context: We tested 4 subrecipients for compliance with statutory, regulatory, and contractual requirements and related internal controls over subrecipient monitoring and noted the following:

- 1) For 1 out of 4 subrecipients tested, no on-site monitoring was performed; and
- 2) For remaining 3 out of 4 subrecipients tested, monitoring letters for on-site monitoring completed over five to six months ago were still in draft form or incomplete;

Management indicated that the above exceptions were due to staffing shortages.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2016

Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis.

Status: The comment is still applicable. See finding 2016-08.

Continuum of Care CFDA No. 14.267

Finding No.: 2015-6 Submit Reports in a Timely Manner (Non-Compliance and Material Weakness)

Condition, cause and context: Under the program requirements of CFDA No. 14.267, the annual progress report (APR) must be completed and submitted timely. The program was required to submit two APRs during FY 2015.

During our audit, we noted that one of the APRs was not submitted on a timely basis (9 days late). Management indicated that APR was submitted late due to late submission by one of the subrecipients.

Recommendation: We recommend the City establish controls to gather required reporting information timely from subrecipients to ensure compliance.

Status: The comment is still applicable. See finding 2016-07.

Federal Transit Cluster CFDA 20.500, 20.507

Finding No.: 2015-7 Wage Rate (Non-Compliance and Material Weakness)

Condition, cause and context: We tested 60 contracted projects for compliance with statutory, regulatory, and contractual requirements and related internal controls over special tests and noted the following:

- 1) Fifty instances where certified payrolls were not submitted within 7 days of pay period ending, and
- 2) One instance where the Honolulu Authority for Rapid Transportation (HART) was missing a non-performance report.

Although HART has established policies and procedures in place to ensure compliance with statutory, regulatory, and contractual requirements, there was a lack of diligence in following the established policies and procedures.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2016

Recommendation: We recommend the City be more diligent in consistently following its policies and procedures to ensure compliance.

Status: This finding is still applicable. See finding 2016-09.

Continuum of Care CFDA 14.267

Finding No.: 2015-8 Perform Excluded Party Listing Search (EPLS) (Significant Deficiency)

Condition, cause and context: For 4 out of 4 contracts tested, we noted no documentation that an EPLS check was performed prior to the execution of the subrecipient agreement. Management indicated the check was performed; however, documentation was not retained.

In the current fiscal year, we noted that all of the program's subrecipients had agreements with the City in the prior year. We also re-performed the EPLS check for the contracts tested and noted no subrecipients were debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Recommendation: We recommend the City establish procedures to perform and retain EPLS check documentation prior to executing a subrecipient agreement to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Status: The comment is still applicable. See finding 2016-10.

Federal Transit Cluster CFDA 20.500, 20.507

Finding No.: 2015-9 Obtain DUNS Number Prior to Contract Execution (Significant Deficiency)

Condition, cause and context: For 1 out of 2 subrecipient contracts tested, the DUNS number was obtained after the execution of the subrecipient agreement. Management indicated that they were not aware of this requirement.

Recommendation: We recommend the City establish procedures to obtain the DUNS number prior to executing a subrecipient agreement to ensure compliance.

Status: This comment is no longer applicable.

CORRECTIVE ACTION PLAN

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2016-01: Deficiencies in Information Technology Controls

Audit Recommendation: We recommend that the City perform the following:

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.

Administration's Comment: DIT has corrected the deficiencies and updated its procedures as applicable. Processes have been, or will be, automated to help ensure that the procedures are consistently followed.

Anticipated Completion Date: June 2017

Contact Person(s): Mark D. Wong, Director and CIO, Department of Information Technology
Keith G.H. Ho, Deputy Director, Department of Information Technology

Finding No. 2016-02: Improve Internal Controls over Accounting for Significant Nonroutine Transactions

Audit Recommendation: Management should proactively identify significant, nonroutine accounting transactions and ensure that a process is established whereby management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and the timely review of the transactions posted to the BWS's accounting system.

Administration's Comments: At the regular meetings of the management and senior staff of the BWS Finance Division, the agenda will include recurring topics that focus on non-routine transactions, new accounting pronouncements, financial risk, and other current issues. The Finance Division's management will track, address and document the issues to properly report the transactions in the financial statements.

Anticipated Completion Date: Ongoing

Contact Person(s): Joe Cooper, Waterworks Controller, Board of Water Supply

Finding No. 2016-03: Timeliness

Audit Recommendation: We recommend the City establish procedures to ensure that it is in compliance with the CDBG timeliness standard specified in 24 CFR 570.902. In addition, we recommend that the City ensures that it complies with the final workout agreement provided by HUD.

Administration's Comment: Procedures will be established to ensure compliance with the CDBG timeliness standard and HUD's final workout agreement.

Anticipated Completion Date: June 2017

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

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Finding No. 2016-04: Accurate Reporting and Policies and Procedures over Federal Awards

Audit Recommendation: We recommend the City ensure that expenditure amounts reported are accurate and consider creating uniform policies and procedures related to federal awards and provide training to City employees regarding the overall federal and program-specific requirements.

Administration's Comment: The policies and procedures related to federal awards will be updated for uniformity, and Federal Grants Administration staff will begin planning to train City employees regarding the overall federal and program-specific requirements.

Anticipated Completion Date: June 2017

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

Finding No. 2016-05: Perform Annual Subrecipient Monitoring Duties

Audit Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Administration's Comment: Subrecipients will be monitored on a timely basis in accordance with the Department of Community Services' established policies.

Anticipated Completion Dates: June 2017

Contact Person(s): Keith Ishida, Department of Community Services Division Chief

Finding No. 2016-06: Perform Annual Subrecipient Monitoring Duties

Audit Recommendation: We recommend the City follow its procedures to monitor subrecipients on a timely basis, in accordance with their policy.

Administration's Comment: See response to Finding No. 2016-05 above.

Anticipated Completion Date: June 2017

Contact Person(s): Keith Ishida, Department of Community Services Division Chief

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Finding No. 2016-07: Submit Reports in a Timely Manner

Audit Recommendation: We recommend the City be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Administration's Comment: DCS will be more diligent in following HUD deadlines in order to ensure compliance with Federal requirements.

Anticipated Completion Date: June 2017

Contact Person(s): Keith Ishida, Department of Community Services Division Chief

Finding No. 2016-08: Perform Annual Subrecipient Monitoring Duties

Audit Recommendation: We recommend the City follow its procedures to monitor subrecipients.

Administration's Comment: Continuum of Care subrecipients will be monitored on an annual basis in accordance with the Department of Community Services' established policy.

Anticipated Completion Date: June 2017

Contact Person(s): Keith Ishida, Department of Community Services Division Chief

Finding No. 2016-09: Wage Rate

Audit Recommendation: HART – We recommend that management diligently and consistently follow its policies and procedures.

DTS – We recommend that management create procedures to recalculate and check certified payrolls to ensure accuracy.

Administration's Comment: HART – The contractor was directed to comply with the federal seven-day certified payroll submission requirement. For more recently executed contracts, prime contractors and subcontractors submit their payroll electronically through a labor compliance software program, enhancing the certification process.

DTS – Procedures to check certified payroll will be developed.

Anticipated Completion Date: June 2017

Contact Person(s): Douglas Cullison, Planner VI, Honolulu Authority for Rapid Transportation
Jon Nouchi, Deputy Director, Department of Transportation Services

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Finding No. 2016-10: Perform Excluded Parties List System (EPLS) Searches

Audit Recommendation: We recommend the City establish procedures to perform and retain EPLS check documentation prior to executing a subrecipient agreement to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Administration's Comment: EPLS searches will be completed for all Continuum of Care contracts prior to execution.

Anticipated Completion Date: June 2017

Contact Person(s): Keith Ishida, Department of Community Services Division Chief

Finding No. 2016-11: Perform Excluded Parties List System (EPLS) Searches

Audit Recommendation: We recommend the City establish procedures to perform and retain EPLS check documentation prior to executing a contract to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Administration's Comment: Procedures will be established to perform the EPLS search for all procurements of \$25,000 or more prior to executing a contract, and to retain the documentation of such checks.

Anticipated Completion Date: March 2017

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

Finding No. 2016-12: Procurement

Audit Recommendation: We recommend the City follow their procedures to perform and retain executed contracts and EPLS check documentation prior to executing a contract to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Administration's Comment: See response to Finding No. 216-11 above.

Anticipated Completion Date: March 2017

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