



Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

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

**For the Fiscal Year Ended
June 30, 2017**

**Single Audit of Federal Financial
Assistance Programs**

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INTRODUCTION



A Hawaii Limited Liability Partnership

March 23, 2018

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, 2017. 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, 2017 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, 2017, 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, 2017 is included under a separate cover. A separate management letter containing our observations regarding the City's internal controls dated March 23, 2018 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, 2017, 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 26, 2017. 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. 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 2017-001 and 2017-002, 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 2017-003 through 2017-010.

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 26, 2017

**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, 2017. 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 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 the Major Federal Programs in the Table Below

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
2017-003	14.218	CDBG – Entitlement Grants Cluster	Period of Performance
2017-004	14.218	CDBG – Entitlement Grants Cluster	Subrecipient Monitoring
2017-005	14.239	HOME Investment Partnerships Program	Subrecipient Monitoring
2017-006	14.267	Continuum of Care	Reporting
2017-007	14.871 14.879	Housing Choice Voucher Cluster	Eligibility
2017-008	14.871 14.879	Housing Choice Voucher Cluster	Reporting
2017-009	20.500 20.507 20.525 20.526	Federal Transit Cluster	Allowable Costs/Activities Allowed
2017-010	20.500 20.507 20.525 20.526	Federal Transit Cluster	Reporting

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

Qualified Opinion on the Major Federal Programs in the Table Above

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 major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2017.

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, 2017.

Other Matters

The City's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal 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.

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 2017-003 through 2017-010 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 2017-011 and 2017-012 to be significant deficiencies.

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 material weaknesses or significant deficiencies. However, as discussed above, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 26, 2017, 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 23, 2018, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 26, 2017

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

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2017

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:				
<i>Child Nutrition Cluster:</i>				
Pass-through State Department of Education -- Summer Food Service Program for Children <i>Total Child Nutrition Cluster</i>	10.559	12-351523	\$ - -	\$ 123,058 123,058
<i>Supplemental Nutrition Assistance Program SNAP Cluster:</i>				
Pass-through State Department of Human Services -- Supplemental Nutritional Assistance Program <i>Total SNAP Cluster</i>	10.561	DHS-16-SNAP-3078; DHS-16-SNAP-3078, SA1	- -	19,732 19,732
Pass-through State Department of Land and Natural Resources -- Cooperative Forestry Assistance	10.664	15-DG-11052012-122	-	10,000
Total U.S. Department of Agriculture			-	152,790
U.S. Department of Defense:				
Community Economic Adjustment Assistance for Reductions in Defense Spending Total U.S. Department of Defense	12.604		- -	221,677 221,677
U.S. Department of Housing and Urban Development:				
<i>CDBG-Entitlement Grants Cluster:</i>				
Community Development Block Grants/Entitlement Grants <i>Total CDBG-Entitlement Grants Cluster</i>	14.218		4,907,493 4,907,493	6,559,484 6,559,484
Emergency Solutions Grant Program	14.231		623,279	636,188
HOME Investment Partnerships Program	14.239		1,129,807	2,351,654
Housing Opportunities for Persons with AIDS	14.241		450,030	450,063
Continuum of Care Program	14.267		7,073,328	7,115,743
Family Self-Sufficiency Program	14.896		-	185,703
<i>Pass-through State Hawaii Public Housing Authority:</i>				
Resident Opportunity and Supportive Services - Service Coordinators	14.870	SPB 16-02	-	132,031
Public and Indian Housing	14.850	PMB 13-04, SC02; SPB 16-02	-	70,441
<i>Section 8 Project-Based Cluster:</i>				
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation <i>Total Section 8 Project-Based Cluster</i>	14.856		- -	158,587 158,587
<i>Housing Voucher Cluster:</i>				
Mainstream Vouchers	14.879		-	1,479,937
Section 8 Housing Choice Vouchers	14.871		-	51,776,858
<i>Pass-through State Hawaii Public Housing Authority --</i>				
Section 8 Housing Choice Vouchers: FSS <i>Total Housing Voucher Cluster</i>	14.871	PMB 07-06, SA3; 09-03; 13-04,SC02; SPB 16-02	- -	78,248 53,335,043
Total U.S. Department of Housing and Urban Development			14,183,937	70,994,937
U.S. Department of Justice:				
Domestic Cannabis Eradication/Suppression Program	16.000		-	51,570
Equitable Sharing Program	16.922		-	61,479
Public Safety Partnership and Community Policing Grants	16.710		-	441
DNA Backlog Reduction Program	16.741		-	191,380
<i>Pass-through State Department of Human Services --</i>				
Juvenile Accountability Block Grants	16.523	DHS-12-OYS-264, SA6	-	67,100
<i>Pass-through State Department of Attorney General --</i>				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	15-CD-03	-	26,774
Crime Victim Assistance	16.575	13-VA-02; 14-VA-02	340,390	1,267,121
Violence Against Women Formula Grants (Non-ARRA)	16.588	13-WF-08; 14-WF-0814-WF-04	-	91,812
Edward Byrne Memorial Justice Assistance Grant Program	16.738		-	304,370
<i>Pass-through State Department of Attorney General --</i>				
Eward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2015-DC-NY-K00211-DJ-13; 12-DJ-09; 13-DJ-01; 14-DJ-02 & 03; 15-DJ-09 & 11	-	326,857
Total U.S. Department of Justice			340,390	2,388,904
U.S. Department of Labor:				
<i>Pass-through State Department of Labor & Industrial Relations --</i>				
(WIA) National Emergency Grant	17.277	WIA 12-NEG-DWT-0; 14-NEG-JD-0	-	79,292
<i>Workforce Investment Act (WIA) Cluster:</i>				
<i>Pass-through State Department of Labor & Industrial Relations:</i>				
Workforce Investment Act - Adult Program	17.258	WIOA 15-AP-0; 16-AP-0; 16-DW-0 (Adult)WIOA 15-LAC-0; 16-LAC-0	-	879,579
Workforce Investment Act - Youth Activities	17.259	WIOA-15-YP-0WIOA 15-LAC-0; 16-LAC-0	-	742,490
WIOA Dislocated Worker Formula Grants <i>Total Workforce Investment Act Cluster</i>	17.278	WIOA 15-DW-0WIOA 15-LAC-0; 16-LAC-0	- -	527,659 2,149,728
YouthBuild	17.274		-	187,368
Total U.S. Department of Labor			-	2,416,388

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

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2017

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 Transportation:				
<i>Highway Planning & Construction Cluster:</i>				
Highway Planning and Construction	20.205		-	61,282
Pass-through State Department of Transportation & Oahu Metropolitan Planning Organization: Highway Planning and Construction	20.205	ARR-095-1(1) ARR-8915(2) BR-NBIS (49) (60) CMAQ-0001 (41) CMAQ-0300(128) FLH-0300(90) FTA-5303 PI-0052(037) STP-0001(030) (034) (035) (036) (040) (043) (046) (047) (050) (051) (052) (055) (056) (057) (058) (060) STP-0300(051) (058) (063) (112) (132) (141) STP-6010(001) STP-7139(1) STP-7411(1) STP-7502(1) STP-7542(001) STP-8920(002) (003)	-	9,278,298
Highway Planning and Construction	20.205	(see above row)	-	10,821,657
Highway Planning and Construction	20.205	BR-NBIS-064	-	6,970
Highway Planning and Construction	20.205	Flex 2016 Project 2 & Project 11	-	90,137
Highway Planning and Construction	20.205	Flex 2016 Project 12	-	57,467
Highway Planning and Construction	20.205	FHWA 201.01-12, 203.05-14, 203.75-09, 203.79-10, 203.80-10, 203.83-11, 203.84.13; FLEX 2016-Project 1 & 9	-	65,343
<i>Total Highway Planning & Construction Cluster:</i>			-	20,381,154
<i>Federal Transit Cluster:</i>				
Federal Transit - Capital Investment Grants	20.500		-	217,931,979
Federal Transit - Formula Grants	20.507		297,346	29,904,678
State of Good Repair Grants Program	20.525		-	1,786,463
Bus and Bus Facilities Formula Program	20.526		-	290,500
<i>Total Federal Transit Cluster:</i>			297,346	249,913,620
<i>Transit Services Programs Cluster:</i>				
Job Access and Reverse Commute	20.516		-	299,153
New Freedom Program	20.521		-	137,367
<i>Total Transit Services Programs Cluster:</i>			-	436,520
Pass-through State Department of Transportation:				
Alcohol Open Container Requirements	20.607	AL 16-02(01-O-01)	-	81,128
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL 16-02(01-O-01)	-	148,883
<i>Highway Safety Cluster:</i>				
Pass-through State Department of Transportation: State and Community Highway Safety	20.600	DD17-10(01-O-01); OP17-05(01-O-01); PS15-09(02-O-01), 16-09(01-O-01), 16-09(02-O-01), 17-09(01-O-01); PT16-01(01-O-01); SC16-06(01-O-01), 17-06(01-O-01)PS17-09 (06-O-01)	-	453,738
National Priority Safety Programs	20.616	AL 16-02(01-O-01), 17-02(01-O-01); OP 16-05(01-O-01); TR 16-03(03-O-01)	-	440,611
<i>Total Highway Safety Cluster</i>			-	894,349
Total U.S. Department of Transportation			297,346	271,855,654
Environmental Protection Agency:				
<i>Clean Water State Revolving Fund Cluster:</i>				
Pass-through State Department of Health:				
Capitalization Grants for Clean Water SRF	66.458	C150048-00	-	965,975
Capitalization Grants for Clean Water SRF	66.458	C150046-68	-	6,436
Capitalization Grants for Clean Water SRF	66.458	C150046-70	-	12,265
<i>Total Clean Water State Revolving Fund Cluster</i>			-	984,676
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		-	91,499
Total Environmental Protection Agency			-	1,076,175
U.S. Department of Education:				
Pass-through State Department of Human Services -- Rehabilitation Services:				
-Vocational Rehabilitation Grants to States	84.126	DHS 12-VR-640 SA2, SA3; 15-VR-2113 SA1; 16-VR-3071, 3074 3075, 3125 (Mod 1); 17-VR-4100	-	902,795
Total Vocational Rehabilitation			-	902,795
Total U.S. Department of Education			-	902,795

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

Schedule of Expenditures of Federal Awards (SEFA)
Year Ended June 30, 2017

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 Health and Human Services:				
Pass-through State Executive Office on Aging -- Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	HON2016N03	49,344	49,344
<i>Aging Cluster:</i>				
Pass-through State Executive Office on Aging: Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	HON2015N03; HON2016N03	1,129,553	1,218,881
Nutrition Services Incentive Program	93.053	HON2016NSIP; HON2017NSIP	-	257,484
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	HON2013N03; HON2015N03; HON2016N03	1,558,682	1,566,179
<i>Total Aging Cluster</i>			<u>2,688,235</u>	<u>3,042,544</u>
Pass-through State Executive Office on Aging -- National Family Caregiver Support, Title III, Part E	93.052	HON2015N03; HON2016N03	271,345	303,947
Pass-through State Department of Health: Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	ASO Log 16-125	-	23,894
Block Grants for Community Mental Health Services	93.958	n/a	-	394,603
Total U.S. Department of Health and Human Services			<u><u>3,008,924</u></u>	<u><u>3,814,332</u></u>
Corporation for National and Community Service				
Retired and Senior Volunteer Program	94.002		-	89,643
Total Corporation for National and Community Service			<u><u>-</u></u>	<u><u>89,643</u></u>
Executive Office of the President				
High Intensity Drug Trafficking Area Program	95.001		-	1,575,100
Total Executive Office of the President			<u><u>-</u></u>	<u><u>1,575,100</u></u>
U.S. Department of Homeland Security:				
Assistance to Firefighters Grant	97.044		-	883,637
Pass-through State Department of Defense: Emergency Management Performance Grants	97.042	EMW 2014-EP-00010	-	157,045
<i>Homeland Security Grant Program:</i>				
Citizen Corp Program	97.067	EMW 2014-SS-00003	-	4,907
Urban Areas Security Initiative Program	97.067	EMW 2015-SS-00003	-	1,482,856
State Homeland Security Program	97.067	EMW 2011-SS-00129	-	385,814
<i>Total Homeland Security Grant Program</i>			<u>-</u>	<u>1,873,577</u>
Total U.S. Department of Homeland Security			<u><u>-</u></u>	<u><u>2,914,259</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 17,830,597</u></u>	<u><u>\$ 358,402,654</u></u>

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

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, 2017, 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	\$ -	\$ 33,322,990
HOME Investment Partnerships Program	14.239	-	21,680,254
Section 8 Housing Choice Vouchers	14.871	-	3,647,688
		<u>\$ -</u>	<u>\$ 58,650,932</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2017, federal awards and state revolving fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 984,676
State	<u>125,530</u>
	<u>\$ 1,110,206</u>

4. 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, 2017

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, 2017

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	CDBG – Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
14.267	Continuum of Care Program
14.871, 14.879	Housing Voucher Cluster
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster

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, 2017

Section II – Financial Statement Findings

Finding No. 2017-001: 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, 2017, 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 as follows:

- Access to a server administrator account is shared.
- Disaster recovery plan not updated or tested for effective implementation.
- Security patches not applied as Third Party Systems hosted are not required to follow patch management schedule.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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, 2016-01.

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, 2017

Section II – Financial Statement Findings (continued)

Finding No. 2017-002: Accounting and Financial Reporting of Investments

Type of Finding: Significant Deficiency

Criteria: In accordance with Statement No. 31 of the Government Accounting Standards Board (GASB 31), “*Accounting and Financial Reporting for Certain Investments and External Investment Pools*,” participating investment contract that have a remaining maturity, at the time of purchase, of greater than one year should be recorded at fair value.

Condition: During the 2017 audit, we noted that participating investment contracts with maturities greater than one year were improperly recorded at amortized cost resulting in misstatements of approximately \$845,000, \$237,000, and \$2,114,000, to the General, Solid Waste, and Sewer Fund financial statements, respectively. Adjustments were proposed, which management recorded, to correct the misstatements identified.

Context: In 2017, the City starting investing in participating investment contracts with maturities, at the time of purchase, of greater than one year.

Cause: Management did not have policies and procedures to identify investments that meet the criteria of being recorded at fair value.

Effect: The issue noted above resulted in adjustments to various funds. As there were no policies and procedures to identify appropriate accounting of investments, material misstatements could occur in the future.

Identification of a repeat finding: Not applicable

Recommendation: Management should create policies and procedures to record investments in accordance to U.S. GAAP.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding No. 2017-003: Timeliness

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.218
Program: CDBG – Entitlement Grants Cluster
Award Number and Year B-16-MC-15-0001 2017
B-15-MC-15-0001 2016
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 December 4, 2017 that the City was not in compliance with the sixty-day timeliness test conducted on May 2, 2017 as the City had a line of credit of 1.78 times its annual grant.

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 HUD reduced the City’s fiscal year 2017 grant by \$815,360. This represents an 11 percent reduction in the City’s 2017 program year allocation of \$7,209,223 and is the amount by which the standard was exceeded minus credit for Revolving Loan Funds that were under contract with rehabilitation contractors. The City has until May 2, 2018 to reach the timeliness standard. If the City fails to meet the timeliness standard at that time, HUD may reduce the fiscal year 2017 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, 2017

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

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-03.

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 determined with HUD.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No. 2017-004: Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.218
Program: CDBG – Entitlement Grants Cluster
Award Number and Year B-16-MC-15-0001 2017
B-15-MC-15-0001 2016
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. 2 CFR 200.331(b) states that pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: The on-site review for two subrecipients selected for testing were not performed. Further noted that only 3 of the 38 open projects had an on-site review during the year. Also, documentation of the approved risk assessment for open projects being performed at the beginning of the fiscal year could not be provided.

Context: During our audit, we selected a non-statistical sample of 8 projects (5 Open and 3 Post-Development Monitoring projects), out of a population of 56 projects, for testing and noted two open projects which did not have an on-site review completed. Per the City’s CDBG Monitoring Policies and Procedures, “the CDBB [Community Based Development Division] policy is to conduct at least one subrecipient monitoring visit every year for each subrecipient with an open CDBG activity”.

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.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-05.

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

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No. 2017-005: Perform Annual Subrecipient Monitoring Duties

Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.239
Program: HOME Investment Partnerships Program
Award Number and Year M16-MC150201 2017
M15-MC150201 2016
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. 2 CFR 200.331(b) states that pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: The on-site review for one subrecipient selected for testing was not performed. Also, the risk assessment for open projects was not performed.

Context: During our audit, we selected a non-statistical sample of 5 subrecipients (2 Open and 3 Post-Development Monitoring projects), out of a population of 19 subrecipients, for testing and noted one subrecipient who did not have an on-site review completed. The on-site review was completed for one out of the 6 open subrecipients.

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

Effect: Failure to evaluate each subrecipient’s risk of noncompliance and perform an on-site review annually results in noncompliance with the subrecipient monitoring requirement.

Questioned costs: None

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-06.

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

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No. 2017-006: Submit Reports in a Timely Manner

Federal Agency: United States Department of Housing and Urban Development

CFDA No.: 14.267

Program: Continuum of Care

Award Number and Year HI0029L9C011508 2016 – 2017

 HI0035L9C011407 2016 – 2017

 HI0034L9C011407 2016 – 2017

 HI0051C9C011000 2016 – 2017

 HI0061C9C011100 2016 – 2017

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 five APRs were not met.

Context: The City was required to submit eight APRs during FY 2017. During the audit, we noted that two APRs were not submitted, two APRs were submitted after the 90 day requirement, and one APR was rejected and not corrected.

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, 2016-07.

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

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No.: 2017-007: Ensuring Tenant Files Properly Support Eligibility Determinations

Federal Agency: Department of Housing and Urban Development
CFDA No.: 14.871, 14.879
Program: Housing Choice Voucher Cluster
Award Number and Year: N/A 2017
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: The City administers the program under the Operational Procedures Manual (the Manual). The Manual incorporates the requirements of Title 24 of the Code of Federal Regulations, Parts 1, 5, 8, 882, 888, and 982 and requires each family to complete an application form for consideration of admission to the program. The current application form is referred to as the “Section 8 Household Application/Annual Update Form” (the Application). The Application is used to document the household’s asset, income and family identity information and the results of the verification of that information. The Application must be signed by all adult members of the household and a “Housing Examiner.”

Condition: 19 of the program’s eligibility determinations contained errors or missing documentation.

Context: We selected a non-statistical sample of 60 tenant files out of a population of 3,535 for testing. The tenant files selected represented benefit payments of approximately \$69,000 out of a total benefit payment population of approximately \$49 million. The results of our testing were the following:

- 1 tenant file where the verification of the tenant’s legal identity was not maintained resulting in questioned costs of \$1,214.
- 7 tenant files where the Housing Examiner’s signature was missing from the Application resulting in questioned costs of \$6,783.
- 1 tenant file where the adult tenant’s signature was missing from the Application resulting in questioned costs of \$1,177.
- 10 tenant files where reported income or asset information did not agree to amounts verified. These errors did not impact eligibility determinations or benefit payment amounts.

Cause: Although the City has policies and procedures in place to ensure that eligibility determinations are properly supported, there was a lack of diligence in complying with the policies and procedures.

Effect: The City was not compliant with the program’s eligibility requirements and may have incurred unallowable costs.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Questioned Costs: \$9,174

Identification of a repeat finding: Not applicable

Recommendations: We recommend the City be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No.: 2017-008	Timely Reporting
Federal Agency:	Department of Housing and Urban Development
CFDA No.:	14.871/14.879
Program:	Housing Choice Voucher Cluster
Award Number and Year	N/A 2017
Requirement:	Reporting
Type of Finding:	Non-Compliance and Material Weakness

Criteria: 24 CFR 5.801 requires a Public Housing Agency (PHA) to submit unaudited financial statements prepared in accordance with generally accepted accounting principles, as further defined by HUD in supplementary guidance, no later than 60 days after the end of its fiscal year and audited financial statements no later than 9 months after the PHA's fiscal year end. The financial statements must be submitted via the Financial Assessment Subsystem (FASS-PH).

Condition: The required financial statements were not submitted in a timely manner.

Context: We selected the unaudited and audited financial statements as of and for the year ended June 30, 2016 and the unaudited financial statements as of and for the year ended June 30, 2017 and noted the following:

- The audited financial statements as of and for the year ended June 30, 2016 was submitted and rejected on March 31, 2017. The rejection notice provided a revised due date of June 17, 2017, however the resubmission did not occur until February 27, 2018, approximately 8 months after the revised due date.
- The unaudited financial statements as of and for the year ended June 30, 2017 was initially submitted on September 21, 2017. The financial statements were rejected and resubmitted and accepted on October 6, 2017.

Although the program is required to submit several reports, the FASS-PH system is one of HUD's main monitoring and oversight systems for the program.

Cause: The program does not have documented policies and procedures to address the reporting requirements related to unaudited and audited financial statements. The party responsible for submission of the June 30, 2016 audited financial statements left the program shortly after the initial submission. Additionally, the party currently responsible for submitting the unaudited and audited financial statements is new to the program and was unaware of the requirements.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Effect: The City was not compliant with the program’s requirements and could be subjected to administrative fee sanctions.

Questioned Costs: None noted.

Identification of a repeat finding: Not applicable

Recommendations: We recommend the City establish policies and procedures over the reporting of unaudited and audited financial statements.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No.: 2017-009 Proper Identification of Allowable Direct and Indirect Costs

Federal Agency:	Department of Transportation	
CFDA No.:	20.500, 20.507, 20.525, 20.526	
Program:	Federal Transit Cluster	
Award Number and Year	HI-03-0047-04	2014
	HI-04-0015	2014-2016
	HI-05-0206/207/208	2014-2017
	HI-16-X002	
	HI-34-0003	2015-2017
	HI-37-X005/X007X009	2012-2015
	HI-57-0001	2015-2017
	HI-57-X005/X007X009	2012-2015
	HI-88-0001	
	HI-90-X029/X033/X034/X035/X036	2014-2016
	HI-2016-001-00	2017-2020
	HI-2016-003-00	2016-2018
Requirement:	Allowable Costs/Activities Allowed	
Type of Finding:	Non-Compliance and Material Weakness	

Criteria: 2 CFR 200.430(i) requires that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must “be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated” and “support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity”. Additionally, 2 CFR 200.444 indicates that for states, local governments, and Indian Tribes, the general costs of government are unallowable (except as provided in §200.474 Travel costs). Further Federal Transit Administration (FTA) Circular 5010.1E Chapter VI Section 5(a)(3)(b) in part states that indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective. Indirect costs must be supported by an approved Cost Allocation Plan (CAP) and/or Indirect Cost Rate Proposal (ICRP).

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Condition: The City requested reimbursement of costs that were potentially unallowable.

Context: The City and FTA formalized a partnership by signing a Full Funding Grant Agreement for the Honolulu Rail Transit Project (HRTP). The HRTP is managed by the Honolulu Authority for Rapid Transportation. In December 2016, there were 2 two drawdowns totaling \$90,396,801 which included \$65,029,088 and \$12,633,523 of payroll and non-payroll administrative costs, respectively, which were incurred from 2010 through December 2016, but were previously undrawn. Federal participation in these costs was 29.8%.

Payroll costs represent all staff time and include personnel who work on non-program related items as well as personnel who are considered part of the general cost of government. Non-payroll administrative costs primarily consisted of facility rentals. These non-payroll administrative costs include costs for non-program items as well as the general cost of government and should not be directly charged to the program, rather, these costs should be allocated based on an approved cost allocation plan.

Cause: The City has policies and procedures to evaluate whether direct construction costs are allowable. The City had previously elected not to request reimbursement for payroll and non-payroll administrative costs, the City did not develop policies and procedures to evaluate the whether such costs were allowable.

Effect: The City drew down approximately \$24,080,771 related to costs that may not be allowable.

Questioned Costs: \$24,080,771

Identification of a repeat finding: Not applicable

Recommendations: We recommend that the City work with the FTA to determine an appropriate course of action related to the questioned costs. Additionally, if the City expects to continue to draw on payroll and non-payroll administrative costs, we recommend that the City develop and implement a cost allocation plan.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No.: 2017-010 Preparation of Federal Financial Reports

Federal Agency:	Department of Transportation	
CFDA No.:	20.500, 20.507, 20.525, 20.526	
Program:	Federal Transit Cluster	
Award Number and Year	HI-03-0047-04	2014
	HI-04-0015	2014-2016
	HI-05-0206/207/208	2014-2017
	HI-16-X002	
	HI-34-0003	2015-2017
	HI-37-X005/X007X009	2012-2015
	HI-57-0001	2015-2017
	HI-57-X005/X007X009	2012-2015
	HI-88-0001	
	HI-90-X029/X033/X034/X035/X036	2014-2016
	HI-2016-001-00	2017-2020
	HI-2016-003-00	2016-2018
Requirement:	Reporting	
Type of Finding:	Non-Compliance and Material Weakness	

Criteria: FTA Circular 5010.1E Chapter VI Section 2(f)(1)(c) states that written operating procedures must exist and be simply stated, yet meet the recipient’s operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts. Additionally, FTA Circular 5010.1E Chapter III Section 3(c) states that the Federal Financial Report (FFR) may not be prepared on the cash basis of accounting, even though a recipient may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the recipient must prepare the necessary accruals and submit the FFR on the accrual basis of accounting.

Condition: City did not have written procedures over the preparation of its FFRs and the reports were not prepared on the accrual basis of accounting.

Context: City provided FFRs on the cash basis of accounting. Specifically, the City was not reporting incurred expenditures that had not been paid and there was not process in place to develop accruals for FFR purposes.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Cause: The program does not have documented policies and procedures to address the reporting requirements related to unaudited and audited financial statements. The party responsible for submission of the June 30, 2016 audited financial statements left the program shortly after the initial submission.

Effect: The City was not compliant with the reporting requirement.

Questioned Costs: None noted.

Identification of a repeat finding: Not applicable

Recommendations: We recommend that the City develop written procedures to ensure FFRs are prepared in accordance with the requirements.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No. 2017-011: **Miscalculation of Housing Assistance Payments**
Federal Agency: United States Department of Housing and Urban Development
CFDA No.: 14.267
Program: HOME Investment Partnerships Program
Award Number and Year M16-MC150201 2017
Requirement: Eligibility
Type of Finding: Significant Deficiency

Criteria: 24 CFR 92.209(h) states "the amount of the monthly assistance that a participating jurisdiction may pay to, or on behalf of, a family may not exceed the difference between a rent standard for the unit size established by the participating jurisdiction and 30 percent of the family's monthly adjusted income."

Condition: The monthly Housing Assistance Payments (HAP) for 3 recipients were calculated incorrectly.

Context: For 3 out of 13 recipients tested for eligibility for Tenant Based Rental Assistance (TBRA), the income and/or utility allowance used to calculate the monthly HAP was calculated incorrectly. The 13 recipients tested received approximately \$97,000 of HAP during FY 2017 out of the total HAP of approximately \$790,000 received by 130 recipients. One error was identified during the audit and two errors were identified by the program, however, it was identified after several months of incorrect HAP were made. The net effect was \$704 of HAP underpaid during the year.

Cause: Management indicated that the above exceptions were due to oversight by the Case Managers and Supervisor.

Effect: Failure to properly calculate income could result in noncompliance with the eligibility requirement.

Questioned costs: None

Identification of a repeat finding: Not applicable

Recommendation: We recommend the City provide additional training and oversight over the calculation of income.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

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

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Finding No. 2017-012: Schedule of Expenditures of Federal Awards (SEFA)

Type of Finding: Significant Deficiency

Criteria: The Office of Management and Budget (OMB) issued Uniform Guidance, which requires non-federal entities that expend \$750,000 or more in federal awards a year to have a Single Audit conducted on its federal award programs and SEFA. 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended..."

Condition: During the audit, several errors were identified in the amounts reported on the SEFA.

Context: The following amounts reported on the SEFA as provided to subrecipients for these programs were initially overstated (understated):

CFDA No.	Program Name	Amount Overstated (Understated)
14.218	CDBG – Entitlement Grants Cluster	\$ 8,492,587
14.239	HOME Investment Partnerships Program	924,951
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster	(297,346)

The following amounts reported on the SEFA as Federal Expenditures for these programs were initially overstated:

CFDA No.	Program Name	Amount
14.218	CDBG – Entitlement Grants Cluster	\$ 9,340,076
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster	165,213

Cause: The City’s current process does not facilitate accurate preparation of the SEFA. Program management is responsible for the accuracy of the amounts reported and Budget and Fiscal Services (BFS) personnel are responsible for compiling the SEFA. Management indicated that the above exceptions were due to oversight by the program managers and BFS.

**City and County of Honolulu
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Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2017

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

Effect: Failure to accurately prepare the SEFA could result in a material misstatement.

Questioned costs: None

Identification of a repeat finding: Not applicable

Recommendation: Program and BFS management should establish procedures over the amounts reported on the SEFA to ensure accuracy.

Views of responsible officials: The City agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 49-54.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Financial Statement Findings

Finding No.: 2016-01 Deficiencies in Information Technology Controls (Significant Deficiency)

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.

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.

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.

Status: Partially resolved. See finding 2017-001.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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

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.

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

Status: The comment is no longer applicable.

Community Development Block Grant Program CFDA 14.218

Finding No.: 2016-03 Timeliness (Non-Compliance and Material Weakness)

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.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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.

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

Community Development Block Grant Program CFDA 14.218

Finding No.: 2016-04 Accurate Reporting and Policies and Procedures over Federal Awards (Non-Compliance and Material Weakness)

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.

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.

Status: This comment is no longer applicable.

Community Development Block Grant Program CFDA 14.218

Finding No.: 2016-05 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

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.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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

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 2017-004.

HOME Investment Partnerships Program CFDA 14.239

Finding No.: 2016-06 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

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.

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 2017-005.

Continuum of Care CFDA 14.267

Finding No.: 2016-07 Submit Reports in a Timely Manner (Non-Compliance and Material Weakness)

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.

City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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

Status: This finding is still applicable. See finding 2017-006.

Continuum of Care CFDA 14.267

Finding No.: 2016-08 Perform Annual Subrecipient Monitoring Duties (Non-Compliance and Material Weakness)

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.

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

Status: This comment is no longer applicable.

Federal Transit Cluster CFDA 20.500, 20.507

Finding No.: 2016-09 Wage Rate (Non-Compliance and Material Weakness)

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.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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.

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

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.

Status: This comment is no longer applicable.

Continuum of Care CFDA 14.267

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

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.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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: This comment is no longer applicable.

Equitable Sharing Program CFDA 16.922

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

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.

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.

Status: This comment is no longer applicable.

Highway Planning and Construction Program CFDA 20.205

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

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.

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

Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2017

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.

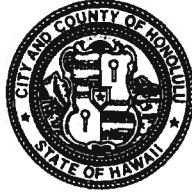
Recommendation: We recommend the City follow their procedures to perform and retain EPLS check documentation prior to executing a contract to ensure the parties are not debarred, suspended, or otherwise excluded from or ineligible for Federal assistance programs.

Status: This comment is no longer applicable.

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

KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

MANUEL T. VALBUENA
DEPUTY DIRECTOR

March 23, 2018

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

Dear Mr. Young:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2017

Enclosed is the response to the recommendations included in KMH LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2017. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson H. Koyanagi, Jr.", written in a cursive style.

Nelson H. Koyanagi, Jr., Director
Budget and Fiscal Services

Enclosures

APPROVED:

A handwritten signature in black ink, appearing to read "Roy K. Amemiya, Jr.", written in a cursive style.

Roy K. Amemiya, Jr.
Managing Director

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2017-001: 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 corrected the practice of using a shared account for server access, updated and tested the Disaster Recovery Plan, and is in the process of working with the Third Party Systems to determine which patches can be applied.

Anticipated Completion Date: June 2018

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

Finding No. 2017-002: Accounting and Financial Reporting of Investments

Audit Recommendation: Management should create policies and procedures to record investments in accordance to U.S. GAAP.

Administration's Comments: The City will prepare an investment schedule detailing those investments that should be reflected at fair market value instead of amortized cost.

Anticipated Completion Date: June 2018

Contact Person(s): Kristopher Lum Kee, Department of Budget and Fiscal Services, Assistant Chief of Treasury

Finding No. 2017-003: 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 determined with HUD.

Administration's Comment: Procedures have been established and approved by HUD to ensure compliance with the CDBG timeliness standard. In addition, the City is awaiting receipt of HUD's final workout plan, and plans to address the finding according to its procedures.

Anticipated Completion Date: June 2018

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, 2017**

Finding No. 2017-004: 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: This finding pertains to the time period the Department of Community Services was responsible for subrecipient monitoring. Effective July 1, 2017, the subrecipient monitoring function was transferred to the Federal Grants Unit (FGU) of the Department of Budget and Fiscal Services. The FGU plans to address this finding in accordance with its policies which include conducting risk analysis of the applicable projects.

Anticipated Completion Dates: Ongoing

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

Finding No. 2017-005: 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. 2017-04 above.

Anticipated Completion Date: Ongoing

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

Finding No. 2017-006: 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, having started regular internal meetings with relevant staff to ensure compliance with Federal requirements.

Anticipated Completion Date: June 2018

Contact Person(s): Stephen Karel, Department of Community Services, Temporarily Assigned Division Chief

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

Finding No. 2017-007: Ensuring Tenant Files Properly Support Eligibility Determination

Audit Recommendation: We recommend the City be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Administration's Comment: The City will be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Anticipated Completion Date: June 2018

Contact Person(s): Jayne Lee, Department of Community Services, Housing Assistance Specialist VII

Finding No. 2017-008: Timely Reporting

Audit Recommendation: We recommend the City establish policies and procedures over the reporting of unaudited and audited financial information.

Administration's Comment: The BFS Community Services Fiscal will implement procedures to ensure that financial reports are submitted by the required deadlines. The procedures will be incorporated into the DCS Housing Choice Voucher Cluster program operation manual.

Anticipated Completion Date: June 2018

Contact Person(s): Beryle Matsumura, Department of Budget and Fiscal Services, Fiscal Officer II
Jayne Lee, Department of Community Services, Housing Assistance Specialist VII

Finding No. 2017-009: Proper Identification of Allowable Direct and Indirect Costs

Audit Recommendation: We recommend that the City work with the FTA to determine an appropriate course of action related to the questioned costs. Additionally, if the City expects to continue to draw on payroll and non-payroll administrative costs, we recommend that the City develop and implement a cost allocation plan.

Administration's Comment: HART will work with FTA Region 9 to determine an appropriate course of action related to the questioned costs, and will develop and implement a cost allocation plan.

Anticipated Completion Date: June 2018

Contact Person(s): Michael D. McGrane, HART, Fiscal Officer II

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

Finding No. 2017-010: Preparation of Federal Financial Reports

Audit Recommendation: We recommend that the City develop written procedures to ensure FFRs are prepared in accordance with the requirements.

Administration's Comment: HART and the City will update its written procedures to ensure compliance with FTA reporting requirements.

Anticipated Completion Date: June 2018

Contact Person(s): Michael D. McGrane, HART, Fiscal Officer II
Nancy Abilay, Department of Budget and Fiscal Services, Assistant Chief Accountant
Eileen Mark, Department of Transportation Services, Mass Transit Administrator
Mark Au, Department of Transportation Services, Planner VII

Finding No. 2017-011: Miscalculation of Housing Assistance Payments

Audit Recommendation: We recommend the City provide additional training and oversight over the calculation of income.

Administration's Comment: To help prevent future mistakes on the calculation of Housing Assistance Payments, Rent to Work Program (RTW) personnel have taken the following steps and actions immediately: Scheduling annual training to refresh staff on the HUD Technical Guide for Determining Income and Allowances for the HOME Program, having the RTW Supervisor complete 100% QA file reviews on all assigned cases on a semi-annual basis, procedurally changing the calculation review process to include 100% review/oversight on all calculations by the RTW Supervisor prior to payment approval by the Program Manager, and updating the Standard Operating Procedure Guide.

Anticipated Completion Date: June 2018

Contact Person(s): Leina'ala Nakamura, Department of Community Services, WorkHawaii Administrator

Finding No. 2017-012: Schedule of Expenditures of Federal Awards (SEFA)

Audit Recommendation: Program and BFS management should establish procedures over the amounts reported on the SEFA to ensure accuracy

Administration's Comment: The Fiscal Officers will review the single audit worksheets summarized by their fiscal accountants prior to submission to the Accounting Branch for consolidation. In addition, the Fiscal Services Branch staff will improve communication with the applicable City agencies to obtain information on any significant events affecting federal programs and or funds subsequent to the fiscal year end, and will amend their single audit worksheets accordingly.

Anticipated Completion Date: Ongoing

Contact Person(s): Ann Sakurao, Department of Budget and Fiscal Services, Fiscal Officer II
Donghwan Kim, Department of Budget and Fiscal Services, Accountant V
Melanie Felipe-Dela Rosa, Department of Budget and Fiscal Services, Accountant V