



**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, 2019**

**Single Audit of Federal Financial  
Assistance Programs**

**City and County of Honolulu**  
**Index**  
**Year Ended June 30, 2019**

---

**Page(s)**

**Part 1 – Introduction**

**Part 2 – Compliance and Internal Control Over Financial Reporting**

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

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

Schedule of Expenditures of Federal Awards..... 8–10

Notes to Schedule of Expenditures of Federal Awards ..... 11

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

Section I – Summary of Auditors’ Results..... 12–13

Section II – Financial Statement Findings..... 14–19

Section III – Federal Award Findings and Questioned Costs ..... 20–23

**Summary Schedule of Prior Audit Findings**

**Corrective Action Plan**

# **PART 1**

## **INTRODUCTION**



CERTIFIED PUBLIC ACCOUNTANTS

---

March 20, 2020

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

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii (the "City"), as of and for the year ended June 30, 2019. 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 in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The audit objectives and scope of our audit were as follows:

**Audit Objectives**

1. To provide an opinion on the fair 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, 2019 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.

---

999 BISHOP STREET, SUITE 1900  
HONOLULU, HAWAII 96813  
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

*Acuity LLP is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.*

**Scope of 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, 2019, 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, 2019 is included under a separate cover.

We would like to take this opportunity to express our appreciation to the personnel of the City and County of Honolulu for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our recommendations.

Very truly yours,

*Accuity LLP*

DMN/MYO

## **PART 2**

# **COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING**



CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 7, 2020. Our report includes a reference to other auditors who audited the financial statements of the Board of Water Supply and Honolulu Authority for Rapid Transportation, which are discretely presented component units, 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 other 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.

Our consideration of internal control 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We and the other auditors consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2019-001 and 2019-002 to be material weaknesses.

---

999 BISHOP STREET, SUITE 1900  
HONOLULU, HAWAII 96813  
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

*Acuity LLP is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.*

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. We and the other auditors consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding No. 2019-003 and 2019-004 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the 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 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 result 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.

*Accuity LLP*

Honolulu, Hawaii  
March 20, 2020

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

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") 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, 2019. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include, among other departments and agencies, the operations of the Board of Water Supply, which expended \$8,747,707 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2019. Our audit, described below, did not include the operations of the Board of Water Supply, because this unit separately engaged auditors to perform an audit in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

**Management's Responsibility**

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

**Auditors' 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 the 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 major federal programs. However, our audit does not provide a legal determination of the City's compliance.

**Basis for Qualified Opinion on Major Federal Program**

As described in Finding No. 2019-005 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding:

Finding No.	CFDA No.*	Program or Cluster Name	Compliance Requirement
2019-005	14.218	CDBG Entitlement Grants Cluster	Allowable Costs
2019-005	14.218	CDBG Entitlement Grants Cluster	Period of Performance

\* *Catalog of Federal Domestic Assistance number*

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

**Qualified Opinion on Major Federal Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Programs section, 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 above for the year ended June 30, 2019.

**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 its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2019-006 and 2019-007. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 the response.

**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.

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 have not been 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2019-005 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2019-006 and 2019-007 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 the 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 aggregate 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 7, 2020, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Board of Water and Honolulu Authority for Rapid Transportation. 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Accuity LLP*

Honolulu, Hawaii  
March 20, 2020

# City and County of Honolulu

## Schedule of Expenditures of Federal Awards

### Year Ended June 30 2019

Federal Grantor/Program/Grant	Federal CFDA Number	Pass-through Entity Identifying Number	Amount Provided to Subrecipients	Federal Expenditures
<b>U.S. Department of Agriculture</b>				
<i>Child Nutrition Cluster</i>				
Pass-through State Department of Education – Summer Food Service Program for Children	10.559	12-351523	\$ -	\$ 184,115
Total Child Nutrition Cluster			-	184,115
<i>Supplemental Nutrition Assistance Program SNAP Cluster</i>				
Pass-through State Department of Human Services – State Administrative Matching Grants for Supplemental Nutritional Assistance Program	10.561	DHS-11-SNAP-301, SA2 & 16-SNAP-3078, SA2	-	3,690
Total SNAP Cluster			-	3,690
<b>Total U.S. Department of Agriculture</b>			<b>-</b>	<b>187,805</b>
<b>U.S. Department of Commerce</b>				
Pass-through State Department of Defense – Meteorologic and Hydrologic Modernization Development	11.467	NA17NWS4670012	-	71,435
<b>Total U.S. Department of Commerce</b>			<b>-</b>	<b>71,435</b>
<b>U.S. Department of Housing and Urban Development</b>				
<i>CDBG-Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218		-	8,750,895
Total CDBG-Entitlement Grants Cluster			-	8,750,895
Emergency Solutions Grant Program	14.231		955,076	1,001,058
HOME Investment Partnerships Program	14.239		1,338,886	2,379,852
Housing Opportunities for Persons with AIDS	14.241		364,070	381,545
Continuum of Care Program	14.267		305,421	306,439
Family Self-Sufficiency Program	14.896		-	183,320
<i>Section 8 Project-Based Cluster</i>				
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856		-	144,568
Total Section 8 Project-Based Cluster			-	144,568
<i>Housing Voucher Cluster</i>				
Section 8 Housing Choice Vouchers	14.871		-	58,307,747
Mainstream Vouchers	14.879		-	1,429,349
Total Housing Voucher Cluster			-	59,737,096
<b>Total U.S. Department of Housing and Urban Development</b>			<b>2,963,453</b>	<b>72,884,773</b>
<b>U.S. Department of Justice</b>				
Domestic Cannabis Eradication/Suppression Program	16.000		-	50,421
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		-	180,189
DNA Backlog Reduction Program	16.741		-	298,544
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		-	45,026
Equitable Sharing Program	16.922		-	483,727
Pass-through State Department of Attorney General –				
Crime Victim Assistance	16.575	15-VA-02; 16-VA-02	180,115	1,477,168
Violence Against Women Formula Grants (Non-ARRA)	16.588	15-WF-08; 16-WF-0815; 16-WF-04	-	162,964
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	17-CD-01	-	1,605
National Sexual Assault Kit Initiative	16.833	16-AK-01 & 03	-	568,506
Justice Assistance Grant (“JAG”) Program				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		-	195,002
Pass-through State of Hawaii Department of Attorney General –				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15-DJ-11; 16-DJ-0215-DJ-062015-DC-NY-K002	-	155,435
Total JAG Program			-	350,437
<b>Total U.S. Department of Justice</b>			<b>180,115</b>	<b>3,618,587</b>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

**City and County of Honolulu  
Schedule of Expenditures of Federal Awards  
Year Ended June 30 2019**

Federal Grantor/Program/Grant	Federal CFDA Number	Pass-through Entity Identifying Number	Amount Provided to Subrecipients	Federal Expenditures
<b>U.S. Department of Labor</b>				
YouthBuild	17.274		-	341,173
<i>Employment Service Cluster</i>				
Employment Service/Wagner-Peyser Funded Activities	17.207		-	61,686
<i>Total Employment Service Cluster</i>			-	61,686
<i>WIOA Cluster</i>				
Pass-through State Department of Labor & Industrial Relations –				
WIA/WIOA – Adult Program	17.258	WIOA 16-AP-0; 16-DW-0 (Adult); 17 & 18-A&DWP-0; 16,17 & 18-LAC-0	-	754,417
WIA/WIOA – Youth Activities	17.259	WIOA 16 & 17-YP-0; 16,17 & 18-LAC-0; 17-A&DWP-0	-	880,794
WIA/WIOA Dislocated Worker Formula Grants	17.278	WIOA 16-AP-0; 16-DW-0(DW); 17 & 18-A&DWP-0(DW); 16, 17 & 18-LAC-0	-	514,751
<i>Total Workforce Investment Act Cluster</i>			-	2,149,962
Pass-through State Department of Labor & Industrial Relations –				
H-1B Job Training Grants	17.268	AAI-15-O	-	140,741
Workforce Innovation Fund	17.283	DEI-PY15-CC	-	156,128
<b>Total U.S. Department of Labor</b>			<b>-</b>	<b>2,849,690</b>
<b>U.S. Department of Transportation</b>				
<i>Highway Planning &amp; Construction Cluster</i>				
Pass-through State Department of Transportation & Oahu Metropolitan Planning Organization –				
Highway Planning and Construction	20.205	CMAQ-0001 (41); STP-0001 (052) (055) (059); STP-0300 (141); STP-6010 (001); STP-7180 (001); STP-7502 (001)	-	6,351,590
Highway Planning and Construction	20.205	BR-NBIS-064,-066 & -073	-	323,066
Highway Planning and Construction	20.205	206.02-17	-	300,668
Highway Planning and Construction	20.205	FHWA 202.07-17; 203.03-16; 203.10-18; 203.75-09; TAP-0300 (150) (154); TAP-9263 (001)	-	2,175,861
<i>Total Highway Planning &amp; Construction Cluster</i>			-	9,151,185
<i>Federal Transit Cluster</i>				
Federal Transit – Formula Grants	20.507		300,216	21,358,177
Bus and Bus Facilities Formula Program	20.526		-	6,178,992
<i>Total Federal Transit Cluster</i>			300,216	27,537,169
<i>Transit Services Programs Cluster</i>				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513		175,774	175,774
Job Access and Reverse Commute	20.516		30,902	30,902
<i>Total Transit Services Programs Cluster</i>			206,676	206,676
<i>Highway Safety Cluster</i>				
Pass-through State Department of Transportation –				
State and Community Highway Safety	20.600	PS18-09 (06-O-01); PS19-08 (05-O-01); AL-18-02; EM18-04 (01-O-01); DD18-10 (01-O-01); PT18-01 (01-O-01); SC18&19-06 (01-O-01)	-	388,046
National Priority Safety Programs	20.616	AL18-02 (01-O-01); OP18-05 (01-O-01); PS18-09 (01-O-01) & (02-O-01); PS19-08 (01-O-01); TR 18-03 (02-O-01); TR19-03; PS19-08 (03-O-01)	-	519,198
<i>Total Highway Safety Cluster</i>			-	907,244
Pass-through State Department of Transportation –				
Alcohol Open Container Requirements	20.607	AL 18-02 (07-O-01)	-	4,725
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL 18-02 (01-O-01)	-	500,122
<b>Total U.S. Department of Transportation</b>			<b>506,892</b>	<b>38,307,121</b>
<b>Environmental Protection Agency</b>				
Brownfields Assessment and Cleanup Cooperative Agreements				
Pass-through State Department of Transportation –	66.818		-	84,236
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	TAP-0300 (151)	-	126,244
<i>Clean Water State Revolving Fund Cluster</i>				
Pass-through State Department of Health –				
Capitalization Grants for Clean Water SRF	66.458	C150048-00	-	139,957
<i>Total Clean Water State Revolving Fund Cluster</i>			-	139,957
<b>Total Environmental Protection Agency</b>			<b>-</b>	<b>350,437</b>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

# City and County of Honolulu

## Schedule of Expenditures of Federal Awards

### Year Ended June 30 2019

Federal Grantor/Program/Grant	Federal CFDA Number	Pass-through Entity Identifying Number	Amount Provided to Subrecipients	Federal Expenditures
<b>U.S. Department of Education</b>				
Pass-through State Department of Human Services –				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	DHS 12-VR-640 SA2, SA3, 12-VR-641 SA1; 14-VR-1024; 16-VR-3074; 17-VR-4100	-	143,507
Pass-through State Department of Education – 21st Century Community Learning Center	84.287	13023	-	1,058
<b>Total U.S. Department of Education</b>			<u>-</u>	<u>144,565</u>
<b>U.S. Department of Health and Human Services</b>				
<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	HON2016N03	786,953	880,957
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	HON2016N03	1,170,030	1,330,945
Nutrition Services Incentive Program	93.053	HON2018NSIP	125,274	125,274
<i>Total Aging Cluster</i>			<u>2,082,257</u>	<u>2,337,176</u>
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	15,000	15,000
National Family Caregiver Support, Title III, Part E	93.052	HON2016N03	182,578	229,574
Pass-through State Department of Health –				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	ASO Log 16-125	-	91,687
Block Grants for Community Mental Health Services	93.958	N/A	-	415,502
Pass-through State Department of Transportation –				
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	PO 00 219786 & 240067	-	42,288
<b>Total U.S. Department of Health and Human Services</b>			<u>2,279,835</u>	<u>3,131,227</u>
<b>Corporation for National and Community Service</b>				
Retired and Senior Volunteer Program				
	94.002		-	50,945
<b>Total Corporation for National and Community Service</b>			<u>-</u>	<u>50,945</u>
<b>Executive Office of the President</b>				
High Intensity Drug Trafficking Area Program				
	95.001		-	1,262,416
<b>Total Executive Office of the President</b>			<u>-</u>	<u>1,262,416</u>
<b>U.S. Department of Homeland Security</b>				
Pass-through State Department of Defense –				
Homeland Security Grant Program				
State Homeland Security Program	97.067	EMW2015-SS-00003; EMW2016-SS-00004; EMW2018-SS-00006	-	1,239,346
Urban Areas Security Initiative Program	97.067	EMW2015-SS-00003; EMW2016-SS-00004; EMW2018-SS-00006	-	252
<i>Total Homeland Security Grant Program</i>			<u>-</u>	<u>1,239,598</u>
Emergency Management Performance Grants	97.042	EMW-2017-EP-0003	-	196,901
Pre-Disaster Mitigation	97.047	FEMA PDM-09-HI-2016	-	120,000
Port Security Grant Program	97.056	EMW-2016-PU-00072	-	90,891
Pass-through National Development and Research Institutes, Inc. –				
Assistance to Firefighters Grant	97.044	FEMA EMW-2014-FP-00945	-	28,947
Rail and Transit Security Grant Program	97.075		-	27,924
<b>Total U.S. Department of Homeland Security</b>			<u>-</u>	<u>1,704,261</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 5,930,295</u>	<u>\$ 124,563,262</u>

(concluded)

See accompanying notes to the schedule of expenditures of federal awards.

**City and County of Honolulu**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30 2019**

---

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and County of Honolulu (“City”) and is presented on the cash basis of accounting and in accordance with 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 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, a discretely presented component unit of the City.

**2. Loans Outstanding**

The City had the following loan balances outstanding awarded as of and for the year ended June 30, 2019, which are not presented in the schedule of expenditures of federal awards. There were no advances in fiscal year 2019.

Program Title	CFDA Number	Loans Outstanding
<b>Major programs</b>		
Community Development Block Grants/Entitlement Grants	14.218	\$ 32,947,417
HOME Investment Partnerships Program	14.239	21,367,080
Section 8 Housing Choice Vouchers	14.871	<u>3,647,688</u>
		<u>\$ 57,962,185</u>

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

For the year ended June 30, 2019, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 139,957
State	<u>18,040</u>
	<u>\$ 157,997</u>

**4. Indirect Cost Rate**

The City does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**PART 3**

**SCHEDULE OF  
FINDINGS AND QUESTIONED COSTS**

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

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

**Financial Statements**

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	<u>  X  </u> yes <u>    </u> no
• Significant deficiencies identified?	<u>  X  </u> yes <u>    </u> none reported
Noncompliance material to financial statements noted?	<u>    </u> yes <u>  X  </u> no

**Federal Awards**

Internal control over major programs	
• Material weaknesses identified?	<u>  X  </u> yes <u>    </u> no
• Significant deficiencies identified?	<u>  X  </u> yes <u>    </u> none reported

Type of auditors’ report issued on compliance for major programs	Qualified
An unmodified opinion was issued on the City and County of Honolulu’s compliance with its major federal programs for the year ended June 30, 2019, except for the requirements regarding allowable costs and period of performance for the CDBG Entitlement Grants Cluster, for which the opinion on compliance was qualified.	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u>  X  </u> yes <u>    </u> no
Dollar threshold used to distinguish between type A and type B program	\$ 3,000,000
Auditee qualified as low-risk auditee?	<u>    </u> yes <u>  X  </u> no

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

**Identification of Major Programs**

<b>Federal CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
	<b>CDBG – Entitlement Grants Cluster</b>
14.218	Community Development Block Grants/Entitlement Grants
	<b>Housing Voucher Cluster</b>
14.871	Section 8 Housing Choice Vouchers
14.879	Mainstream Vouchers
	<b>Highway Planning and Construction Cluster</b>
20.205	Highway Planning and Construction
	<b>Federal Transit Cluster</b>
20.507	Federal Transit – Formula Grants
20.526	Bus and Bus Facilities Formula Program

# **FINANCIAL STATEMENT FINDINGS**

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

**Section II – Financial Statement Findings**

**Finding No. 2019-001: Financial Statement Reporting for the Honolulu Authority for Rapid Transportation (“HART”) (Material Weakness)**

**Condition**

HART reports on a cash basis throughout the fiscal year and only prepares accrual basis financial statements for its annual report as of and for the period ended June 30. Accordingly, in preparing accrual basis financial statements, there are reconciliations that must be prepared and adjustments that must be recorded in order to properly present accrual basis financial statements. A reconciliation is the process of comparing transactions and activity to supporting documentation followed by appropriate resolution of discrepancies discovered. This process ensures the accuracy and validity of financial information provided.

As part of the year-end process of preparing financial statements using the accrual basis, management did not perform timely account reconciliations and initially provided HART’s auditors a trial balance that contained various errors and omissions. Consequently, the trial balance, which is the basis of preparing the financial statements, was delayed.

A similar finding was reported as a significant deficiency in the prior year as Finding No. 2018-002.

**Criteria**

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, financial statements should be prepared using the economic resources measurement focus and accrual basis of accounting. Under this basis, transactions are recognized when they occur regardless of when cash is received or disbursed.

**Cause**

The delay in and accuracy of the preparation of the trial balance and accrual basis financial statements were affected due to the following:

- A lack of diligence in preparing the supporting schedules during the account reconciliation process. This may have been caused by management rushing to complete the supporting schedules or inadequate review of the information provided.
- The lack of adherence to internal timeliness.
- Insufficient or inappropriate resources devoted to a timely closing process.
- HART’s Chief Financial Officer was heavily involved in the closing process. This may have resulted in inadequate management review of the information provided by the accounting department; several of the supporting schedules were returned to management for further investigation and revisions. Consequently, there were several follow-up requests regarding classification of the information contained in the supporting schedules, further delaying the closing process.

**Effect**

The preceding issues resulted in numerous audit and client adjustments proposed after receipt of the initial trial balance. The issues also resulted in significant delays in receiving the trial balances and financial statements resulting in a delayed audit process and issuance of the audited financial statements.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

**Recommendation**

HART's auditors recommend that HART management re-evaluate its annual closing process to prepare accrual basis financial statements on a timely basis. Management should also consider whether sufficient and appropriate resources are devoted to preparing and reviewing account reconciliations, including whether interim reconciliations should be performed.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

**Finding No. 2019-002: Accounting for Environmental Remediation Liabilities – HART**  
**(Material Weakness)**

**Condition**

During the year ended June 30, 2019, HART was notified by the State of Hawaii Department of Health that HART would be required to perform certain environmental remediation activities. In July 2019, HART executed a contract change order related to this work.

Management did not appropriately apply the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of June 30, 2019.

**Criteria**

In accordance with GASB Statement No. 49, paragraph 11, a liability should be recognized when an obligating event occurs. Obligating events are defined as follows: a) the government is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action; b) the government is in violation of a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act (“RCRA”) permit or similar permits under state law; c) the government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (“PRP”) for remediation, or as a government responsible for sharing costs; d) the government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation; and e) the government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the government has initiated and is legally required to complete.

**Cause**

Management did not recognize that an obligating event had occurred due to a lack of understanding regarding the accrual requirements of GASB Statement No. 49.

**Effect**

The environmental remediation liability was understated by \$8 million.

**Recommendation**

HART’s auditors recommend that HART management be more diligent in applying the accounting guidance in GASB Statement No. 49.

# City and County of Honolulu

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2019

---

#### **Finding No. 2019-003: Information Technology General Control Deficiencies (Significant Deficiency)**

##### **Condition**

Information technology (“IT”) is a strategic element of the City’s operations. Because of the high volume of transactions at the City, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit for the year ended June 30, 2019, we performed an IT general controls review of the following systems operated by the City:

- Windows Domain
- AMS Advantage Financial Management System (“Advantage Financial”)
- AMS Advantage Human Resources Management System (“Advantage HRM”)
- Personnel Time and Attendance System
- IAS World Web Based Real Property System (“IAS”)
- Revenue Collection Cashier System (“ReCo”)
- Official Payment Corporation (“OPC”)

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

##### Logical security

- A review of permissions assigned to security roles was not performed on the Advantage Financial, Advantage HRM, and IAS systems to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Real Property Division and Treasury Division users process transactions in the IAS system and have the ability to add or modify access rights causing a segregation of duties concern and no monitoring control is in place to detect unauthorized transactions.
- No database activity monitoring control is in place to detect unauthorized changes to the data.
- Database administrators use shared accounts to access IAS production databases.
- We were unable to verify if logical security controls are in place for the OPC system for a portion of the year.

##### Change management

- Those that perform development work on the Advantage Financial, Advantage HRM, and ReCo systems also have access to promote their own changes to the production environment causing a segregation of duties concern and no monitoring control is in place to detect unauthorized or untested changes.
- Users that process transactions in the ReCo system have the ability to add, modify or delete application files in the production environment and no monitoring control is in place to detect unauthorized changes.

# City and County of Honolulu

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2019

---

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

#### **Criteria**

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

#### **Cause**

The City's IT policies and procedures do not include internal control procedures addressing the risks discussed above or are not being consistently followed.

#### **Effect**

Internal controls in the areas of physical and logical security and change management address the following risks:

##### Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions, or inaccurately recorded transactions.

##### Change management

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

#### **Recommendation**

We recommend that the City perform the following:

##### Logical security

- Implement user access review procedures to ensure user access rights are commensurate with job responsibilities.
- Implement proper segregation of duties amongst those who administer IT security and perform transaction and accounting duties.
- Restrict the use of shared accounts.

##### Change management

- Restrict developers and end-users from promoting changes to production environments.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

**Finding No. 2019-004: Change Order and Contract Amendment Management – HART**  
**(Significant Deficiency)**

**Condition**

Out of a population of 122 contract changes, HART's auditors selected 25 changes for testing. There were five files that did not include the documentation required under HART's Contract Change Procedure Manual ("Manual").

A similar finding was reported in the prior year as Finding No. 2018-004.

**Criteria**

HART's Manual provides the policies, procedures and documentation requirements related to change orders.

**Cause**

The documentation issues related to the following:

- For one approved change order, the change order had the relevant approvals; however, the Finding of Merit form was misplaced and was not in the contract change file.
- For one approved change order, the change order had the relevant approvals; however, a Time Analysis Form and a Request for Change Form was not included in the file. The change order was a unilateral no-cost contract change and management indicated that there are no written procedures that cover this specific type of contract change. Consequently, management applied the standard procedures per the Manual with certain deviations to accommodate the terms of the change order; however, the rationale for the deviations was not documented.
- For three approved contract amendments related to construction, engineering and inspection, the contract amendments had the relevant approvals; however, the Negotiation Strategy Memo, Summary of Negotiations, Technical Approvals, Cost Analysis, and the Request for Change were not included in the file. Management indicated that these contract amendments were not related to design-build activities and there are no written procedures that cover this specific type of contract change. Consequently, management applied the standard procedures per the Manual with certain deviations to accommodate the terms of the contract amendment; however, the rationale for the deviation was not documented.

**Effect**

HART did not comply with the documentation requirements in its Manual nor did they provide documentation of deviations for instances that were not covered by the Manual.

**Recommendation**

HART's auditors recommend that management be more diligent in retaining the required documentation. They also recommend that management document the rationale for deviations from the procedures and required documents prescribed by the Manual or consider revising the Manual to accommodate the aforementioned contract types.

**FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**City and County of Honolulu  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2019**

---

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

		<b>Questioned Cost</b>
<b>Finding No. 2019-005:</b>	<b>Allowable Costs and Period of Performance (Material Weakness)</b>	<b><u>\$ 1,997,396</u></b>
<b>Federal Agency:</b>	United States Department of Housing and Urban Development (“HUD”)	
<b>CFDA Number and Title:</b>	14.218 Community Development Block Grants – Entitlement Grants (“CDBG” Entitlement Grants Cluster)	
<b>Award Number and Year:</b>	B-18-MC-15-0001	2019
<b>Repeat Finding?</b>	No	

**Condition**

HUD notified the City via a letter dated May 31, 2019 that HUD identified \$1,997,396 in questioned costs related to the following two drawdowns:

- \$243,411 used in the purchase of medical equipment, fixtures, furnishings or other personal property that were not deemed to be integral structural fixtures for use in CDBG public facility and improvement activities.
- \$1,753,985 used to acquire and store construction materials was deemed to be ineligible as the City had not approved the construction permit at the time of the drawdown.

In addition, HUD notified the City in the same letter that the City was not in compliance with the sixty-day timeliness test conducted on May 2, 2019 as the City had a line-of-credit balance 1.64 times its annual grant.

**Criteria**

24 CFR 570.207(b)(1)(iii) states that the purchase of equipment, fixtures, motor vehicles, furnishings or other personal property not an integral structural fixture is generally ineligible.

24 CFR 200.403(a) states that costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

24 CFR 570.208 states that all activities undertaken by grantees must meet one of three national objectives of the CDBG Entitlement Grants program: 1) benefit low- and moderate-income persons, 2) prevent or eliminate slums or blight, or 3) meet community development needs having a particular urgency.

24 CFR 570.902 of the CDBG regulations states that a grantee is in compliance with timely expenditure requirements if, 60 days prior to the end of its program year, there is no more than 1.5 times its annual grant remaining in the line of credit, including any program income on hand.

# **City and County of Honolulu**

## **Schedule of Findings and Questioned Costs**

### **Year Ended June 30, 2019**

---

#### **Effect**

HUD directed the City to repay, with non-Federal funds, the \$1,997,396 in CDBG funds to the HUD Line of Credit Control System. If the City does not immediately repay the funds, then HUD will require the City to calculate and pay the interest due to the U.S. Treasury.

In addition, as the City failed the timeliness test under CDBG regulations, the City is now subject to HUD's sanctions policy and has until May 31, 2020 to reach the 1.5 timeliness standard. If the City fails the timely expenditure requirement for a second consecutive year, the City's future grant may be reduced by the dollar amount by which the grantee exceeded the 1.5 timely expenditure standard.

The City has submitted responses to the findings identified in the May 31, 2019 letter and requested that HUD reconsider its determination of allowability of the questioned costs.

#### **Cause**

The questioned costs charged to the award were due to a lack of knowledge of the allowability criteria for program expenditures and no formal procedures to ensure compliance with the requirement.

The failure to meet the timeliness requirement was due to lack of monitoring and issues related to several projects that resulted in delays in these project expenditures.

#### **Recommendation**

We recommend that the City continue to seek clarification from HUD on the types of costs that are allowable under program guidelines and develop formal procedures to ensure that the allowability criteria are met.

We also recommend that the City establish procedures to ensure that it complies with the CDBG timeliness standard specified in 24 CFR 570.902. In addition, we recommend that the City ensures that it adheres to the workout plan it submitted to HUD.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

		<b>Questioned Cost</b>
<b>Finding No. 2019-006:</b>	<b>Eligibility and Special Tests (Significant Deficiency)</b>	<b><u>\$ 2,847</u></b>
<b>Federal Agency:</b>	HUD	
<b>CFDA Number and Title:</b>	14.871 Section 8 Housing Choice Vouchers (Housing Voucher Cluster)	
<b>Award Number and Year:</b>	HI001	2018
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined 60 haphazardly selected failed Housing Quality Standards (“HQS”) inspections to test if corrections and verification of corrections were performed within the correction period and proper action taken by the Public Housing Agency (“PHA”). We noted that for one owner, the verification of correction was performed after the correction period, but no Housing Assistance Payments (“HAP”) were abated.

**Criteria**

24 CFR 982.404 requires owners to maintain units in accordance with HQS. If an owner fails to maintain a dwelling in accordance with HQS and fails to correct the HQS deficiencies within the correction period, the PHA should abate HAP or terminate the HAP contract.

**Effect**

As the City verified the correction of HQS deficiencies after the correction period, HAP in the amount of \$2,847 was improperly disbursed resulting in questioned costs.

**Cause**

Although the City has policies and procedures in place to ensure proper HQS enforcement, there was a lack of diligence in complying with the policies and procedures.

**Recommendation**

We recommend the City be more diligent in following its policies and procedures for documenting and performing HQS inspections and taking appropriate action when an owner fails to correct HQS deficiencies identified.

**City and County of Honolulu**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

---

		<b>Questioned Cost</b>
<b>Finding No. 2019-007:</b>	<b>Period of Performance (Significant Deficiency)</b>	
		<b><u>\$ 26,805</u></b>
<b>Federal Agency:</b>	United States Department of Transportation	
<b>CFDA Number and Title:</b>	20.205 Highway Planning and Construction (Highway Planning and Construction Cluster)	
<b>Award Number and Year:</b>	NBIS064	2015
<b>Repeat Finding?</b>	No	

**Condition**

During our audit, we examined 25 haphazardly selected expenditure transactions and identified one expenditure for \$26,805 that was outside of the grant's period of performance.

**Criteria**

Under 2 CFR section 200.343(b), unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

**Effect**

The City may have expended funds outside of the award's period of performance resulting in \$26,805 in questioned costs.

**Cause**

The expenditure of funds outside of the period of performance was caused by two emergency situations that arose near the end of the period of performance. The City amended the contracts internally to address these emergencies but did not obtain approval for an extended period of performance from the federal agency.

**Recommendation**

We recommend that the City establish procedures to monitor the periods of performance of awards and request extensions from the federal awarding agency if necessary.

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 20, 2020

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

Dear Mr. Shimasaki:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2019

Enclosed is the response to the recommendations included in Accuity LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2019. The response includes our comments on the status of prior audit findings, 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 Koyanagi, Jr.", is written above the typed name.

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

Enclosure

APPROVED:

A handwritten signature in blue ink, appearing to read "Roy K. Amemiya, Jr.", is written above the typed name.

Roy K. Amemiya, Jr.  
Managing Director

# **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**CITY AND COUNTY OF HONOLULU**  
**Summary Schedule of Prior Audit Findings**  
Year Ended June 30, 2019

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2018-001	Significant Non-routine Transactions in the General Obligation Bond and Interest Redemption Fund	Material Weakness	X		
2018-002	Financial Statement Reporting – HART	Material Weakness		X	2019-001
2018-003	Accounting for Construction Delay Claims and Internal Communication - HART	Material Weakness	X		
2018-004	Change Order and Contract Amendment Management – HART	Significant Deficiency		X	2019-004
2018-005	Subrecipient Monitoring	Material Weakness		X	
2018-006	Subrecipient Monitoring	Material Weakness		X	
2018-007	Reporting	Material Weakness	X		
2018-008	Subrecipient Monitoring	Material Weakness	X		
2018-009	Eligibility	Material Weakness	X		
2018-010	Eligibility	Material Weakness	X		
2018-011	Special Tests and Provisions	Material Weakness	X		
2018-012	Earmarking	Material Weakness	X		
2018-013	Reporting	Material Weakness	X		
2018-014	Eligibility	Significant Deficiency	X		

**CITY AND COUNTY OF HONOLULU**  
**Summary Schedule of Prior Audit Findings**  
Year Ended June 30, 2019

**Corrective Actions Taken for Unresolved Findings**

**Finding No. 2018-002**

For the fiscal year 2019 closing, training was conducted and responsibilities were distributed for a more functional process. One of the accountants was trained to be a debt specialist on general obligation bonds and tax-exempt commercial paper, becoming knowledgeable of the bond issuance process and having direct contact with bond counsel. The new accountant has become familiar with HART's financial statements including various system reports, enabling him to assume the preparation of the financial statements next year.

Additionally, three of the staff attended an annual governmental accounting training with an update on GASB statements applicable in the current year as well as standards effective in later years.

**Finding No. 2018-004**

HART's Procurement, Contract Administration and Construction Claims Department updated the Contract Change Procedures as of April 25, 2019. Modifications to the procedures gave due considerations to the finding and addressed the need for procedures on non-design-build construction activities.

**Finding No. 2018-005: Subrecipient Monitoring - CDBG**

The City updated its post-development monitoring policies and procedures, and created a remote monitoring form to promote compliance with subrecipient monitoring requirements. The remote monitoring form was sent to over 120 agencies to collect information on compliance.

**Finding No. 2018-006: Subrecipient Monitoring - HOME**

See corrective actions taken to Finding No. 2018-05 above.

# **CORRECTIVE ACTION PLAN**

**CITY AND COUNTY OF HONOLULU**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Finding No. 2019-001: Financial Statement Reporting for the Honolulu Authority for Rapid Transportation (“HART”) (Material Weakness)**

Audit Recommendation: HART’s auditors recommend that HART management re-evaluate its annual closing process to prepare accrual basis financial statements on a timely basis. Management should also consider whether sufficient and appropriate resources are devoted to preparing and reviewing account reconciliations, including whether interim reconciliations should be performed.

Administration’s Comment: HART is working to supplement and build up the internal control functions with experienced professionals to document the financial closing process, to streamline the financial closing process, and to execute the close with additional reviews.

Anticipated Completion Date: June 2020

Contact Person(s): Ruth Lohr, Honolulu Authority for Rapid Transportation, Chief Financial Officer

**Finding No. 2019-002: Accounting for Environmental Remediation Liabilities – HART (Material Weakness)**

Audit Recommendation: HART’s auditors recommend that HART management be more diligent in applying the accounting guidance in GASB Statement No. 49.

Administration’s Comments: HART will take steps to ensure that as additional staff are hired, appropriate training is provided to verify that the accounting guidance in GASB 49 is being addressed.

Anticipated Completion Date: June 2020

Contact Person(s): Ruth Lohr, Honolulu Authority for Rapid Transportation, Chief Financial Officer

**Finding No. 2019-003: Information Technology General Control Deficiencies (Significant Deficiency)**

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

Logical security:

- Implement user access review procedures to ensure user access rights are commensurate with job responsibilities.
- Implement proper segregation of duties amongst those who administer IT security and perform transaction and accounting duties.
- Restrict the use of shared accounts.

Change management: Restrict developers and end-users from promoting changes to production environments.

**CITY AND COUNTY OF HONOLULU**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

**Administration's Comment:** The City will implement user access review procedures to ensure user access rights are commensurate with job responsibilities, implement proper segregation of duties amongst those who administer IT security and perform transaction and accounting duties, restrict the use of shared accounts, and restrict developers and end-users from promoting changes to production environments.

**Anticipated Completion Date:** June 2020

**Contact Person(s):** Mark D. Wong, Department of Information Technology, Director

**Finding No. 2019-004: Change Order and Contract Amendment Management – HART (Significant Deficiency)**

**Audit Recommendation:** HART's auditors recommend that management be more diligent in retaining the required documentation. They also recommend that management document the rationale for deviations from the procedures and required documents prescribed by the Manual or consider revising the Manual to accommodate the aforementioned contract types.

**Administration's Comment:** HART is working to implement an internal audit process and build the internal control functions to resolve issues related to documentation for change order procedures.

**Anticipated Completion Date:** June 2020

**Contact Person(s):** Ruth Lohr, Honolulu Authority for Rapid Transportation, Chief Financial Officer

**Finding No. 2019-005: Allowable Costs and Period of Performance (Material Weakness)**

**Audit Recommendation:** We recommend that the City continue to seek clarification from HUD on the types of costs that are allowable under program guidelines and develop formal procedures to ensure that the allowability criteria are met.

We also recommend that the City establish procedures to ensure that it complies with the CDBG timeliness standard specified in 24 CFR 570.902. In addition, we recommend that the City ensures that it adheres to the workout plan it submitted to HUD.

**Administration's Comment:** The questioned cost of \$1,997,396 was subsequently determined to be allowable and eligible for drawdown. Therefore, no portion of the questioned cost was required to be repaid to the HUD Line of Credit Control System.

HUD is currently reconsidering its assessment of the City's failure to meet the timely expenditure requirement. Nevertheless, the City will establish procedures to ensure continued compliance with the CDBG timeliness standard.

Finally, the City plans to adhere to the workout plan submitted to HUD.

**Anticipated Completion Date:** May 2020

**Contact Person(s):** Pamela Witty-Oakland, Department of Community Services, Director

**CITY AND COUNTY OF HONOLULU**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

**Finding No. 2019-006: Eligibility and Special Tests (Significant Deficiency)**

Audit Recommendation: We recommend the City be more diligent in following its policies and procedures for documenting and performing HQS inspections and taking appropriate action when an owner fails to correct HQS deficiencies identified.

Administration's Comment: The City will be more diligent in following its policies and procedures for documenting and performing Housing Quality Standards (HQS) inspections and taking appropriate action when an owner fails to correct the identified HQS deficiencies.

Anticipated Completion Date: Ongoing

Contact Person(s): Jayne Lee, Department of Community Services, Rental Assistance Administrator  
Carole Chung-Yokoyama, Department of Community Services, Operations  
Supervisor

**Finding No. 2019-007: Period of Performance (Significant Deficiency)**

Audit Recommendation: We recommend that the City establish procedures to monitor the periods of performance of awards and request extensions from the federal awarding agency if necessary.

Administration's Comment: The City will establish procedures to monitor the periods of performance of awards and request extensions from the federal and/or state agencies when necessary.

Anticipated Completion Date: June 2020

Contact Person(s): Mark Au, Department of Transportation Services, Federal Compliance Branch Chief