

October 1, 2004

ANNUAL REPORT

2003-2004



*Office of the City Auditor
City and County of Honolulu
State of Hawai'i*

*"The City Auditor
scrutinizes the
performance and
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A New Era in Accountability for the City and County of Honolulu

In the November 2002 General Election, the voters demanded accountability in City government when it overwhelmingly approved an amendment to the City Charter creating an independent City Auditor. This was precipitated by the Council's desire for accountability in City government, heightened by a demand for information about government programs and services, and City scandals, such as the theft of more than \$6 million in relocation money earmarked for the Ewa Villages program. On July 1, 2003, the City Council appointed Mr. Leslie Tanaka, CPA, as the City and County of Honolulu's first independent City Auditor.



City Auditor, Leslie Tanaka, at his swearing in ceremony along with his wife, Karen, son, Scott, and his daughter-in-law, Malia.

Government needs to be open and accountable to decision makers and its citizens. Improved accountability is a necessary step that allows both the Council and the people of Honolulu to decide if they are getting value for their money. Citizens today expect government officials and agencies to account for public funds and ensure that such funds are expended effectively to achieve its goals and mission. The Office of the City Auditor, or OCA, was established for just that purpose—to help hold the City accountable and serve as a catalyst for improving government through audits that are relevant, timely, objective and useful. The City Auditor scrutinizes the performance and expenditures of City departments and agencies to ensure that there has not been waste of taxpayers' resources and that programs deliver services in an equitable and efficient manner for all.

OCA's Mission

The Office of the City Auditor's mission is to promote accountability, fiscal integrity and openness in City government. The Office of the City Auditor will examine the use of public funds, evaluate programs and activities, and provide timely, accurate and objective analyses, options and recommendations to decision makers in order to ensure that the City's resources are being used to effectively and efficiently meet the needs of the public.

Year One in Review

The first year for the Office of the City Auditor can be characterized as one of **significant challenges**. Beginning the fiscal year with only one staff auditor, an



OCA's office in Kapolei Hale

empty office in Kapolei Hale, and limited office equipment and supplies required dealing with multiple demands.

However, we were able to maintain our focus and work quickly to establish an office and fill two new positions by the second quarter of the fiscal year. Even with a late start and limited staff

resources, the office set some ambitious

first year work goals—complete two performance audits and the City's annual financial audit.

With a staff of only two performance auditors and one office manager, we successfully met our first year work product goals with the release of the City's financial audit in March of 2004, followed by two performance audits, *Review of the Department of Enterprise Services Efforts Toward Fiscal Self-Sustainability* and the *Review of the Department of Planning and Permitting's One-Stop Permit Centers* released in April 2004 and June 2004 respectively.

While working on audits consumed much of our resources and priority, we also worked hard to develop an office infrastructure. As an office independent from both the mayor and Council, we assumed all of the administrative functions and responsibilities for personnel, payroll, procurement, equipment inventory,

"With a staff of only two performance auditors and one office manager, we successfully met our first year work product goals..."

contracting, and budgeting. At the same time, we trained staff to design, format, produce, print, and bind all of our audit reports in-house—saving taxpayers thousands of dollars from costly contract services. We completed an office personnel manual during the year and began work on a comprehensive audit manual. In addition, we assumed responsibility over the management of our office's Internet web site and enhanced the web site to include our audit reports in a downloadable format for easy access by the public.

Finally, we were successful in re-bidding the City's financial audit contract for the next four fiscal years (FY2004-05 to FY2007-08). The firm of Nishihama & Kishida CPAs, Inc. won the low bid after a formal procurement process following State and City procurement rules and regulations.

Professional Standards Ensure Credible Work Products

As required by the City Charter, we adhere to very rigorous and demanding professional auditing requirements described in Government Auditing Standards, or more commonly referred to as **GAGAS**. These standards include requirements for planning our work, ensuring that our staff is properly trained and supervised, determining our rationale for the objectives, scope and methodology, selecting the criteria we use to evaluate the audit subject, and ensuring that our evidence is sufficient, relevant, and competent.

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Independence of the City Auditor

To ensure the objectivity of the Office of the City Auditor, the Charter requires that the City Auditor be independent of the mayor and the City Council. The Charter further enhances the Auditor's independence through a six-year appointment by Council, with removal from office for cause by a two-thirds vote of the Council. While the Council can recommend audit topics to OCA, the City Auditor determines the work program for the office. The City Charter grants the Auditor authority to have full, free and unrestricted access to all City accounts, records and employees. OCA administratively reports to the City Council of Honolulu.





Peer Review—Who Audits the Auditor?

Government auditing standards require that OCA undergo an external examination, commonly referred to as a **peer review**, once every three years. This mandatory review is to assess whether OCA's internal quality control system provides reasonable assurance of complying with applicable standards governing audits and attestation engagements. We will contract with an external organization, such as the National Association of Local Government Auditors, to send a team of auditors to Hawaii to perform this review. We expect our first peer review sometime around August of 2006, and every three years thereafter.

Continuing Professional Education—a GAGAS Requirement

Government auditing standards require that our audit staff complete at least 80 hours of continuing professional education every two years. In addition, the standards require that at least 24 of the 80 hours be in subjects directly related to the government environment and to government auditing. In FY2003-04, our auditors earned an average of about 55 hours of training by attending seminars, workshops and training sessions sponsored by some of the following professional organizations: American Institute of Certified Public Accountants, Association of Government Accountants, National Association of Local Government Auditors, and the Association of Certified Fraud Examiners.

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Summary of Reports to Council

In FY2003-04, the responsibility for overseeing the contract for the Financial Audit of the City and County of Honolulu was transferred over to the Office of the City Auditor from the Office of Council Services. The management letter, providing the findings and recommendations made by contract auditor, PricewaterhouseCoopers, LLP for the fiscal year ended June 30, 2003, was submitted to the City Council and the Office of the City Auditor in March 2004. This report was made available to the public on the Office of the City Auditor's web page (www.honolulu.gov/council/auditor). In addition, the Office of the City Auditor also issued two performance audit reports during the fiscal year: *Review of the Department of Enterprise Services' Efforts Toward Fiscal Self-Sustainability* and



Review and Assessment of the Department of Planning and Permitting's One-Stop Permit Centers. Both reports were also made available to the public on the Office of the City Auditor's web page.

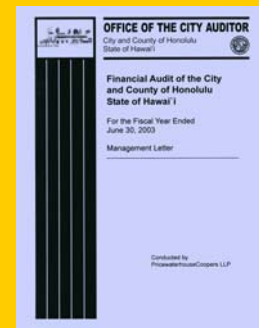
Financial Audit of the City and County of Honolulu for FY2002-03

Contract auditor, PricewaterhouseCoopers, LLP, submitted their findings and recommendations of the financial audit of the City and County of Honolulu for FY2002-03 to the City Council in March 2004. Although they stated that the audit was not designed to provide assurance on the City's internal control, their findings involved matters involving the system of internal control and its operations. Their findings included: a lack of monitoring of subrecipient loans; the inability to obtain detailed equipment listings for the \$4.5 million in purchases by contractor, Oahu Transit Services, Inc.; an overstated amortization debt discount; an inaccurate estimate of CASE and IBNR reserves; inappropriate execution and encumbrance of funds for contracts which made allowances for extra work; non-compliance with the State procurement code; and delinquent collections on subsidy agreements. In addition, the U.S. Department of Housing and Urban Development (HUD) performed an on-site monitoring review of the City's Community Planning and Development Programs and issued a report with their findings in March 2003. The City had not provided a response to HUD nor proper resolution of those findings prior to the completion of the FY2002-03 financial audit

The auditor's also reported that 8 of the 15 findings from the previous year's audit have been resolved. The other 7 findings were still applicable in the FY2002-03 audit.

Review of the Department of Enterprise Services' Efforts Toward Fiscal Self-Sustainability

This audit was conducted pursuant to Council Resolution 03-198, which requested the City Auditor to review economy and efficiency activities of eight executive departments primarily funded by general and highway fund appropriations. The audit assessed the Department of Enterprise Services' plans to operate on a self-sustaining basis and the management of its concession and revenue-generating



Financial Audit of the City and County of Honolulu, Fiscal Year Ended June 30, 2003, Management Letter

contracts. We concluded that although the department generates revenues to help offset the cost of the department's operations, the department continues to require significant subsidies, making total self-sustainability an unrealistic goal. We recommended that the department establish a long-term fiscal sustainability plan that unifies its various efforts in order to make purposeful progress toward



The Honolulu Zoo Train Concession

accomplishing its mission; develop an effective plan to enforce and terminate contracts of non-compliant concessionaires; continue and expand efforts to reduce the accounts receivables backlog; comply with City finance policy regarding billing and collections, and open competitive bidding for awarding City concession contracts; cease the practice of awarding City concession revenues to non-City organizations; and establish procedures for the management of its concession contracts.

Review and Assessment of the Department of Planning and Permitting's One-Stop Permit Centers

This was the second audit conducted by the Office of the City Auditor pursuant to



The One-Stop Permit Center located at Honolulu Municipal Building.

Council Resolution 03-198. This audit assessed the effect of the One-Stop Permit Centers' implementation on the building permit process. We found that although the department implemented new technological system improvements, their efforts to re-engineer its building permit process into a more efficient and streamlined operation was hampered by their failure to address necessary personnel requirements. We also found that

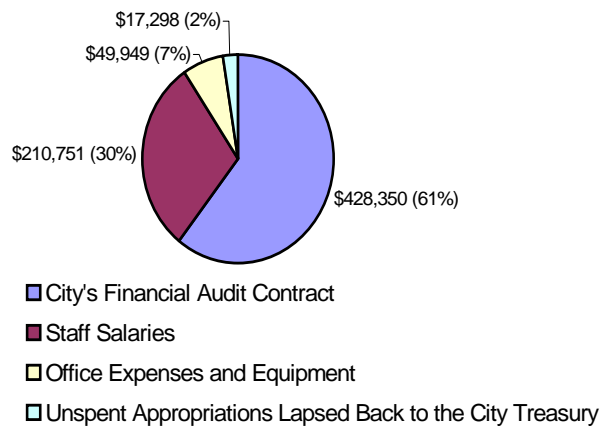
the department's fiscal sustainability goal conflicts with its goal of operational efficiency, and can lead to the questionable application of building permit fees. Our report includes recommendations regarding the addressing of personnel issues, developing plans to implement operational improvements, and developing, implementing and enforcing clear guidelines, checklists and instructions for both staff and applicants to follow. We also recommended that the department clearly identify and justify actual departmental expenses that can be linked to building

permit fees in order to support its efforts to secure the necessary resources to fully implement its re-engineering efforts.

FY2003-04 Appropriations and Expenditures

The Office of the City Auditor was appropriated a total of \$706,348 in FY2003-04. Of this total, \$428,350 or 61% was expended for the City's annual financial audit contract, which OCA is responsible to oversee for the Council in accordance with the City Charter. OCA's operating budget of \$277,998 help to cover costs for its four positions (\$210,751) and office operations and equipment (\$49,949). Since the recruitment process to fill two new positions took several months to complete, the office was able to save approximately \$17,298, which was returned back to the City Treasury at the end of the fiscal year.

OCA FY2003-04 Application of Resources



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Outlook

With the challenges of year one behind us, OCA will continue to refine its work to help the City achieve honest, efficient management, and accountability throughout City government. However, we could not have achieved all of this in our first year without the tremendous support from Council and the cooperation of the executive department personnel. We have also received some complimentary comments from the public and media for our work and will continue to the serve the Council, mayor, City managers and the public with timely and accurate information, unbiased analysis, and objective recommendations on how best to use public resources.

OCA Staff Listing

Leslie I. Tanaka, City Auditor

- ◆ Appointed City Auditor on July 1, 2003
- ◆ Deputy Auditor, Hawaii State Auditor's Office, 1995 to 2003
- ◆ Director of Administrative Services, University of Hawaii at Kapiolani Community College, 1981 to 1994
- ◆ Certified Public Accountant since 1974

Sherri S. Suzawa, Office Manager

- ◆ Served as Office Manager in the Office of the City Auditor since 2003
- ◆ Division Secretary, Emergency Medical Services, C&C of Honolulu, 1994 to 2003
- ◆ Contract Specialist, Hickam Air Force Base, 1992 to 1994

Susan Hall, Assistant Auditor

- ◆ Served in the Office of the City Auditor since 2003
- ◆ Legislative Analyst, Office of Council Services, C&C of Honolulu, 1999 to 2003
- ◆ Analyst, Hawaii State Auditor's Office, 1992 to 1999
- ◆ Evaluator, U.S. General Accounting Office, 1983-1987

Van Lee, Assistant Auditor

- ◆ Served in the Office of the City Auditor since 2003
- ◆ Senior Analyst, Hawaii State Auditor's Office, 1992 to 2003
- ◆ Assistant Vice President, Hawaii Trust Company, 1984 to 1992

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