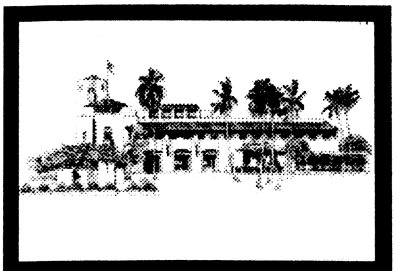

OFFICE OF THE CITY AUDITOR

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, 2003

Single Audit of Federal Financial Assistance Programs

Conducted by
PricewaterhouseCoopers LLP

City and County of Honolulu
State of Hawaii
Single Audit Report
Year Ended June 30, 2003

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SECTION 1

INTRODUCTION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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Telephone (808) 531 3400
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December 22, 2003

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

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii ("City"), as of and for the year ended June 30, 2003. 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 a schedule of findings and questioned costs.

The audit objectives and scope of our audits, as defined in our contract with the City, are as follows:

OBJECTIVES

1. To provide a basis for an opinion on the fair presentation of the City's basic financial statements and operations for which the City is responsible.

2. To determine whether the City's internal controls are adequate in assuring that:

   a) there is effective control over and proper accounting of revenues, expenditures, assets and liabilities;

   b) the City has established sufficient internal controls to properly manage federal financial assistance programs; and

   c) the City complies with applicable laws and regulations regarding internal controls.

3. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the City is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the City, the State of Hawaii, and the federal government (where applicable).

4. To determine the City has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program.

5. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the City with information to plan, evaluate, control, and correct program activities of the City and the operations for which the City is responsible.

6. To recommend improvements to the City's systems and procedures, including, but not limited to, the management information system and the accounting and operating procedures.

7. To provide a basis for two separately issued opinions on the fair presentation of the City's financial statements relating to two enterprise funds – the sewer system and the public transportation system.

SCOPE OF AUDITS

1. We performed our audits of the City's financial statements as of and for the year ended June 30, 2003 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

2. As part of our audit of the City's financial statements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. We also evaluated the City's internal control over financial reporting, which included an assessment of the internal controls in place to ensure effective control over and proper accounting of financial information and compliance with laws and regulations.

3. We performed our audit of the City's federal financial assistance programs for the year ended June 30, 2003 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards,* certain provisions of the *Office of Management and Budget ("OMB") Circular A-133* and the applicable sections described in the *OMB's Circular A-133 Compliance Supplement.*

ORGANIZATION OF REPORT

This report is organized into six sections as follows:

1. Section 1, entitled "Introduction," briefly describes the objectives and scope of our audits and the organization and contents of this report.

2. Section 2, entitled "Compliance and Internal Control Over Financial Reporting," contains our report on the City's compliance and internal control over financial reporting.

3. Section 3, entitled "Compliance and Internal Control Over Federal Awards," contains our report on the City's compliance and internal control over federal awards and a schedule of expenditures of federal awards for the year ended June 30, 2003.

4. Section 4, entitled "Schedule of Findings and Questioned Costs," consists of current year findings and questioned costs.

5. Section 5, entitled "Prior Year Findings and Questioned Costs," consists of the status of the internal control and findings noted in the prior year's report.

6. Section 6, entitled "Corrective Action Plan," includes the City's corrective action plan for the internal control and compliance matters noted in this report.

Our reports on the City's basic financial statements, the sewer system and the public transportation system financial statements as of and for the year ended June 30, 2003 have been issued separately. A separate management letter dated December 22, 2003 has also been issued.

We will be pleased to discuss any questions that you or your associates may have regarding our report.

Very truly yours,

PricewaterhouseCoopers LLP

SECTION 2

COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

PRICEWATERHOUSECOOPERS

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

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

We have audited the basic financial statements of the City and County of Honolulu, State of Hawaii ("City"), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the City in a separate letter dated December 22, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01 and 03-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 03-01 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the City in a separate letter dated December 22, 2003.

This report is intended solely for the information and use of the City Council, management of the City and County of Honolulu, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
December 22, 2003

SECTION 3

COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City and County of Honolulu, State of Hawaii ("City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, we noted immaterial instances of noncompliance with those requirements that we have reported to the City in a separate letter dated December 22, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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 OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance and its operation that we have reported to the City in a separate letter dated December 22, 2003.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management of the City and County of Honolulu, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
December 22, 2003

City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Department of Agriculture					
Summer Food Service Program for Children	10.559	12-351523	Department of Education	Parks and Recreation	$ 261,888
Department of Commerce					
Coastal Zone Management Administration Awards	11.419	49993, 48744	Office of State Planning	Planning and Permitting	148,790
Department of Education					
Safe and Drug-Free Schools and Communities – State Grants (Drug Awareness Resistance Education)	84.186	MOA02-018	Department of Education	Honolulu Police Department	16,220
Twenty-First Century Community Learning Centers	84.287	13023	Department of Education	Parks and Recreation	55,872
Total Department of Education					72,092
Department of Energy					
Biodiesel and Propane Vehicle Demonstration	81.111	DE-FG07-971-D13501	Department of Business and Economic Development and Tourism	Facility Maintenance	43,880
State Energy Program Special Projects	81.119	L-02-143	Department of Business and Economic Development and Tourism	Design and Construction	8,032
Total Department of Energy					51,912
Department of Health and Human Services					
Development of a Metropolitan Medical Response System	93.000	—	—	Emergency Services Department	30,155
Family Self-Sufficiency Program	93.000	PMB 02-04	Housing and Community Development Corporation of Hawaii	Community Services	178,454
Aging Cluster					
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	3B-2-01, 3B-2-02, 3B-2-03	Office of the Governor	Community Services	912,269
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	Various	Office of the Governor	Community Services	1,092,924
Total Aging Cluster					2,005,193
Special Programs for the Aging – Title III, Part D – In-Home Services for Frail Older Individuals	93.046	3D-2-02, 3D-2-03	Office of the Governor	Community Services	75,813
National Family Caregiver Support	93.052	3E-2-02, 3E-2-03	Office of the Governor	Community Services	409,784
Block Grants for Prevention and Treatment of Substance Abuse	93.959	MOA 02-05	Department of Health	Honolulu Police Department	24,576
Total Department of Health and Human Services					2,723,975
Department of Housing and Urban Development					
Community Development Block Grants – Entitlement Grants	14.218	—	—	Community Services/Design and Construction/Transportation/Budget and Fiscal Services	23,637,237 *
Emergency Shelter Grants Program	14.231	—	—	Community Services	409,999
Supportive Housing Program	14.235	—	—	Community Services	794,025
Shelter Plus Care Program	14.238	—	—	Community Services	966,346
				Community Services/	

City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
HOME Investment Partnerships Program	14.239	—	—	Design and Construction	1,452,208 *
Housing Opportunities for Persons with AIDS	14.241	—	—	Community Services	382,905
Youthbuild Program	14.243	—	—	Community Services	68,889
Public and Indian Housing Drug Elimination Program	14.854	RSS 01-09, RSS 01-14	Housing and Community Development Corporation of Hawaii	Honolulu Police Department	60,794
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	—	—	Community Services	98,991
Section 8 Housing Choice Vouchers	14.871	—	—	Community Services	30,434,599 *
Total Department of Housing and Urban Development					58,305,993
Department of Justice					
Domestic Cannabis Eradication/Suppression Program	16.000	—	—	Honolulu Police Department	644,308
State Domestic Equipment Support Program	16.007	2002-TC-CX-0037	State Civil Defense	Honolulu Fire Department	83,660
Juvenile Justice Center	16.523	Various	Department of Human Services	Community Services	813,998
Title V Youth Program	16.548	Various	Department of Human Services	Community Services	115,595
Expanded Forensic DNA Testing	16.560	—	—	Honolulu Police Department	3,920
Crime Victim Assistance	16.575	Various	Attorney General	Prosecuting Attorney/ Community Services	992,655
Byrne Formula Grant Program	16.579	Various	Attorney General	Honolulu Police Department	53,232
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	01-DB-2, 02-DB-4	Attorney General	Prosecuting Attorney	58,718
Violence Against Women Formula Grants	16.588	Various	Attorney General	Prosecuting Attorney/ Honolulu Police Department	244,507
Local Law Enforcement Block Grants Program	16.592	—	—	Prosecuting Attorney/ Honolulu Police Department	414,971
Community Prosecution and Project Safe Neighborhoods	16.609	—	—	Prosecuting Attorney	55,095
Public Safety and Partnership and Community Policing Grants (COPS)	16.710	—	—	Honolulu Police Department	64,754
Enforcing Underage Drinking Laws Program	16.727	ASO 03-048	Department of Health	Honolulu Police Department	46,400
Total Department of Justice					3,591,813
Department of Labor					
Workforce Investment Act – Administration	17.250	Various	Department of Labor	Community Services	726,307
Welfare-to-Work Grants to States and Localities	17.253	Various	Department of Labor	Community Services	607,410
Workforce Investment Act Cluster					
Adult Program	17.258	Various	Department of Labor	Community Services	1,671,064 *
Youth Program	17.259	Various	Department of Labor	Community Services	2,913,438 *
Dislocated Worker Program	17.260	Various	Department of Labor	Community Services	1,818,809 *
Total Workforce Investment Act Cluster					6,403,311
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	—	—	Community Services	53,742
Total Department of Labor					7,790,770

City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Pass-through State Agency	City Recipient	Federal Expenditures
Department of Transportation					
Highway Planning and Construction	20.205	Various	Department of Transportation	Design and Construction/ Transportation Services	13,659,039
Federal Transit Cluster					
Federal Transit – Capital Investment Grants	20.500	—	—	Design and Construction/ Transportation Services	1,076,965
Federal Transit – Formula Grants	20.507	—	—	Design and Construction/ Transportation Services	22,913,388
Total Federal Transit Cluster					23,990,353
Transit Planning and Research	20.514	—	—	Design and Construction/ Transportation Services	13,788
State and Community Highway Safety	20.600	Various	Department of Transportation	Honolulu Police Department	119,379
Total Department of Transportation					37,782,559
Department of the Treasury					
Gang Resistance Education and Training	21.053	—	—	Honolulu Police Department	156,752
Environmental Protection Agency					
Sustainable Island-Based Development	66.000	—	—	Community Services	62,160
Water Pollution Control Revolving Fund	66.419	NPS00-CO-01	Department of Health	Facility Maintenance	2,794,142
Capitalization Grants for State Revolving Funds (Note 3)	66.458	Various	Department of Health	Design and Construction	60,028
Total Environmental Protection Agency					2,916,330
Federal Emergency Management Agency					
Project Impact Honolulu	83.551	—	—	Oahu Civil Defense Agency	73,460
Emergency Management – State and Local Assistance	83.552	EMF-2002 GR -0004	Department of Defense	Oahu Civil Defense Agency	56,131
Assistance to Firefighters Grant	83.554	—	—	Honolulu Fire Department	260,925
Total Federal Emergency Management Agency					390,516
Office of National Drug Control Policy					
High Intensity Drug Trafficking Area Program	7.000	—	—	Honolulu Police Department	2,106,112
Total Expenditure of Federal Awards					$ 116,299,502

(*)Denotes major federal financial assistance program as defined by OMB Circular A-133.

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 accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Loans Outstanding

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2003, which are not presented in the schedule of expenditures of federal awards.

Program Title	CFDA Number	Loans/Advances Awarded in Year Ended June 30, 2003	Loans Outstanding as of June 30, 2003
Major programs			
Community Development Block Grants – Entitlement Grants	14.218	$ 1,495,192	$ 43,056,056
HOME Investment Partnership Programs	14.239	307,400	8,929,052
		$ 1,802,592	$ 51,985,108

3. Capitalization Grants for State Revolving Funds

At June 30, 2003, federal awards and state matching fund expenditures under capitalization grants for state revolving funds were as follows:

Federal	$ 53,380
State	6,648
	$ 60,028

4. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

Federal Grantor/Program/Grant	Federal CFDA Number	Amount Provided to Subrecipients
Department of Health and Human Services		
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	$ 854,007
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	827,302
Special Programs for the Aging – Title III, Part D – In-Home Services for Frail Older Individuals	93.046	14,860
National Family Caregiver Support	93.052	409,784
Total Department of Health and Human Services		2,105,953
Department of Housing and Urban Development		
Community Development Block Grants – Entitlement Grants	14.218	19,221,148
Emergency Shelter Grants Program	14.231	409,999
Supportive Housing Program	14.235	773,455
Shelter Plus Care Program	14.238	966,346
HOME Investment Partnerships Program	14.239	243,885
Housing Opportunities for Persons with AIDS	14.241	375,608
Total Department of Housing and Urban Development		21,990,441
Department of Justice		
Juvenile Justice Center	16.523	427,415
Title V Youth Program	16.548	115,595
Crime Victim Assistance	16.575	550,412
Violence Against Women Formula Grants	16.588	130,601
Total Department of Justice		1,224,023
Department of Labor		
Workforce Investment Act – Administration	17.250	18,605
Workforce Investment Act – Adult Program	17.258	77,745
Workforce Investment Act – Youth Program	17.259	2,161,573
Workforce Investment Act – Dislocated Worker Program	17.260	97,008
Total Department of Labor		2,354,931
Total Provided to Subrecipients		$ 27,675,348

SECTION 4

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements — Unqualified

Internal control over financial reporting:

Material weaknesses identified? — Yes

Reportable conditions identified that are not considered to be material weaknesses? — Yes

Noncompliance material to financial statements noted? — No

Federal Awards

Internal control over major programs:

Material weaknesses identified? — No

Reportable conditions identified that are not considered to be material weaknesses? — None reported

Type of auditor's report issued on compliance for major programs — Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? — No

CFDA Number	MAJOR PROGRAMS
	Department of Housing and Urban Development
14.218	Community Development Block Grants – Entitlement Grants
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers

Department of Labor

17.258- 17.260	Workforce Investment Act

Dollar threshold used to distinguish between Type A and Type B programs	$3,000,000
Auditee qualified as low-risk auditee?	No

[1]The City's federal entity identification number is 99-6001257.

Section II – Financial Statement Findings

Internal Control Over Financial Reporting

Material Weakness

Finding No. 03-01: Inaccurate Accounting of Capital Assets

During the current year, certain capital assets were identified which should have been recorded in the City's financial statements in prior years. Storm drains and traffic lights were underreported in prior years, while other capital assets were below the City's capitalization threshold amount and should not have been capitalized. Additionally, certain land improvements and structures amounting to $51 million were completed in prior years but were not transferred from work in progress to the respective capital asset accounts until fiscal 2003. Therefore, depreciation expense was understated in fiscal 2002, the year that Governmental Accounting Standards Board Statement No. 34 was effective and required governmental entities to record depreciation expense. These adjustments resulted in an increase to capital assets, net of accumulated depreciation, and an increase to the other general revenues account of $28 million in the City's 2003 financial statements.

Additionally, certain infrastructure and buildings amounting to $7 million were completed in prior years but were not transferred from work in progress to the respective capital asset accounts until fiscal 2003 in the City's Sewer Fund financial statements. Therefore, depreciation expense was understated in prior years.

Significant time was incurred to identify and properly account for these assets, which contributed to the delays in completing the City's Comprehensive Annual Financial Report for fiscal year 2003.

Recommendation –

The City should ensure that all capital assets are properly and timely accounted for in the City's general ledger. The operating agencies should comply with established procedures to transfer completed projects or assets to the fixed asset account on a timely basis.

Reportable Condition

Finding No. 03-02: Delays in the Completion of the Financial Statements

Although the City completed its Comprehensive Annual Financial Report ("CAFR") at the end of December 2003, we encountered various delays as follows:

- The City had inaccurately accounted for certain capital assets which resulted in various adjustments, revisions and delays in the current year. See material weakness Finding No. 03-01 in this report.

- The City continued to encounter difficulties in determining the proper balances of the Sewer Fund's inventories of materials and supplies, related expense and the inventory write-down due to inventory obsolescence in 2003. Adjustments were made during the course of the audit.

- Although the City has taken measures to ensure account analysis and financial statement schedules prepared for the audit were generally reviewed by a supervisor, we noted certain errors which required subsequent revisions.

- We also experienced delays in obtaining information requested for the audit based upon agreed-upon deadlines with the City.

Recommendation –

The City should ensure these issues are appropriately and timely addressed in fiscal 2004. The agreed-upon deadlines for the completion of the CAFR should be strictly enforced to ensure timely completion of future CAFRs.

SECTION 5

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

This section reports findings and questioned costs that were reported in the June 30, 2002 report. Finding number relates to the sequence reported in the respective years.

Financial Statement Findings

Internal Control Over Financial Reporting

Material Weakness

Finding No. 02-01: Inaccurate Accounting of Capital Assets

During the fiscal 2002 audit, we identified certain capital assets that should have been recorded in the Sewer Fund's financial statements in prior years and certain contributed assets which had never been recorded. Therefore, proper adjustments were made to the 2002 financial statements and the Sewer Fund's 2001 financial statements were restated to reflect these additional assets, related depreciation expense and contributed capital. This resulted in an increase of approximately $213.7 million to the June 30, 2001 capital assets, net of accumulated depreciation, an increase of $1.2 million in the changes in net assets previously reported for 2001 and a prior period adjustment of $212.5 million to the 2001 beginning net assets of the Sewer Fund. We were informed that these additional infrastructure assets had not been properly reflected and accounted for in the City's geographic information system ("GIS") due to a staffing shortage.

Significant time was incurred to identify and properly account for these additional assets, which contributed to the significant delays in completing the City's Sewer Fund financial statements and the Comprehensive Annual Financial Report for fiscal year 2002.

Additionally, during fiscal 2002, certain property and equipment were identified which should have been recorded in the City's Public Transportation System separate financial statements in prior years. This resulted in an increase of approximately $20 million to property and equipment, net of accumulated depreciation, and to the July 1, 2001 net asset balance previously reported. We were informed that this oversight was due to a miscommunication between two City departments as to which department was to record this asset.

We recommended that the City ensure that all capital assets are properly and timely accounted for in the City's general ledger. The GIS system should be accurately and timely updated for changes to the Sewer Fund's capital assets.

Status –

Unresolved. During the 2003 audit, we noted additional adjustments to the capital asset accounts which should have been recorded in the City's financial statements in prior years. See current year material weakness Finding No. 03-01.

Reportable Condition

Finding No. 02-02: Delays in the Issuance of the Financial Statements

The City completed its CAFR in April 2003, ten months after the City's year end. The delay was primarily due to the following:

- The City had inaccurately accounted for capital assets in the Sewer Fund, which resulted in significant adjustments in the current year and a restatement of the Sewer Fund's 2001 financial statements. See material weakness Finding No. 02-01 in this report.

- The City encountered various problems and difficulties in determining the proper capital asset balances and classification of assets, which resulted in numerous revisions and delays by the City in completing this significant area.

- The City encountered difficulties in determining the proper balances of the Sewer Fund's inventories of materials and supplies and related expense for 2002 and 2001. Adjustments were made during the course of the audit and the Sewer Fund's 2001 financial statements were restated.

- Significant time was incurred to inventory the City's infrastructure assets and to value these assets due to the lack of historical records. The City determined the value of these assets based on current replacement costs and discounted the costs based on the date the assets were placed in service.

- It appeared the account analysis and financial statement schedules were not properly and timely reviewed by management, which resulted in various errors and subsequent revisions which contributed to the delay.

Status –

Unresolved. Although the City has taken certain measures to complete the 2003 CAFR in a more timely manner, we continued to experience problems and delays in completing the 2003 audit. See current year reportable condition Finding No. 03-02.

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) 523-4616 • FAX: (808) 523-4771 • INTERNET: www.co.honolulu.hi.us

JEREMY HARRIS
MAYOR

IVAN M. LUI-KWAN
DIRECTOR

CHRIS A. DIEBLING
DEPUTY DIRECTOR

March 22, 2004

Mr. Leslie I. Tanaka, City Auditor
Office of the City Auditor
City and County of Honolulu
1000 Uluohia Street, Suite 313
Kapolei, Hawaii 96707

Dear Mr. Tanaka:

RE: SINGLE AUDIT REPORT FOR THE FISCAL YEAR 2002-2003

Attached is the City Administration's response to PricewaterhouseCoopers LLP preliminary draft of the findings and recommendations included in the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2003. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

IVAN M. LUI-KWAN
Director

IMLK:al
Attachments

FORWARDED:

BENJAMIN B. LEE, FAIA
Managing Director

c: Budget and Fiscal Services- Internal Control Division

RESPONSE TO SINGLE AUDIT REPORT SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 03-01: Accounting For Capital Assets

Audit Recommendation: The City should ensure that all capital assets are properly and timely accounted for in the City's general ledger. The operating agencies should comply with established procedures to transfer completed projects or assets to the fixed asset account on a timely basis.

Administration's Comment: The City discovered the inaccuracies and corrected the accounting records for the underreporting of storm drains and traffic lights. Additional procedures have been implemented to ensure that capital assets are properly and timely accounted for in the general ledger. The City is working with the operating agencies to establish procedures for the timely transfer of completed projects or assets to the proper fixed asset account.

Anticipated Completion Date: June 2004

Contact Person: Nelson Koyanagi Jr, Chief Accountant, Budget and Fiscal Services
Diane Murata, Property Management Officer, Budget and Fiscal Services

Finding No. 03-02: Delays in the Completion of the Financial Statements

Audit Recommendation: The City should ensure these issues are appropriately and timely addressed in fiscal 2004. The agreed-upon deadlines for the completion of the CAFR should be strictly enforced to ensure timely completion of future CAFRs.

Administration's Comment: City personnel noted certain inaccuracies in reporting prior year capital assets amounts and made the corrections in the fiscal 2003 financial statements. See Finding No. 03-01 for information pertaining to the accounting for capital assets.

The City adjusted the Sewer Fund materials and supplies inventory for obsolete items and will continue to monitor the accuracy of the inventory balances.

For the fiscal year 2003 audit, the City established procedures for the preparation and review of all documents, schedules and statements to allow for timely and accurate submission to the auditors. In addition, City management monitored the ongoing progress of the audit throughout the engagement and provided timely notification to the auditors when problems were encountered or delays were anticipated. These efforts allowed the City to issue the CAFR by the required due date. The City will follow similar procedures for the fiscal 2004 audit.

Anticipated Completion Date: June 2004

Contact Person: Timothy Houghton, Deputy Director, Environmental Services
Nelson Koyanagi Jr, Chief Accountant, Budget and Fiscal Services

RESPONSE TO SINGLE AUDIT REPORT SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 02-01: Inaccurate Accounting of Capital Assets

Audit Status: Unresolved. During the 2003 audit, we noted additional adjustments to the capital asset accounts which should have been recorded in the City's financial statements in prior years. See current year material weakness Finding No. 03-01.

Administration's Comment: Refer to Comment No. 03-01.

Finding No. 02-02: Delays in the Issuance of the Financial Statements

Audit Status: Unresolved. Although the City has taken certain measures to complete the 2003 CAFR in a more timely manner, we continued to experience problems and delays in completing the 2003 audit. See current year reportable condition Finding No. 03-02.

Administration's Comment: Refer to Comment No. 03-02.