



# **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, 2014

Single Audit of Federal Financial  
Assistance Programs



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## **INTRODUCTION**



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A Hawaii Limited Liability Partnership

February 27, 2015

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

Dear Chair and Members of the City Council:

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii (the City) as of and for the fiscal year ended June 30, 2014. Our report containing our opinion on those basic financial statements is included in the City's *Comprehensive Annual Financial Report*. We have also audited the City's compliance with requirements applicable to its major federal financial programs. We submit herein our reports on compliance and internal control over financial reporting and over federal awards, the schedule of expenditures of federal awards, and the schedule of findings and questioned costs. Our audit was performed in accordance with the terms of our contract with the City and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### **OBJECTIVES OF THE AUDIT**

1. To provide an opinion on the fairness of the presentation of the City's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2014 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 OMB Circular A-133.
5. To report on the status of prior year findings and questioned costs.

## **SCOPE OF THE AUDIT**

We performed an audit of the City's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2014, 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 OMB Circular A-133.

Our report on the basic financial statements of the City as of and for the year ended June 30, 2014 is included under a separate cover. A separate management letter containing our observations regarding the City's internal controls dated February 27, 2015 has also been issued to the City Council.

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

Sincerely,

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

Wilcox Choy  
Partner

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***



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A Hawaii Limited Liability Partnership

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

**Independent Auditor's Report**

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2014. Our report includes a reference to other auditors who have audited the financial statements of the Board of Water Supply, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 and significant deficiencies.

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 considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs*, items 2014-3 and 2014-4 to be material weaknesses.

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 considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs*, items 2014-1, 2014-2, and 2014-5, 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2014-6 and 2014-7.

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

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

### **Purpose of this Report**

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

KMH LLP

KMH LLP

Honolulu, Hawaii  
February 27, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**



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A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance, and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City and County of Honolulu, State of Hawaii's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Basis for Qualified Opinion on Continuum of Care and Community Challenge Planning Grants and Department of Transportation’s TIGER II Planning**

As described in items 2014-6 and 2014-7 in the accompanying *Schedule of Findings and Questioned Costs*, the City did not comply with requirements regarding the following:

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program Name</b>	<b>Compliance Requirement</b>
2014-6	14.267	Continuum of Care	Subrecipient Monitoring
2014-7	14.704	Community Challenge Planning Grants and Department of Transportation’s TIGER II Planning	Reporting

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

**Qualified Opinion on Continuum of Care and Community Challenge Planning Grants and Department of Transportation’s TIGER II Planning**

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on Continuum of Care and Community Challenge Planning Grants and Department of Transportation’s TIGER II Planning for the year ended June 30, 2014.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the other major federal programs identified in the Summary of Auditor’s Results section of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2014.

**Other Matters**

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

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-6 and 2014-7 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated December 23, 2014, which contained an unmodified opinion on those financial statements. We did not audit the financial statements of the Board of Water Supply, which is a discretely presented component unit of the City. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*KMH LLP*

KMH LLP

Honolulu, Hawaii  
February 27, 2015

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

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
Pass-through from the State Department of Education-- Summer Food Service Program for Children	10.559	12-351523	\$ 160,608
Pass-through from the State Department of Human Services-- Supplemental Nutritional Assistance Program	10.561	DHS-11-SNAP-301 SA2; SA3	15,338
Pass-through from the State Department of Land and Natural Resources-- Cooperative Forestry Assistance	10.664	11-DG-11052012-031	96,458
<b>Total U.S. Department of Agriculture</b>			272,404
<b>U.S. Department of Housing and Urban Development:</b>			
<i>CDBG-Entitlement Grants Cluster:</i>			
Community Development Block Grants/Entitlement Grants	14.218	-	15,911,648
CDBG ARRA Entitlement Grants (CDBG-R)(ARRA)	14.253	-	(156)
<i>Total CDBG-Entitlement Grant Cluster</i>			15,911,492
Emergency Solutions Grant Program	14.231	-	689,757
Supportive Housing Program	14.235	-	170,477
Shelter Plus Care	14.238	-	116,854
HOME Investment Partnerships Program	14.239	-	4,449,661
Housing Opportunities for Persons with AIDS	14.241	-	405,669
Community Challenge Planning Grants and the DOT's TIGER II Planning Grants	14.704	-	2,188,866
Continuum of Care Program	14.267	-	5,480,048
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	-	149,689
<i>Housing Voucher Cluster:</i>			
Mainstream Vouchers	14.879	-	1,524,468
Section 8 Housing Choice Vouchers	14.871	-	45,426,754
Pass-through from the State Hawaii Public Housing Authority-- Section 8 Housing Choice Vouchers: FSS	14.871	PMB 09-03 SA3, 4 PMB 13-04	304,537
<i>Total Housing Voucher Cluster</i>			47,255,759
<b>Total U.S. Department of Housing and Urban Development</b>			76,818,272
<b>U.S. Department of the Interior--</b>			
Pass-through from the State Department of Land and Natural Resources-- Outdoor Recreation Acquisition, Development and Planning	15.916	15-00160	584,060
<b>Total U.S. Department of the Interior</b>			584,060
<b>U.S. Department of Justice:</b>			
Domestic Cannabis Eradication/Suppression Program	16.000	2013-69	100,000
Equitable Sharing Program	16.922	-	517,990
Pass-through from the State Department of the Attorney General-- Services for Trafficking Victims	16.320	10-VT-01	12,035
Pass-through from the State Department of Human Services-- Juvenile Accountability Block Grants	16.523	DHS-12-OYS-264	187,834
Pass-through from the State Department of the Attorney General-- Crime Victim Assistance	16.575	10-VA-02, 11-VA-02	949,822
Pass-through from the State Department of the Attorney General-- Violence Against Women Formula Grants (Non-ARRA)	16.588	09-WF-10, 10-WF-13, 11-WF-05, 12-WF-0410-WF-09, 11-WF-08	239,015
Pass-through from the State Department of the Attorney General-- Project Safe Neighborhoods	16.609	10-GP-01	40,631
Public Safety Partnership and Community Policing Grants (ARRA)	16.710	2009-RJ-WX-0040	83,577
Public Safety Partnership and Community Policing Grants (Non-ARRA)	16.710	2008 -CK-WX-05762008 -CK-WX-05772008 -CK-WX- 0481	78,176
Pass-through from the State Department of Health-- Enforcing Underage Drinking Laws Program	16.727	ASO Log. 11-104	47,759
DNA Backlog Reduction Program	16.741	2011-DN-BX-K416, 2012-DN-BX-0080, 2013-DN-BX- 0059	304,962
Pass-through from the State Department of the Attorney General-- Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	10-CD-01, 11-CD-02	70,711
Pass-through from the State Department of the Attorney General-- Anti-Gang Initiative	16.744	07-PG-02	33,068

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

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>Justice Assistance Grant (JAG) Program Cluster:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0354, 2010-DJ-BX-0347, 2011-DJ-BX-2891, 2012-DJ-BX-1227, 2013-DJ-BX-0731	739,075
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	11-DJ-0111-DJ-0209-DJ-11, 10-DJ-04, 11-DJ-09	567,352
Edward Byrne Memorial JAG Program / Grants To Units Of Local Government (ARRA)	16.804	2009-SB-B9-1306	368,299
<i>Total JAG Program Cluster</i>			<u>1,674,726</u>
<b>Total U.S. Department of Justice</b>			<u>4,340,306</u>
<b>U.S. Department of Labor:</b>			
Pass-through from the State Department of Labor & Industrial Relations-- (WIA) National Emergency Grant	17.277	WIA-12-NEG-DWT-0	13,361
Pass-through from the State Department of Labor & Industrial Relations: <i>Workforce Investment Act (WIA) Cluster:</i>			
Workforce Investment Act - Adult Program	17.258	WIA-12-AP-0, WIA-12-LAC-0	1,861,198
Workforce Investment Act - Youth Activities	17.259	WIA-12-YP-0WIA-12-LAC-0	1,028,003
WIA Dislocated Worker Formula Grants	17.278	WIA-12-DW-0, WIA-12-LAC-0	1,130,394
<i>Total Workforce Investment Act Cluster</i>			<u>4,019,595</u>
Pass-through from the State Department of Labor & Industrial Relations-- Trade Adj. Asst. Comm. College and Career Training (TAACCCT) Grants	17.282	C3T-Oahu	55,441
Reintegration of Ex-Offenders	17.270	-	440,678
Youthbuild	17.274	-	328,003
<b>Total U.S. Department of Labor</b>			<u>4,857,078</u>
<b>U.S. Department of Transportation:</b>			
Pass-through from the State Department of Transportation: <i>Highway Planning &amp; Construction Cluster:</i>			
Highway Planning and Construction (ARRA)	20.205	STP-0001(36)	30,818
Highway Planning and Construction (non-ARRA)	20.205	ARR001(45), ARR0951(1), ARR8915(2), BR-NBIS(49)(53)(56), CMAQ0001(41), CMAQ0300(128), CMAQ7863(001), FLH0300(90), STP0001(22)(30)(35)(36)(37)(39)(40)(42)(43)(46)(47)(50)(51)(52)(55)(56)(57), STP0300(57)(112), STP6012(01), STP7139(1), STP7411(1), STP7542(0)	15,750,986
Highway Planning and Construction (non-ARRA)	20.205	FHWA-206.01-12	283,582
Highway Planning and Construction (non-ARRA)	20.205	FHWA 201.01-12 202.84-11 203.75-09 203.79-10 203.80-10 203.81-10 203.82-11 203.83-11 203.84-13	360,982
<i>Total Highway Planning &amp; Construction Cluster</i>			<u>16,426,368</u>
<i>Federal Transit Cluster:</i>			
Federal Transit - Capital Investment Grants (Non-ARRA)	20.500	-	113,949,743
Federal Transit - Formula Grants (ARRA)	20.507	-	2,087,862
Federal Transit - Formula Grants (Non-ARRA)	20.507	-FTA HI-90-X029, FTA HI-90-X030, FTA HI-90-X033	27,427,663
<i>Total Federal Transit Cluster</i>			<u>143,465,268</u>
<i>Transit Services Programs Cluster:</i>			
Job Access and Reverse Commute	20.516	FTA HI-37-X004, HI-37-X005, HI-37-X007	257,557
New Freedom Program	20.521	FTA HI-57-X004, HI-57-X005, HI-57-X007	220,594
<i>Total Transit Services Programs Cluster</i>			<u>478,151</u>
Pass-through from the State Department of Transportation-- State and Community Highway Safety	20.600	AL 09-02 (01-O-01), AL 12-02 (01-O-01), AL 13-02 (01-O-01), DD 13-10 (01-O-01), OP 10-05 (01-O-01), OP 11-05 (01-O-01), OP 12-05 (01-O-01), OP 13-05 (01-O-01), PS 10-09 (02-O-01), PS 11-09 (02-O-01), PS 12-09 (02-O-01), PS 14-09 (01-O-01), PT 09-01 (01-O-EM 13-04)(04-O-01), EM 14-04 (02-O-01)PS12-09(03-O-01)	2,116,896
<b>Total U.S. Department of Transportation</b>			<u>162,486,683</u>

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

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>Environmental Protection Agency:</b>			
Pass-through from the State Department of Health-- Water Quality Management Planning Grant	66.454	-	39,155
Pass-through from the State Department of Health: <i>Clean Water State Revolving Fund Cluster:</i>			
Capitalization Grants for Clean Water SRF	66.458	C150048-00	11,473,158
Capitalization Grants for Clean Water SRF	66.458	C150046-70	134,553
<i>Total Clean Water State Revolving Fund Cluster</i>			<u>11,607,711</u>
State Clean Diesel Grant Program	66.040	-	131,417
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	-	18,711
<b>Total Environmental Protection Agency</b>			<u>11,796,994</u>
<b>U.S. Department of Education:</b>			
Pass-through from the State Department of Human Services-- Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	DHS-13-VR-758 (SA1), DHS-12-VR-640 (SA1,2,3), DHS-14-VR-1024, DHS-12-VR-641 (SA1)	489,651
Pass-through from the State Department of Education-- Twenty-First Century Community Learning Centers	84.287	13023	36,005
<b>Total U.S. Department of Education</b>			<u>525,656</u>
<b>U.S. Department of Health and Human Services:</b>			
Pass-through from the State Executive Office on Aging-- Special Programs for the Aging-Title III, Part D-Disease: Prevention and Health Promotion Services	93.043	HON2013N03	60,685
Pass-through from the State Executive Office on Aging: <i>Aging Cluster:</i>			
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	HON2013N03	969,119
Special Programs for the Aging-Title III, Part C-Nutrition Services			
Supportive Services, (Title IIIC-1) Home Delivered Meals (Title IIIC-2)	93.045	HON2011N03, HON2012N03	686,048
<i>Total Aging Cluster</i>			<u>1,655,167</u>
Pass-through from the State Executive Office on Aging-- Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	HONADRChd-2010-N	47,879
Pass-through from the State Executive Office on Aging-- National Family Caregiver Support, Title III, Part E	93.052	HON2013N03	350,942
Pass-through from the State Department of Health-- Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	PO0058205	1,967
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	-	48,066
Pass-through from the State Department of Human Services-- <i>Temporary Assistance for Needy Families (TANF) Cluster:</i>			
Temporary Assistance for Needy Families	93.558	DHS-08-BESSD-5042, DHS-08-BESSD-5043 (SA2), DHS-12-ETPO-611 (SA1,2)	23,278
<i>Total TANF Cluster</i>			<u>23,278</u>
Pass-through from the State Department of Health-- Block Grants for Community Mental Health Services	93.958	-	303,567
<b>Total U.S. Department of Health and Human Services</b>			<u>2,491,551</u>
<b>Corporation for National and Community Service--</b>			
Retired and Senior Volunteer Program	94.002	-	134,972
<b>Total Corporation for National and Community Service</b>			<u>134,972</u>
<b>Executive Office of the President--</b>			
High Intensity Drug Trafficking Area Program	95.001	G11HI0001A, G12HI0001A, G13HI0001A	1,916,269
<b>Total Executive Office of the President</b>			<u>1,916,269</u>

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

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Homeland Security:</b>			
Pass-through from the State Civil Defense:			
<i>Homeland Security Grant</i>			
Homeland Security Preparedness Technical Assistance Program:			
Citizen Corp Program	97.067	2010-SS-T0-0006	6,322
Metropolitan Medical Response System Program	97.067	2009-SS-T9-0006, 2010-SS-T0-0006, 2011-SS-00129	293,366
Urban Areas Security Initiative Program	97.067	2010-SS-T0-0006	1,858,835
State Homeland Security Program	97.067	2010-SS-T0-0006, 2011-SS-00129, 2012-SS-00009, 2013-SS-00003	2,420,833
<i>Total Homeland Security Grant</i>			4,579,356
Rail and Transit Security Grant Program	97.075	2010-RA-T0-0036, EMW2011RA00058	464,928
Pass-through from the State Department of Defense:			
Regional Catastrophic Planning Grant Program	97.111	2009-CA-T9-0009, 2010-CA-T0-0003, 2011-CA-00017	843,220
<b>Total U.S. Department of Homeland Security</b>			5,887,504
<b>Total Expenditures of Federal Awards</b>			\$ 272,111,749

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

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City and County of Honolulu (the City) and is presented on the cash basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Schedule does not include the federal grant activity of the Board of Water Supply, 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, 2014, which are not presented in the schedule of expenditures of federal awards. There were no advances in fiscal year 2014.

Program Title	CFDA Number	Loans Outstanding
<b>Major programs</b>		
Community Development Block Grants – Entitlement Grants	14.218	\$ 36,461,524
HOME Investment Partnerships Program	14.239	19,624,635
Section 8 Housing Choice Vouchers	14.871	<u>3,647,688</u>
		<u>\$ 59,733,847</u>

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

At June 30, 2014, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 11,607,711
State	<u>1,480,518</u>
	<u>\$ 13,088,229</u>

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

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

**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	CFDA Number	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services:</b>		
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	\$ 60,685
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	838,021
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	660,585
National Family Caregiver Support, Title III, Part E	93.052	298,482
<b>Total U.S. Department of Health and Human Services</b>		<u>1,857,773</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Community Development Block Grants/Entitlement Grants	14.218	12,196,095
Emergency Solutions Grant Program	14.231	689,757
Supportive Housing Program	14.235	100,723
Shelter Plus Care	14.238	116,854
HOME Investment Partnerships Program	14.239	3,532,914
Housing Opportunities for Persons with AIDS	14.241	405,669
Continuum of Care Program	14.267	5,474,716
<b>Total U.S. Department of Housing and Urban Development</b>		<u>22,516,728</u>
<b>U.S. Department of Justice--</b>		
Crime Victim Assistance	16.575	393,986
<b>Total U.S. Department of Justice</b>		<u>393,986</u>
<b>U.S. Environmental Protection Agency--</b>		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	18,711
<b>Total U.S. Environmental Protection Agency:</b>		<u>18,711</u>
<b>Total Provided to Subrecipients</b>		<u>\$ 24,787,198</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

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**Section I – Summary of Auditor’s Results**

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*Financial Statements*

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.218, 14.253 14.267 14.704	Community Development Block Grants – Entitlement Grants Cluster Continuum of Care Program Community Challenge Planning Grants and the Department Of Transportation's TIGER II Planning
14.871, 14.879	Section 8 Housing Choice Vouchers Cluster
17.258, 17.259, 17.278	Work Investment Act Cluster
20.500, 20.507	Federal Transit Cluster

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

Auditee qualified as low-risk auditee?  Yes  No

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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**Section II – Financial Statement Findings**

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**Finding No. 2014-1: Deficiencies in Information Technology Controls**

**Type of Finding:** Significant Deficiency

**Criteria:** Information technology (IT) is a strategic element of the City and County of Honolulu's (the City) operations. Because of the high volume of transactions, the establishment of internal controls over processes incorporating IT is critical to its operations. As IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should have internal controls to prevent or detect potential misstatements.

**Condition, cause, and context:** As part of our financial statement audit for the year ended June 30, 2014, we performed an IT general controls review of the following systems operated by the City:

- Windows Domain
- AMS Advantage Financial Management System
- AMS Advantage Human Resources Management System
- Personnel Time and Attendance (PT&A) System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

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

Physical and logical security

- Several terminated employees continued to have access to the City's IT systems.
- No effective periodic review performed to detect whether terminated individuals are able to log in to the IT systems.
- No effective periodic review performed to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Lack of segregation of duties in certain areas of security administration.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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**Section II – Financial Statement Findings (continued)**

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- Excessive user accounts with administrative privileges.
- User IDs to directly access the database is shared.
- Activity logging configurations do not meet standards.

Change Management Review

- Direct Data Changes – currently no process for monitoring/reviewing direct data changes.

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

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

Physical and logical security

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

Change Management

Unauthorized or untested changes made directly to production databases could compromise the integrity of the data maintained.

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

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed, such as centralizing their user administration process to streamline provisioning and de-provisioning.
- Work with vendor programmers to address any internal control deficiencies due to systems limitations.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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**Section II – Financial Statement Findings (continued)**

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**Finding No. 2014-2: Information Technology**

**Type of Finding:** Significant Deficiency

**Criteria:** IT is a strategic element of the Board of Water Supply's (BWS) operations. Because of the high volume of transactions at BWS, the establishment of internal controls over processes incorporating IT is critical to its operations. 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.

**Condition, cause, and context:** As part of the other auditors financial statement audit for the year ended June 30, 2014, they performed an IT general controls review of the following systems operated by BWS:

- J.D. Edwards
- Oracle Utilities Customer Care and Billing
- Automated Meter Reading System
- Kronos Workforce Timekeeper

The other auditors noted that as BWS performed a significant migration to an updated version of J.D. Edwards in the year ended June 30, 2014, they performed additional migration testing over:

- Data Conversion
- Logical Security
- Interface Implementation
- Project Governance
- Reporting

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

---

**Section II – Financial Statement Findings (continued)**

---

The other auditors review resulted in several IT control deficiencies in the areas of logical security, change management and IT operations as follows:

Logical security

- Weak password security
- User access rights not approved and granted on a need-to-know, need-to-do basis
- Lack of validation by business for user access rights

Change management

- Lack of IT segregation of duties
- Lack of user acceptance for configuration changes

IT operations

- Lack of monitoring controls for certain financial system interfaces

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

**Effect:** Internal controls in the areas of logical security, change management and IT operations address the following risks:

Logical security

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

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.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

---

**Section II – Financial Statement Findings (continued)**

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IT operations

Programs and processes are not executed as planned and deviations from scheduled processing are not identified and investigated causing data integrity concerns.

**Recommendation:** The other auditors recommend that management of BWS perform the following:

- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.

Identify methods to ensure change management policies and procedures are consistently followed.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

---

**Section II – Financial Statement Findings (continued)**

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**Finding No. 2014-3: Employer Contributions to Employee Retirement System**

**Type of Finding:** Material Weakness

**Criteria:** Chapter 88 of the Hawaii Revised Statutes requires the City to contribute certain amounts to the Employees' Retirement System (the ERS). In accordance with Governmental Accounting Standards Board (GASB) Statement No. 27, pension expenditures are recognized in the period to which the contractually required payment relates.

**Condition, cause, and context:** During the audit, we noted that the City did not entirely contribute the statutory employer contribution for several years and report the liability. Consequently, as of June 30, 2014, the cumulative amount due to the ERS was approximately \$31.1 million, of which approximately \$16.2 million was related to prior fiscal years. The City did not record the liability owed to the ERS.

There was a combination of control deficiencies that caused the contribution deficiency. The City's contribution amount is calculated by the City's integrated payroll system. The payroll section within the City's Department of Budget and Fiscal Services (BFS) is responsible for communicating any statutory contribution rate changes to the City's Department of Informational Technology (DIT) for processing in the City's integrated payroll system. In 2011, legislation passed that increased employer contributory rates gradually for the next several years which was communicated to BFS and the Department of Human Resources via memo to their respective Directors. Management was not able to provide any evidence during the audit that the rate changes were communicated to DIT. In addition, budget to actual comparisons identified the large variances in pension expenditures, but no further analysis was performed by BFS.

Based on our discussion with management and ERS, ERS did not communicate to the City that a contribution liability existed until 2014.

**Effect:** The issues noted above resulted in a \$31.1 million adjustment to the initial 2014 management prepared financial statements and a \$16.2 million restatement adjustment to properly state beginning net assets/fund balance. Also, inadequate follow-up of certain budget to actual variances could lead to future material misstatements.

**Recommendation:** The payroll section should timely communicate and properly document statutory contribution rate changes to DIT. The City should consider implementing a detective control to ensure that the changes communicated to DIT have been accurately updated into the system such as reconciliation between expected pension expense and actual pension expense.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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**Section II – Financial Statement Findings (continued)**

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**Finding No. 2014-4: Effective Review of Reconciliations and Details Supporting the Financial Statements of the Proprietary Funds**

**Type of Finding:** Material Weakness

**Criteria:** The City is responsible for the fair presentation of the proprietary fund financial statements in conformity with accounting principles generally accepted in the United States of America.

**Condition, cause, and context:** During the audit, we identified several misstatements related to the review of the reconciliation and account balance detail supporting the financial statements of the Sewer Fund and Solid Waste Fund, that, when considered in the aggregate, indicated a material weakness in internal control.

During the audit, we noted the following misstatements related to the Sewer Fund:

- Fiscal year 2013 inventories of parts, materials and supplies were overstated by approximately \$6.1 million. In addition, related materials and supplies expense was understated by approximately \$6.1 million.
- Fiscal year 2013 interest expense was understated by approximately \$9.3 million.
- Fiscal year 2013 capital assets were overstated by approximately \$3.7 million.

In addition, we noted the following misstatements related to the Solid Waste Fund:

- Fiscal year 2014 estimated liability for landfill closure and postclosure care costs and related contractual service expenses were understated by approximately \$3.2 million.
- Fiscal year 2014 accounts receivable and related disposal and collection fees revenue was overstated by approximately \$1.3 million.

Adjustment were proposed, which management recorded, to correct all misstatements identified above. Although the City has assigned personnel to perform the review of reconciliations and schedules supporting the balances reflected in the financial statements, the review process did not identify the misstatements noted above. Management has defined the scope of their reviews as evaluating balances for “reasonableness,” but does not use a specific dollar amount or percentage. When management’s review of year-over-year changes did identify variances, management did not effectively evaluate variance explanations from other departments/divisions.

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

---

**Section II – Financial Statement Findings (continued)**

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**Effect:** The mistatements noted above resulted in several adjustments and restatement adjustments to the initial management prepared financial statements.

**Recommendation:** We recommend that the City improve its review policies and procedures as part of the accounting process. This includes defining the scope utilized in the review of the account balances. During the performance of such review, management should also ensure that they consider obtaining corroborating evidence to support management's explanations, where applicable.

**Finding No. 2014-5: Sewer Fund Capital Assets**

**Type of Finding:** Significant Deficiency

**Criteria:** Management is responsible for establishing and maintaining a capitalization policy for capital assets, the objectives of which are to provide management assurance that transactions and recorded in conformity with accounting principles generally accepted in the United States of America.

The City's capitalization policy is published on the City's intranet as index code 22.2.

**Condition, cause, and context:** During the audit, we noted two capital asset projects that were improperly capitalized resulting in a restatement to the Sewer Fund financial statements. One project did not meet the City's capitalization criteria and therefore should have been expensed as the project costs were incurred in prior years. The other project was terminated in the prior year and should have been expensed in the year that the project was cancelled.

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

**Effect:** A restatement was proposed and recorded, to correct an overstatement of approximately \$3.7 million of prior years' capital assets.

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

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

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

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

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**Finding No.: 2014-6      Perform Annual Subrecipient Monitoring Duties**

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

*Criteria:* In accordance with 24 CFR section 578.7, the grantee must "monitor recipient and subrecipient performance." Further, in accordance with the grant agreement with the U.S. Department of Housing and Urban Development, the grantee must "monitor subrecipients at least annually."

*Condition, cause and context:* For three out of four subrecipients tested, no annual subrecipient monitoring was performed. Management indicated that due to the turnover of a lead contact of the Continuum of Care program, personnel were not aware of such requirement.

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

*Questioned costs:* None

*Recommendation:* We recommend the City document its procedures to monitor subrecipients on a timely basis. This will ensure that compliance procedures are continued, should there be changes in personnel.

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

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

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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**Finding No.: 2014-7      Submit Reports in a Timely Manner**

**Federal Agency:** United States Department of Housing and Urban Development  
**CFDA No.:** 14.704  
**Program:** Community Challenge Planning Grants and Department of Transportation’s TIGER II Planning  
**Requirement:** Reporting  
**Type of Finding:** Non-Compliance and Material Weakness

**Criteria:** In accordance with 2 CFR section 170 and the U.S. Office of Management and Budget Circular A-133 Compliance Supplement, the grantee must "report the subaward in Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made."

**Condition, cause and context:** Under the program requirements of CFDA No. 14.704, three types of reports must be completed and submitted timely: financial (“SF-425”), narrative, and FFATA reports. As the grant was completed in 2014, the program was required to submit three SF-425 reports, one final narrative report, and one FFATA report, for a total of five reports.

During our audit, we noted that the FFATA data was not submitted in FSRS on a timely basis (162 days late). Management indicated that the subaward was reported late due to the lack of awareness of the requirement.

**Effect:** Failure to report subawards in FSRS timely results in noncompliance with the reporting requirement.

**Questioned costs:** None

**Recommendation:** We recommend the City review its grant agreements to identify all program requirements and implement procedures to ensure compliance.

**Contact Person:** Kathy Sokugawa, Department of Planning and Permitting Chief

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

# City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2014

## Financial Statement Findings

### **Finding No.: 2013-1 Federal Grant Reimbursements for the Honolulu Authority for Rapid Transportation (“HART”) (Material Weakness)**

**Condition, cause, and context:** Certain unbilled amounts for reimbursement of costs from the federal government related to the construction of the HART project were discovered by the other auditors during the audit.

**Recommendation:** The others auditors recommend that management of HART consider implementing policies and procedures to ensure billings related to reimbursable federal expenses are completed in a timely manner. Management should also evaluate the resources required to perform this function.

**Status:** The comment is no longer applicable.

### **Finding No.: 2013-2 Deficiencies in Information Technology Controls (Significant Deficiency)**

**Condition, cause and context:** Information technology (IT) is a strategic element of the City and County of Honolulu’s (the City) operations. Because of the high volume 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, 2013, we performed an IT general controls review of the following systems operated by the City:

- Windows Domain
- AMS Advantage Financial Management System
- AMS Advantage Human Resources Management System
- Personnel Time and Attendance System
- IAS World Web Based Real Property System
- Revenue Collection Cashier System

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

#### Physical and logical security

- Several terminated employees continued to have access to the City’s IT systems.
- No effective periodic review performed to detect whether terminated individuals are able to log in to the IT systems.

## City and County of Honolulu State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
Year Ended June 30, 2014

- No effective periodic review performed to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Lack of documentation evidencing approval to provide transferred employees access rights to the IT systems.
- Lack of segregation of duties in certain areas of security administration, operating system and database security.
- Lack of monitoring controls to identify unauthorized changes within the IT systems.
- Excessive user accounts with administrative privileges.
- User IDs to directly access the database are shared.

Change management

- Lack of segregation of duties among programmers.

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

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

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed.
- Work with vendor programmers to address any internal control deficiencies due to system limitations.

**Status:** The comment is still applicable. See finding 2014-1.

### **Finding No.: 2013-3 Information Technology for the Board of Water Supply (“BWS”) (Significant Deficiency)**

**Condition, cause and context:** Information technology (IT) is a strategic element of the BWS operations. Because of the high volume of transactions at the BWS, 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, 2013, we performed an IT general controls review of the following systems operated by the BWS:

- J.D. Edwards
- Oracle Utilities Customer Care and Billing
- Automated Meter Reading System
- Kronos Workforce Timekeeper

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

Summary Schedule of Prior Audit Findings (continued)  
Year Ended June 30, 2014

As the BWS migrated to a new customer information system in the year ended June 30, 2013, we performed additional migration testing over:

- Data Conversion
- Logical Security
- Interface Implementation
- Project Governance
- Reporting
- Project Risk Management

Our review resulted in several IT control deficiencies in the areas of IT governance, logical and physical security, change management, IT operations and system migration as follows:

### IT governance

- Lack of management steering committee to review and approve IT plans and priorities.

### Logical and physical security

- Lack of formal information security policies and procedures for financial systems.
- Weak password security.
- User access rights not approved and granted on a need-to-know, need-to-do basis.
- Physical access to sensitive equipment not appropriately restricted.

### Change management

- Lack of formal change management policies and procedures for certain financial systems.
- Lack of IT segregation of duties.
- Lack of user acceptance for configuration changes.

### IT operations

- Lack of system test restores.
- Lack of monitoring batch processing for certain financial systems.
- Lack of monitoring controls for certain financial system interfaces.

### System migration

- Lack of validation by users for certain converted data.
- Lack of validation by business for user access rights.
- Lack of adequate user involvement in deriving bill estimation requirements.
- Failure to adequately address business readiness concerns.

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

Summary Schedule of Prior Audit Findings (continued)  
Year Ended June 30, 2014

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

**Recommendation:** We recommend that BWS perform the following:

- Formally hold management steering committee meetings for IT on a monthly or bi-monthly basis.
- Update IT policies and procedures to include internal control procedures.
- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.
- Implement formal change management policies and procedures.
- Identify methods to ensure change management policies and procedures are consistently followed.
- Perform formal system restoration testing.
- Implement monitoring controls over batch processing.
- Implement a standard project management framework which includes appropriate training.

**Status:** The comment is still applicable. See finding 2014-2.

**Community Development Block Grants – Entitlement Grants Cluster CFDA No. 14.218, 14.253**

**Finding No.: 2013-4 Financial Reporting (Significant Deficiency)**

**Condition, cause, and context:** During our testing over the Federal Funding Accountability and Transparency Act (FFATA) reporting compliance requirement, we noted that both reports selected for testing out of a total of nine reports were reported 51 days late in the Federal Subaward Reporting System (FSRS).

**Recommendation:** We recommend that the City implement procedures to ensure that the information is reported in a timely manner.

**Status:** The comment is no longer applicable.

**Shelter Plus Care CFDA No. 14.238**

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

Summary Schedule of Prior Audit Findings (continued)  
Year Ended June 30, 2014

**Finding No.: 2013-5 Eligibility and Special Tests (Significant Deficiency)**

*Conditions, cause, and context:* We noted three out of twenty instances where an annual Housing Quality Standards inspection was not performed.

In addition, one participant's annual rent calculation was not performed in accordance with the Shelter Plus Care guidance since 2010. The most recent third party income verification included in the file was from 2010.

*Recommendation:* We recommend that the City designate appropriate personnel to perform a review to ensure all required documents have been updated and executed annually for each participant. We also recommend that the City establish procedures to contact the participants for site visits on a timely basis.

*Status:* The comment is no longer applicable.

**Community Development Block Grants – Entitlement Grants Cluster CFDA No. 14.218, 14.253**

**Finding No.: 2013-6 Period of Availability (Significant Deficiency)**

*Condition, cause, and context:* The U.S. Department of Housing and Urban Development (HUD) notified the City via a letter dated August 27, 2013 that the City was not in compliance with the sixty-day timeliness test conducted on May 2, 2013 as the City had a line-of-credit balance 1.76 times its annual grant. Additionally, taking into account the City's current balance of CDBG program income and revolving loan funds, the City's timeliness ratio increased to 2.07 for the second tier of the CDBG timeliness test.

Per the HUD letter dated December 6, 2013, we noted that the City failed to meet the HUD minimum ratio as of November 30, 2013

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

*Status:* The comment is no longer applicable.

## **CORRECTIVE ACTION PLAN**

DEPARTMENT OF BUDGET AND FISCAL SERVICES  
**CITY AND COUNTY OF HONOLULU**  
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813  
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov

KIRK CALDWELL  
MAYOR



NELSON H. KOYANAGI, JR.  
DIRECTOR

GARY T. KUOKAWA  
DEPUTY DIRECTOR

February 27, 2015

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

Dear Mr. Young:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2014

Enclosed is the response to the recommendations included in KMH LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2014. The response includes actions taken or contemplated, anticipated completion dates, and City personnel responsible for the corrective action.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson H. Koyanagi, Jr.", is written over the name in the typed signature block.

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

Enclosures

APPROVED:

A handwritten signature in blue ink, appearing to read "Roy K. Amemiya, Jr.", is written over the name in the typed signature block.  
\_\_\_\_\_  
Roy K. Amemiya, Jr.  
Managing Director

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Finding No. 2014-1, 2013-2, 2012-1, 2011-1 and 2010-1: Deficiencies in Information Technology Controls**

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

- Update its IT procedures to include internal control procedures addressing the IT risks above.
- Identify methods to ensure that IT policies and procedures are consistently followed, such as centralizing their user administration process to streamline provisioning and de-provisioning.
- Work with vendor programmers to address any internal control deficiencies due to systems limitations.

**Administration's Comment:** The deficiencies were addressed by performing quarterly audits of access rights for all departments and global lists, and centralizing user authentication through the Active Directory system for the City's financial management, human resource management and payroll ERP system. In addition, City vendors will be integrating the administrative process for the real property system and the revenue collection cashier system to the Active Directory system.

**Anticipated Completion Date:** Fall of 2014 for the quarterly audits of access rights, February 2015 for user authentication of the ERP system, and June 2015 for the integration of the real property and revenue collection cashier systems

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

**Finding No. 2014-2 and 2013-3: Information Technology**

Audit Recommendation: The other auditors recommend that management of BWS perform the following:

- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.
- Identify methods to ensure change management policies and procedures are consistently followed.

**Administration's Comments:**

- Enterprise system policies and procedures have been implemented and will be performed annually. Policies and procedures will be annually reviewed and updated.
- Inappropriate user access have already been removed. Procedures have been updated as recommended and periodic user review are scheduled on a recurring basis.
- Formal change management policies and procedures were implemented for Oracle Utilities Customer Care & Billing, J.D. Edwards, and Kronos Workforce Timekeeper systems.

**Anticipated Completion Date:** June 2014. Beginning in the second quarter of fiscal year 2015, removal of inappropriate user access will be scheduled on a recurring basis.

**Contact Person(s):** Henderson Nuuhiwa, IT Principal Executive, Board of Water Supply

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

**Finding No. 2014-3: Employer Contributions to Employee Retirement System**

**Audit Recommendation:** The payroll section should timely communicate and properly document statutory contribution rate changes to DIT. The City should consider implementing a detective control to ensure that the changes communicated to DIT have been accurately updated into the system such as reconciliation between expected pension expense and actual pension expense.

**Administration's Comment:** A Payroll Section supervisor will communicate with the Employees' Retirement System (ERS) to confirm the following: (1) the rates to be used in the upcoming fiscal year are the rates established by the Hawaii Revised Statutes, and (2) the amounts due to ERS agree to the amounts actually remitted by the City to ERS. In addition, the rates or rate changes will be communicated to the Department of Information Technology in writing with a copy of the transmittal document retained in the Payroll Section's files. Lastly, a dollar or percentage threshold will be established, a variance analysis will be performed semi-annually, comparing current payments to budgeted amounts and prior year actual amounts, with follow up planned for any significant variances.

**Anticipated Completion Date:** March 2015 for the confirmation letter to the ERS for the fiscal year 2015 rates. By June of each year for the upcoming fiscal year's rates, and for the comparison of the amounts due and actually paid during the fiscal year.

**Contact Person(s):** Roy Kumashiro, Accountant VII, Department of Budget and Fiscal Services  
Wayne Yoshimura, Accountant VI, Department of Budget and Fiscal Services

**Finding No. 2014-4: Effective Review of Reconciliations and Details Supporting the Financial Statements of the Proprietary Funds**

**Audit Recommendation:** We recommend that the City improve its review policies and procedures as part of the accounting process. This includes defining the scope utilized in the review of the account balances. During the performance of such review, management should also ensure that they consider obtaining corroborating evidence to support management's explanations, where applicable.

**Administration's Comment:** The review procedures for the financial statements of the proprietary funds will be updated including determination of dollar and percentage materiality thresholds, the requirement that the appropriate City agency staff provide adequate documentation supporting material variances, more thorough and timely analysis of the general ledger accounts, and follow up on major discrepancies.

**Anticipated Completion Date:** March 2015

**Contact Person(s):** Nancy Abilay, Accountant VI, Department of Budget and Fiscal Services

**Finding No. 2014-5: Sewer Fund Capital Assets**

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

**Administration's Comment:** The City will improve its review to ensure capital assets are properly classified and timely recorded. Such review includes checking the status of inactive projects to determine if the contracts were terminated or cancelled. Studies included in construction work in progress will be reviewed at the time the contracts are awarded to determine if costs are likely to be expensed. Additional analysis of the related general ledger accounts will be performed.

**RESPONSE TO SINGLE AUDIT REPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

**Anticipated Completion Date:** June 2015

**Contact Person(s):** Luz Peirson, Accountant V, Department of Budget and Fiscal Services

**Finding No. 2014-6: Perform Annual Subrecipient Monitoring Duties**

**Audit Recommendation:** We recommend the City document its procedures to monitor subrecipients on a timely basis. This will ensure that compliance procedures are continued, should there be changes in personnel.

**Administration's Comment:** Staff from the Community Based Development Division is currently preparing a Continuum of Care (CoC) Monitoring Plan that will guide future monitoring activities for the CoC program. The Monitoring Plan will address monitoring procedures, scheduling, and documentation. Additional staff training is also underway on CoC program requirements. In the interim, prior to the completion of the Monitoring Plan, on-site monitoring using current CoC monitoring protocols has been scheduled for all Continuum of Care subrecipients.

**Anticipated Completion Date:** April 2015 for on-site monitoring and August 2015 for the Monitoring Plan

**Contact Person(s):** Keith Ishida, Administrator, Department of Community Services

**Finding No. 2014-7: Submit Reports in a Timely Manner**

**Audit Recommendation:** We recommend that the City review its grant agreements to identify all program requirements and implement procedures to ensure compliance.

**Administration's Comment:** The Department of Planning and Permitting (DPP) staff reviewed its U.S. Department of Housing and Urban Development grant agreement to ensure compliance with its reporting requirements, and submitted an additional required report. DPP is working with the Department of Information Technology to develop an online project management application to track reporting requirements and the status of grant activities. DPP program management staff will be instructed to enter into the tracking system all reporting requirements including periodic reports and deadlines at the initiation of the grant project, and use that system in grant management to ensure compliance.

**Anticipated Completion Date:** September 2014 for the compliance review and May 2015 for the online tracking system

**Contact Person(s):** Kathy Sokugawa, Chief Planner, Department of Planning and Permitting