



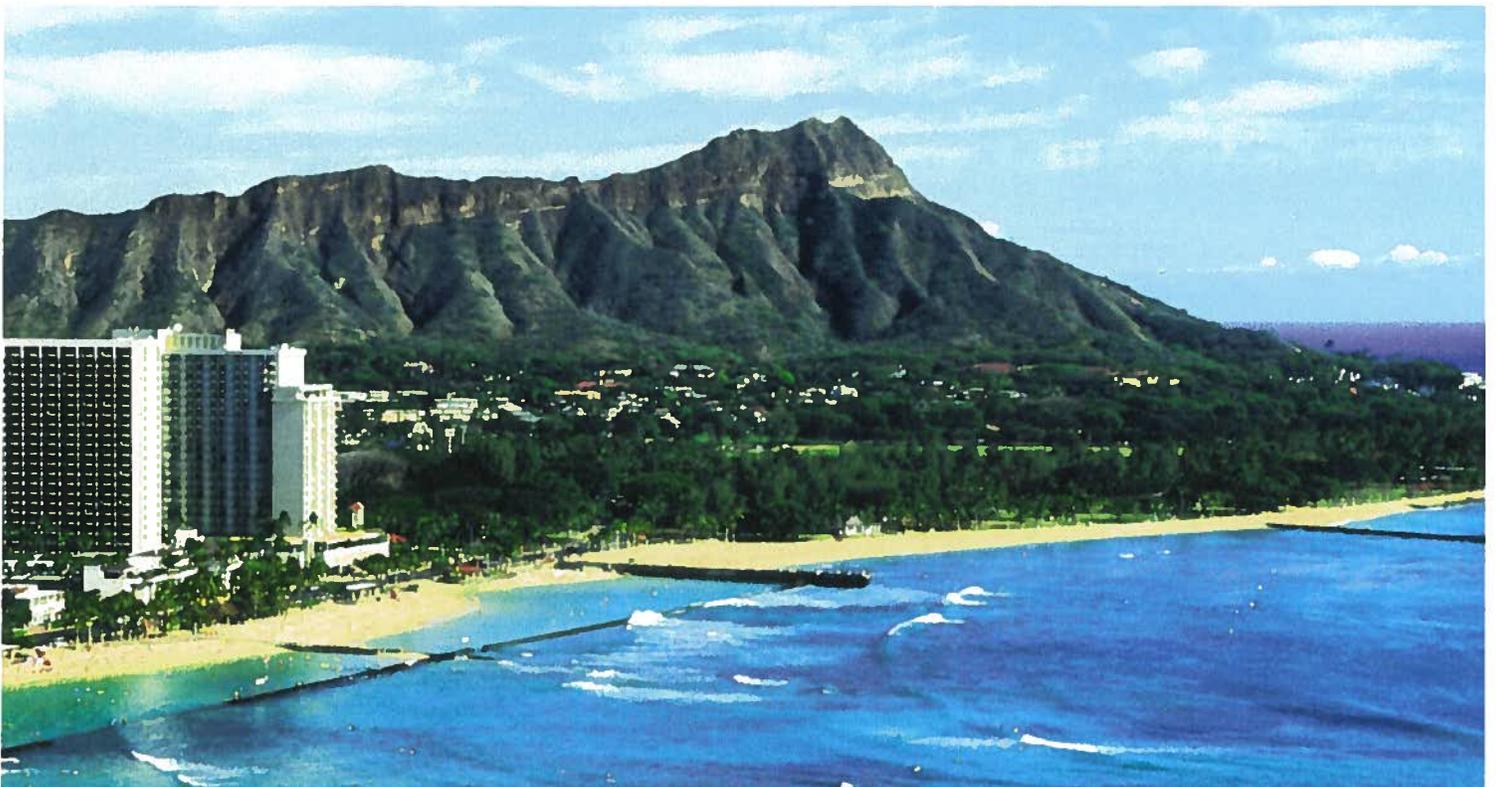
OFFICE OF THE CITY AUDITOR

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, 2015

Management Letter





A Hawaii Limited Liability Partnership

March 28, 2016

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

In planning and performing our audit of the financial statements of City and County of Honolulu (the City) as of and for the year ended June 30, 2015, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

We communicated the significant deficiencies and material weaknesses identified during our audit in a separate communication dated March 28, 2016. In the accompanying memorandum are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses. These matters were considered by us during our audit and do not modify the opinions expressed in our auditor's report dated March 7, 2016.

We wish to express our appreciation for the courtesies and cooperation extended to our staff. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

KMH LLP

KMH LLP

Honolulu, Hawaii

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City and County of Honolulu State of Hawaii

Management Letter
June 30, 2015

Current Year Comments

Financial Statements:

2015-01 Sewer Fund Recognition of Deposit in Progress

During our audit, we noted that management incorrectly recorded revenue and cash-in-transit for deposits made subsequent to year-end. Based on discussion with management, we noted that the amount was based on initial description of the entry, but did not look at the details to determine the proper recognition of the amount. The error resulted in an overstatement of revenue and cash-in-transit of approximately \$333,000.

Recommendation: We recommend that management review details of entries to ensure that there are no cut-off issues. Also, we recommend that management establishes internal control to ensure that batched amounts are properly segregated by fiscal years.

2015-02 Public Transportation System

During our audit, we noted that the probe utilized to extract data from the fare box did not provide accurate data of fares collected. Based on discussion with management and audit in prior year, we noted that the probe has been malfunctioning for a number of years. Also, we noted that the probe is unable to distinguish the value of the bills collected. Due to the probe malfunctioning, management is unable to obtain accurate data for analysis.

Recommendation: We recommend that management work with the vendor to correct the issues with the probe.

2015-03 Component Unit Reporting

During our audit, we identified that Oahu Transit Services, Inc., which was previously reported as a blended component unit of the Public Transportation Systems enterprise fund, should have been reported as a discretely presented component unit. Based on our discussion with management, component unit reporting evaluations occur infrequently.

Recommendation: We recommend that management be more diligent in its evaluation of future component unit reporting matters in accordance with accounting principles generally accepted in the United States of America.

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

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June 30, 2015

Federal Grant Programs:

HOME Investment Partnerships Program

2015-04 Activities Allowed and Allowable Cost

During our testing of the activities allowed and allowable cost requirements of HOME Investment Partnerships Program, we noted the following:

- 1) In accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for HOME Investment Partnerships Program (CFDA No. 14.239), the following are allowed: (a) incentives to develop and support affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations; (b) to provide tenant based rental assistance, including security deposits; (c) the payment of reasonable administrative and planning costs; and (d) the payment of operating expenses of Community Housing Development Organizations (CHDOs).
 - For 2 out of 60 payments tested, we noted payments were made for bus passes, which are unallowable under the program.

Recommendation: We recommend that management be more diligent and detailed in creating the program budget to ensure only allowable activities and costs are included.

City and County of Honolulu State of Hawaii

Management Letter
June 30, 2015

Status of Prior Year Comments

Financial Statements:

2014-01 Deferred Inflows or Outflows of Resources Related to Advance Refunding of Bonds

In fiscal year 2013, the City issued General Obligation Bond series 2012. Certain proceeds from General Obligation Bond series 2012 were used to advance refund a portion of previously issued General Obligation Bond series. During the audit, we noted the calculation of the deferred outflow of resources related to the advance refunding was not calculated in accordance with GASB No. 7. The erroneous calculation resulted in a current year misclassification between deferred outflows and long-term liabilities of approximately \$15.7 million. Further, due to the errant calculation of the deferred outflow of resources, current year interest expense related to deferred outflows was misstated by approximately \$3.2 million.

Status: Resolved. No similar instances were noted in current year.

2014-02 Sewer Fund Inventory

The City's Sewer Fund inventory records are maintained by the City's Department of Environmental Services (ENV). Based on certain parameters requested by ENV, the IT department runs a query from the inventory system detailing the inventory existing at year end. This inventory report is utilized by the City's accounting department to record the inventory held by the Sewer Fund at year end.

During the audit, we noted that the query used by the ENV department did not properly exclude transactions related to the subsequent fiscal year.

Status: Resolved. No similar instances were noted in current year.

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2014-03 Public Transportation System – Deferred Revenue

During the audit, we noted that Public Transportation System (PTS) management did not perform a reconciliation or analysis on the outstanding deferred revenue balances.

We informed PTS management of this deficiency and after management's further analysis of the outstanding deferred revenue balance; management provided a post-closing adjustment of approximately \$580,000 to properly state the deferred revenue balance.

Status: Resolved. No similar instances were noted in current year.

Federal Grant Programs:

Housing Voucher Cluster

2014-04 Eligibility

During our testing of the eligibility requirements of the Housing Voucher Cluster program, we noted the following:

- 1) In accordance with 24 CFR Section 5.508(b), "Each family member, regardless of age, must submit the following evidence to the responsible entity: For U.S. citizens or U.S. nationals, the evidence consists of a signed declaration of U.S. citizenship or U.S. nationality."
 - For 2 out of 60 tenant files tested, we noted that a declaration of citizenship form was missing.
- 2) In accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for the Housing Voucher Cluster (CFDA No. 14.871, 14.879), the City must obtain and document in the family file third-party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent for both family income examinations and reexaminations.
 - For 1 out of 60 tenant files tested, we noted that the annual income was inadequately documented as there was a lack of documentation of termination of employment.
 - For 2 out of 60 tenant files tested, we noted that the asset verification was incorrectly reported on the HUD-50058 form.

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- 3) In accordance with the OMB Circular A-133 Compliance Supplement for the Housing Voucher Cluster (CFDA No. 14.871, 14.879), the City must determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR part 5 subpart F.
 - For 5 out of 60 tenant files tested, we noted that HAP was incorrectly calculated.

Status: Resolved. No similar instances were noted in current year.

2014-05 Reporting - Special Reporting

During our testing of the reporting (special reporting) requirements of the Housing Voucher Cluster program, we noted the following:

- 1) In accordance with the OMB Circular A-133 Compliance Supplement for the Housing Voucher Cluster (CFDA No. 14.871, 14.879), the City is required to submit the HUD-50058, *Family Report*, electronically to the United States Department of Housing and Urban Development, with several line items indicating critical information.
 - For 3 out of 60 tenant files tested, we noted that the incorrect date of birth was indicated on the HUD-50058 form.
 - For 1 out of 60 tenant files tested, we noted that the asset verification was incorrectly reported on the HUD-50058 form.
 - For 3 out of 60 tenant files tested, we noted that HAP was incorrectly calculated and reported due to incorrect gross income calculations.

Status: Resolved. No similar instances were noted in current year.

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2014-06 Special Test - Housing Assistance Payment

During our testing of the special test (housing assistance payment) requirements of the Housing Voucher Cluster program, we noted the following:

- 1) In accordance with the OMB Circular A-133 Compliance Supplement for the Housing Voucher Cluster (CFDA No. 14.871, 14.879), the City should verify that the HAP contracts or contract amendments agree with the amount recorded on the HAP register and the amount on line 12u of the HUD-50058 form.
 - For 5 out of 60 tenant files tested, we noted that HAP was incorrectly calculated and paid to tenants.

Status: Resolved. No similar instances were noted in current year.

Community Development Block Grants (Entitlement Grants) Cluster

2014-07 Subrecipient Monitoring

During our testing of the subrecipient monitoring requirements of the Community Development Block Grant (CDBG) program, we noted that the “Monitoring Risk Analysis” schedule was not updated for fiscal year 2014. This schedule is utilized as a risk analysis that the City and County of Honolulu Department of Community Services (DCS) uses to determine high-risk subrecipients subject to on site monitoring.

Status: Resolved. No similar instances were noted in current year.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

GARY T. KUROKAWA
DEPUTY DIRECTOR

March 28, 2016

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

Dear Mr. Young:

SUBJECT: Management Advisory Report for the Fiscal Year Ended June 30, 2015

Enclosed is the response to the recommendations included in KMH LLP's preliminary draft of the management advisory report resulting from the audit of the City and County of Honolulu for the fiscal year ended June 30, 2015. The response includes actions taken or contemplated, anticipated completion dates, and the City personnel responsible for the corrective action.

Sincerely,


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

Attachments

APPROVED:


Roy K. Amemiya, Jr.
Managing Director

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENTS AND RECOMMENDATIONS
Year Ended June 30, 2015**

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Comment No. 2015-01: Sewer Fund Recognition of Deposit in Progress

Audit Recommendation: We recommend that management review details of entries to ensure that there are no cut-off issues. Also, we recommend that management establishes internal control to ensure that batched amounts are properly segregated by fiscal years.

Administration's Comment: The Board of Water Supply (BWS) has taken the following actions to address the recognition of deposits in progress: (1) BWS staff was reminded of the City policy of depositing receipts within one business day, and recording the deposit into the City's financial accounting system (Advantage) within five business days from the date of deposit, and (2) BWS finance staff will provide the City accounting staff with the pertinent information for recording deposits in transit into Advantage at the end of the fiscal year.

Anticipated Completion Date: March 2016

Contact Person(s): Jennifer Elflein, Customer Care Administrator, Board of Water Supply
Joseph Cooper, Waterworks Controller, Board of Water Supply

Comment No. 2015-02: Public Transportation System

Audit Recommendation: We recommend that management work with the vendor to correct the issues with the probe.

Administration's Comment: Over the past six months, Oahu Transit Services, Inc. has worked with the fare box vendor and has been able to repair all probes; they are now all functioning. Currently, a weekly report summarizing the fare boxes that were not operating is reviewed by management and any inoperable fare boxes, if any, are addressed immediately. The current fare box system has never been able to distinguish the value of the bills collected.

Anticipated Completion Date: February 2016

Contact Person(s): Hubert Barboza, Vice President of Maintenance, Oahu Transit Services, Inc.

Comment No. 2015-03: Component Unit Reporting

Audit Recommendation: We recommend that management be more diligent in its evaluation of future component unit reporting matters in accordance with accounting principles generally accepted in the United States of America.

Administration's Comment: Management will be more diligent in its evaluation of future component unit reporting matters by annually reviewing each component unit to confirm that it continues to meet the criteria for reporting as either a discretely presented or a blended component unit.

Anticipated Completion Date: June 2016

Contact Person(s): David Hanlon, Acting Chief Accountant, Department of Budget and Fiscal Services

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENTS AND RECOMMENDATIONS
Year Ended June 30, 2015**

Comment No. 2015-04: Activities Allowed and Allowable Cost

Audit Recommendation: We recommend that management be more diligent and detailed in creating the program budget to ensure only allowable activities and costs are included.

Administration's Comment: Management will be more diligent and detailed in creating the program budget to ensure allowable activities and costs are included.

Anticipated Completion Date: June 2016

Contact Person(s): Connie Kaneshiro, Chief Fiscal and CIP Analyst, Department of Budget and Fiscal Services