

EDWIN S.W. YOUNG
CITY AUDITOR

OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

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January 11, 2013

TO: Office of Council Services (1-ML; 1-SA)
Office of the City Clerk (cc Budget Committee Clerk w/encl. 1-ML; 1-SA)
(2-ML; 2-SA)

FROM: Edwin S.W. Young, City Auditor

A handwritten signature in black ink, appearing to read "Edwin S.W. Young", is written over the printed name in the "FROM:" field.

SUBJECT: City Financial Audit For The Fiscal Year Ended June 30, 2012

Transmitted herewith are copies of the Single Audit report and Management Letter for fiscal year 2012 prepared by the city's current contract auditor for financial audits, Accuity LLP.

Enclosures



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, 2012

Single Audit of Federal Financial
Assistance Programs



City and County of Honolulu
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Year Ended June 30, 2012

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PART 1
INTRODUCTION

December 21, 2012

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

We have completed our financial audit of the basic financial statements of the City and County of Honolulu, State of Hawaii ("City"), as of and for the year ended June 30, 2012. 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.

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

OBJECTIVES

1. To provide a basis for an opinion on the fair presentation of the City's basic financial statements and operations for which the City is responsible.
2. To determine whether the City's internal controls are adequate in assuring that:
 - a) there is effective control over and proper accounting of revenues, expenditures, assets and liabilities;
 - b) the City has established sufficient internal controls to properly manage federal financial assistance programs; and
 - c) the City complies with applicable laws and regulations regarding internal controls.
3. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the City is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the City, the State of Hawaii, and the federal government (where applicable).
4. To determine whether the City has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program.
5. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the City with information to plan, evaluate, control, and correct program activities of the City and the operations for which the City is responsible.

6. To recommend improvements to the City's systems and procedures, including, but not limited to, the management information system and the accounting and operating procedures.
7. To provide a basis for two separately issued opinions on the fair presentation of the City's financial statements relating to two enterprise funds – the sewer system and the public transportation system.

SCOPE OF AUDITS

1. We performed our audits of the City's financial statements as of and for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
2. As part of our audit of the City's financial statements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. We also evaluated the City's internal control over financial reporting, which included an assessment of the internal controls in place to ensure effective control over and proper accounting of financial information and compliance with laws and regulations.
3. We performed our audit of the City's federal financial assistance programs for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards*, certain provisions of the Office of Management and Budget ("OMB") Circular A-133 and the applicable sections described in the OMB's Circular A-133 Compliance Supplement.

ORGANIZATION OF REPORT

This report is organized into the following parts:

1. Part 1, entitled "Introduction," briefly describes the objectives and scope of our audits and the organization and contents of this report.
2. Part 2, entitled "Compliance and Internal Control" includes the "Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*" report on the City's internal control over financial reporting and compliance and other matters, the "Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133" report on the City's compliance and internal control over federal awards, and a schedule of expenditures of federal awards for the year ended June 30, 2012.
3. Part 3, entitled "Schedule of Findings and Questioned Costs," consists of current year findings and questioned costs, and the status of findings noted in the prior year's report.
4. The "Corrective Action Plan," includes the City's corrective action plan for the internal control and compliance matters noted in this report.

Our reports on the City's basic financial statements, the sewer system and the public transportation system financial statements as of and for the year ended June 30, 2012 have been issued separately. A separate management letter dated December 21, 2012 has also been issued.

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

Very truly yours,

Accuity LLP

CY/DN

PART 2

COMPLIANCE AND INTERNAL CONTROL

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

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

We have audited 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Board of Water Supply and the Honolulu Authority for Rapid Transportation which are the City's discretely presented component units, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we and the other auditors identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding Nos. 2012-1 to 2012-3 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and those of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the City Council in a separate letter dated December 21, 2012.

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Accuity LLP

Honolulu, Hawaii
December 21, 2012

**Report of Independent Auditors on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the City and County of Honolulu's, State of Hawaii ("City"), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("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, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Board of Water Supply, a discretely presented component unit, which expended \$11,492 in federal awards, which is not included in the schedule during the year ended June 30, 2012. Our audit, described below, did not include the operations of the Board of Water Supply because it engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2012-4 to 2012-6.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Finding Nos. 2012-4 to 2012-6. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012, which contained an unqualified opinion on the financial statements. We did not audit the financial statements of the Board of Water Supply and the Honolulu Authority for Rapid Transportation, which are the City's discretely presented component units. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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 basic 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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

Accuity LLP

Honolulu, Hawaii
December 21, 2012

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
U.S. Department of Agriculture			
Pass-through from the State Department of Human Services Supplemental Nutrition Assistance Program	10.551	DHS-11-SNAP-301, SA-1	\$ 18,959
Pass-through from the State Department of Education Summer Food Service Program for Children	10.559	12-351523	105,419
Pass-through from the State Department of Land and Natural Resources Cooperative Forestry Assistance	10.664	09-DG-11052012-255, 10-DG-11052012-82	181,551
Total U.S. Department of Agriculture			<u>305,929</u>
U.S. Department of Commerce			
Economic Adjustment Assistance	11.307	—	21
Digital TV: Keeping Seniors Connected Campaign	11.553	—	35,000
Pass-through from the State Department of Defense Public Safety Interoperable Communications Grant Program	11.555	2007-GS-H7-0005	10,905
Total U.S. Department of Commerce			<u>45,926</u>
U.S. Department of Housing and Urban Development			
Supportive Housing for Persons with Disabilities	14.181	—	1,682,264
<i>CDBG Entitlement Grants Cluster</i>			
Community Development Block Grants – Entitlement Grants	14.218	—	12,343,471
ARRA – Community Development Block Grants – Entitlement Grants	14.253	—	1,463,747
<i>Total CDBG Entitlement Grants Cluster</i>			<u>13,807,218</u> *
Emergency Shelter Grant Program	14.231	—	463,359
Supportive Housing Program	14.235	—	349,064
Shelter Plus Care	14.238	—	5,059,791
HOME Investment Partnerships Program	14.239	—	8,125,367
Housing Opportunities for Persons with AIDS	14.241	—	488,370
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	—	1,014,591
Community Challenge Planning Grants and the Department of Transportation’s TIGER II Planning Grants	14.704	—	120,793
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	—	135,590
Section 8 Housing Choice Vouchers	14.871	—	43,116,384
Pass-through from the Hawaii Public Housing Authority Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	14.877	PMB 07-06, 09-03	276,976
Total U.S. Department of Housing and Urban Development			<u>74,639,767</u>
U.S. Department of the Interior			
Historic Preservation Fund Grants-In-Aid	15.904	—	25,000
Outdoor Recreation – Acquisition, Development and Planning	15.916	—	725,000
Total U.S. Department of Interior			<u>750,000</u>
U.S. Department of Justice			
Domestic Cannabis Eradication/Suppression Program	16.000	—	120,000
Federal Asset Forfeiture	16.000	—	594,304
Pass-through from the State Department of Human Services Juvenile Accountability Incentive Block Grant	16.523	06-OYS-3035, MOA-CA-1130 DHS-01-OYS-9015	178,795
Pass-through from the State Department of Attorney General Crime Victim Assistance	16.575	07-VA-02, 08-VA-02, 09-VA-02	638,184
Pass-through from the State Department of the Attorney General Violence Against Women Formula Grants	16.588	09-WF-07, 09-EF-07	133,565
ARRA – Back On Track Project	16.588	09-EF-06	4,926
			<u>138,491</u>

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
Project Safe Neighborhoods	16.609	07-GP-01, 07-GP-02	96,278
ARRA – Public Safety Partnership and Community Policing Grants	16.710	—	1,564,043
Public Safety Partnership and Community Policing Grants	16.710	—	<u>141,303</u>
			<u>1,705,346</u> *
<i>JAG Program Cluster</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	—	281,441
Pass-through from the State Attorney General Edward Byrne Memorial Justice Assistance Grant	16.738	09-DJ-12, 07-DJ-18, 09-DJ-11, 10-DJ-04	175,141
Pass-through from the State Attorney General Honolulu Family Justice Center – Strategic Planning	16.803	09-SU-11	33,292
ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to States and Territories	16.803	09-SU-21	104,563
ARRA – Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	—	<u>517,070</u>
<i>Total JAG Program Cluster</i>			<u>1,111,507</u> *
DNA Backlog Reduction Program	16.741	—	254,876
Pass-through from the State Department of Attorney General Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	10-CD-01, 11-CD-02	36,578
Gang Busters	16.744	07-PG-01, 07-PG-02	74,706
ARRA – Recovery Act State Victim Assistance Formula Grant Program	16.801	09-SG-02	97,320
ARRA – Transitional Housing	16.805	—	<u>712</u>
Total U.S. Department of Justice			<u>5,047,097</u>
U.S. Department of Labor			
Pass-through from the State Department of Labor and Industrial Relations <i>Workforce Investment Act Cluster</i>			
Work Investment Act – Adult Program	17.258	WIA-10-AP-0, WIA-11-AP-0	846,278
ARRA – Work Investment Act – Youth Activities	17.259	WIA-08-ARRA-YP-O	15,776
Work Investment Act – Youth Activities	17.259	WIA-10-YP-0, WIA-11-YP-0	1,693,891
ARRA – Work Investment Act – Dislocated Workers Program	17.260	WIA-(08 & 09)-NEG-OJT-O	223,005
Work Investment Act – Dislocated Worker Formula Grants	17.278	WIA-10-DW-O, WIA-11-DW-O	<u>953,130</u>
<i>Total Workforce Investment Act Cluster</i>			<u>3,732,080</u>
WIA Pilots, Demonstrations, and Research Projects	17.261	—	264,166
Pass-through from the Research Corporation of the University of Hawaii Ulu Pono Project	17.269	PO#Z998394	57,660
ARRA – Youthbuild	17.274	—	68,787
Youthbuild	17.274	—	<u>452,740</u>
			<u>521,527</u>
Pass-through from the State Department of Labor and Industrial Relations ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	WDC-ARRA-2010-12	893,562
Total U.S. Department of Labor			<u>5,468,995</u>

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
U.S. Department of Transportation			
Pass-through from the State Department of Transportation Highway Planning and Construction	20.205	STP-7139(1), STP-0300, BR-NBIS(46)	7,051,393
ARRA – Highway Planning and Construction	20.205	ARR-095-1(1), ARR-0001(45), ARR-8915(2)	3,981,444
Pass-through from the Oahu Metropolitan Planning Organization Highway Planning and Construction	20.205	WE 201.65-07, FHWA 203.74-08, FHWA 203.75-09, FHWA 203.77-09, FHWA 203.79-10, FHWA 203.80-10, FHWA 203.84-11, PL-052(26)	345,377
			<u>11,378,214 *</u>
<i>Federal Transit Cluster</i>			
Federal Transit – Capital Investment Grants	20.500	—	43,493,795
Federal Transit – Formula Grants	20.507	—	1,876,660
ARRA – Federal Transit – Formula Grants	20.507	—	380,424
<i>Total Federal Transit Cluster</i>			<u>45,750,879</u>
<i>Transit Services Program Cluster</i>			
Job Access Reverse Commute	20.516	—	257,152
New Freedom Program	20.521	—	142,220
<i>Total Transit Services Program Cluster</i>			<u>399,372</u>
Pass-through from the State Department of Transportation State and Community Highway Safety	20.600	PS10-09(03-O-01), EM09-04(01-O-01), EM11-04(01-O-01), PT 12-01 (01-O-01), AL 12-02 (01-O-01), OP 12-01 (01-O-01), PS 12-09 (02-O-01), SC 12-06 (01-O-01), TR 12-03 (04-O-01), DD 12-10 (01-O-01)	964,678
Total U.S. Department of Transportation			<u>58,493,143</u>
U.S. Environmental Protection Agency			
Climate Showcase Communities Grant	66.041	—	194,573
Pass-through from the State Department of Health ARRA – Water Quality Management Planning	66.454	00T05509	122,640
Capitalization Grants for Clean Water State Revolving Funds	66.458	C150046-70, C150070-45, C150051-70	10,174,400 *
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	—	84,817
Total U.S. Environmental Protection Agency			<u>10,576,430</u>
U.S. Department of Energy			
State Energy Program	81.041	—	340,000
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128	—	3,393,304 *
Total U.S. Department of Energy			<u>3,733,304</u>

City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
U.S. Department of Education			
<i>Vocational Rehabilitation Cluster</i>			
Pass-through from the State Department of Human Services Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	DHS-09-VR-9022, DHS-10-VR-151, DHS-12-VR-305	105,756
ARRA – Vocational Rehabilitation	84.390	DHS-11-VR-305	3,765
<i>Total Vocational Rehabilitation Cluster</i>			<u>109,521</u>
Pass-through from the State Department of Education Twenty-First Century Community Learning Center	84.287	13023	2,228
Total U.S. Department of Education			<u>111,749</u>
U.S. Department of Health and Human Services			
Pass-through from the Executive Office on Aging Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	93.043	HON2010N03, HON2011N03	73,771
<i>Aging Cluster</i>			
Pass-through from the Executive Office on Aging Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	HON2010N03, HON2011N03, HON2012N03	914,210
Supportive Services – FY09, FY10, and FY11	93.045	HO2009N03, HON2010N03, HON2011N03	704,489
Home Delivered Meals – FY08, FY10, and FY11	93.045	HO2008N03, HON2010N03, HON2011N03	434,099
Administration Only	93.045	HON2011N03	37,161
<i>Total Aging Cluster</i>			<u>2,089,959</u>
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048	HON-ADRC-10-N, HON-EBI-CDSMP-09, HON2010N04	80,599
National Family Caregiver Support, Title III, Part E	93.052	HO2011N03, HON2012N03	475,542
Medicare Enrollment Assistance Program	93.071	—	2,225
Pass-through from the State Department of Health Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	ASO Log No. 09-127 Mod. 4, 5, 6, ASO Log No. 10-038, ASO Log No. 10-090	975,778
Affordable Care Act – Medicare Improvements for Patients and Providers	93.518	—	21,610
Pass-through from the State Department of Human Services Temporary Assistance for Needy Families	93.558	DHS-08-BESSD-5042, DHS-08-BESSD-5043	226,430
Pass-through from the Executive Office on Aging ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	HON-ARRA-CDSMP-10-N	44,614
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	HON-MIPPA-2010	33,181
Total U.S. Department of Health and Human Services			<u>4,023,709</u>
Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002	—	80,807
Total Corporation for National and Community Service			<u>80,807</u>
U.S. Executive Office of the President			
High Intensity Drug Trafficking Areas Program	95.001	—	955,334
Total U.S. Executive Office of the President			<u>955,334</u>

**City and County of Honolulu
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Program/Grant	Catalog of Federal Domestic Assistance Number	Pass-Through Identifier	Federal Expenditures
U.S. Department of Homeland Security			
Pass-through from the State Department of Defense			
March 2006 Flood	97.036	FEMA-1640-DR-HI	1,660,511
Hazard Mitigation Grant	97.039	FEMA-1967-DR-HI, P.A. ID:003-U5MQ9-00	166,930
Interoperable Emergency Communications	97.055	2008-IO-T8-0013, 2009-IP-T9-0025, 2010-IP-TO-0010	29,408
Assistance to Firefighters Grant	97.044	—	316,416
<i>Homeland Security Grant Program</i>			
Pass-through from the State Department of Defense			
Citizen Corp Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	6,271
Metropolitan Medical Response System Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	348,009
Urban Areas Security Initiative Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	6,228,350
State Homeland Security Program	97.067	2007-GE-T7-0013, 2008-GE-T8-0022, 2009-SS-T9-0006, 2010-SS-TS-0006	1,009,393
<i>Total Homeland Security Grant Program</i>			<u>7,592,023</u> *
Pass-through from the State Department of Defense			
Rail and Transit Security Grant Program	97.075	2006-RL-T6-0009, 2007-RL-T7-0016, 2008-RL-T8-0023, 2010-RA-T0-0036, 2011-GR-00123	73,226
Regional Catastrophic Preparedness Grant Program	97.111	2008-CP-T8-0020, 2009-CA-T9-0009, 2010-CA-T0-0003	818,232
National Special Security Event	97.126	EMW-2011-GR-00123-S01	4,833,341 *
Total U.S. Department of Homeland Security			<u>15,490,087</u>
Total Expenditure of Federal Awards			<u>\$ 179,722,277</u>

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

City and County of Honolulu
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30 2012

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and County of Honolulu ("City") and is presented on the cash basis of accounting. The schedule does not include the federal grant activity of the Board of Water Supply, a discretely presented component unit of the City. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loans Outstanding

The City had the following loan balances outstanding and advances awarded as of and for the year ended June 30, 2012, which are not presented in the schedule of expenditures of federal awards.

Program Title	CFDA Number	Loans/Advances	Loans Outstanding
Major programs			
Community Development Block Grants – Entitlement Grants	14.218	\$ 366,576	\$ 33,154,905
HOME Investment Partnerships Program	14.239	-	18,114,524
Section 8 Housing Choice Vouchers	14.871	-	3,647,688
		<u>\$ 366,576</u>	<u>\$ 54,917,117</u>

3. Capitalization Grants for Clean Water State Revolving Funds

At June 30, 2012, federal awards and state matching fund expenditures under capitalization grants for clean water state revolving funds were as follows:

Federal	\$ 10,174,400
State	2,397,347
	<u>\$ 12,571,747</u>

City and County of Honolulu
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30 2012

4. Subrecipients

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

Program Title	CFDA No.	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development		
Community Development Block Grants – Entitlement Grants	14.218	\$ 9,929,358
Emergency Shelter Grants Program	14.231	463,359
Supportive Housing Program	14.235	343,653
Shelter Plus Care Program	14.238	5,059,791
HOME Investment Partnerships Program	14.239	7,264,476
Housing Opportunities for Persons with AIDS	14.241	488,330
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	<u>1,002,340</u>
Total U.S. Department of Housing and Urban Development		<u>24,551,307</u>
U.S. Environmental Protection Agency		
Climate Showcase Communities Grant	66.041	<u>194,573</u>
Total U.S. Environmental Protection Agency		<u>194,573</u>
U.S. Department of Health and Human Services		
Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	93.043	68,063
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	914,210
Supportive Services – FY09, FY10, and FY11	93.045	476,330
Home Delivered Meals – FY08, FY10, and FY11	93.045	434,099
Special Programs for the Aging – Title IV and Title II Discretionary Projects	93.048	30,184
National Family Caregiver Support, Title III, Part E	93.052	475,542
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	340,297
ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	<u>42,953</u>
Total U.S. Department of Health and Human Services		<u>2,781,678</u>
Total Provided to Subrecipients		<u>\$ 27,527,558</u>

PART 3

**SCHEDULE OF
FINDINGS AND QUESTIONED COSTS**

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes

Identification of Major Programs

CFDA Number	Federal Program or Cluster
14.218, 14.253	CDBG Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
14.257	Homeless Prevention and Rapid Re-Housing Program
16.710	Public Safety Partnership and Community Policing Grants
16.738, 16.803, 16.804	JAG Program Cluster
20.205	Highway Planning and Construction
66.458	Capitalization Grants for Clean Water State Revolving Funds
81.128	Energy Efficiency and Conservation Block Grant Program
97.067	Homeland Security Grant Program
97.126	National Special Security Event Program

Dollar threshold used to distinguish between Type A and Type B programs	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial Statement Findings

Finding No. 2012-1: Deficiencies in Information Technology Controls (Significant Deficiency)

Condition

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 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, 2012, 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 physical and logical security and change management as follows:

Physical and logical security

- System password configurations were inconsistent with the City’s IT security policy.
- 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 review performed to determine whether access rights granted to employees were commensurate with their job responsibilities.
- Lack of documentation evidencing approval to provide new or 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.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Change management

- System changes were made prior to the completion of testing and approval.
- Lack of segregation of duties among City and vendor programmers.
- Lack of a formalized change management process for certain systems.

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

Criteria

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

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

Cause

The primary causes of the internal control deficiencies identified were due to:

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

Recommendation

We recommend and the City has already started performing the following:

- Update its IT policies and 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.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 2012-2:	Schedule of Expenditures of Federal Awards Errors (Significant Deficiency)	\$ _____ -

Condition

During our testing of the 2012 Schedule of Expenditures of Federal Awards ("SEFA"), we noted the following errors:

- Expenditures of \$10,174,400 related to a grant program were incorrectly identified as American Recovery and Reinvestment Act of 2009 ("ARRA") funded expenditures. Upon further investigation, it was noted that these expenditures were not ARRA-funded expenditures.
- Expenditures of \$4,833,341 for a grant program were improperly reported under another grant program.

Criteria

U.S. Office of Management and Budget ("OMB") Circular A-133, section 300 – Auditee responsibilities states that the auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section __.310.

Effect

Errors in the SEFA could result in a material misstatement of the SEFA, requiring a modification of the opinion on the SEFA in relation to the City's basic financial statements.

As non-ARRA expenditures for a single program/cluster should be aggregated, erroneously reporting expenditures as ARRA-related expenditures will result in an inappropriately presented SEFA.

Cause

Incorrect information was provided by the respective program heads to the personnel ultimately responsible for reporting federal expenditures. We noted one new program where the CFDA number was not provided in the information from the pass-through entity. For another program, there was miscommunication as to whether ARRA funds were used for a project during fiscal year 2012. Additionally, we noted no secondary review by the City to ensure the SEFA was complete and accurate.

Recommendation

We recommend that appropriate City personnel perform a secondary review to ensure that the federal expenditure reporting information is accurate and classified properly.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Recommendation

The other auditors recommend that management of HART consider the amount of resources needed in order to satisfy its external reporting requirements. In addition, the other auditors recommend that HART implement a more formal review process for financial reporting, which would include a detail review of the financial statements and related financial statement disclosures to ensure that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. This review would also include the completion of a U.S. GAAP disclosure checklist.

In addition, accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. Therefore, in order to provide more accurate and timely accounting information, the other auditors recommend that HART consider establishing more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 2012-4:	Federal Reporting (Significant Deficiency)	\$ _____ -
Federal Agency:	United States Department of Energy	
CFDA Number and Title:	81.128 Energy Efficiency and Conservation Block Grant	
Award Year	2009	
Award Number:	DE-EE0000810	

Condition

For two of the six Energy Efficiency and Conservation Block Grant (“EECBG”) reports submitted to the federal granting agency that we tested, the City was unable to provide supporting documentation for the amounts reported, including a detail of expenditures. We also noted that the City submitted the SF-425 and ARRA 1512 quarterly reports to the Department of Energy (“DOE”) without having the reports reviewed by an appropriate City personnel.

Criteria

To comply with the federal awards reporting requirements, SF-425 and ARRA 1512 quarterly reports must be accurately completed. This includes proper reviews over the reports prior to submission and to ensure that the reports have proper supporting documentation.

Effect

Reports submitted could be incomplete and inaccurate.

Cause

The deficiency was due to a lack of knowledge of the reporting compliance requirement and no formal procedures to ensure compliance with the requirement.

Recommendation

We recommend that the City implement a procedure where the SF-425 and ARRA 1512 reports are reviewed by appropriate City personnel prior to submission to the DOE. Additionally, the City should ensure the cumulative expenditure reported is properly supported with documentation to validate the completeness and accuracy of the reported amount.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 2012-5:	Federal Reporting (Significant Deficiency)	\$ _____ -
Federal Agency:	United States Department of Housing and Urban Development	
CFDA Number and Title:	14.239 HOME Investment Partnerships Program	
Award Year	2011	
Award Number:	M-11-MC-15-0201	

Condition

While performing testing over the reporting compliance requirement, we noted that the required the Federal Funding Accountability and Transparency Act ("FFATA") reports were not completed or submitted in the current year.

Criteria

Per the Federal Spending Transparency Act 2010, FFATA reporting is required for non-ARRA awards to recipients of grants or cooperative agreements who make first-tier subawards and contractors that award first-tier subcontracts.

Effect

Subaward obligations, subcontract awards, or modifications may not be reported on the USA Spending website at www.USASpending.gov, reducing transparency of federal funds awarded.

Cause

We understand the noncompliance was due to misunderstanding of the FFATA reporting requirements, and the City did not provide its subrecipients the FFATA reporting forms when the subrecipient agreements were executed.

Recommendation

We recommend that the City includes FFATA reporting forms in the HOME agreement documents to ensure that subrecipients are aware of the reporting compliance requirements and provide the appropriate information to the City for reporting on the USA Spending website.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 2012-6:	Suspension and Debarment (Significant Deficiency)	<u>\$ _____</u>
Federal Agency:	United States Department of Justice	
CFDA Number and Title:	16.804 Edward Byrne Memorial Justice Assistance Grant Program	
Award Year	2009 to 2011	
Award Number:	2009-SB-B9-1306	

Condition

For the Justice Assistance Grant ("JAG") cluster contract that we tested, the City did not obtain a federal suspension and debarment certification nor did the City perform verifications on the federal Excluded Parties List System ("EPLS"). However, we noted no contracts were awarded to suspended or debarred entities for the contracts we tested for this program.

Criteria

To comply with OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments*, the City must verify that the vendor used for a federally funded contract is not suspended or debarred.

Effect

There is a risk that contracts are entered into with entities that are suspended or debarred from receiving any federal funds, which could jeopardize the City's future federal funding. The City may also be required to repay any federal funds disbursed to suspended or debarred entities.

Cause

The noncompliance was due to a lack of knowledge of the suspension and debarment compliance requirement and no formal procedures to ensure compliance with the requirement.

Recommendation

We recommend that the City provide training related to the procurement and suspension and debarment requirements to all personnel involved with the procurement of federally funded contracts. The City should also develop formalized procedures to perform a suspension and debarment verification on the EPLS and assign responsibility for the performance of the verification.

City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section IV – Summary Schedule of Prior Audit Findings

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2011-1; 2010-1	Deficiencies in Information Technology Controls	Significant deficiency		X	2012-1
2011-2	Suspension and Debarment	Significant deficiency		X	2012-6
2011-3	Housing Inspections		X		
2011-4	Reporting		X		
2011-5	HUD Monitoring		X		

Partial corrective actions taken to address Finding Nos. 2011-1 and 2010-1 are as follows:

Change Management

- We noted that emergency changes are promoted to production environment with approvals or user acceptance testing.

Partial corrective actions have been taken to address Finding No. 2011-2. The City's Purchasing Division is in the process of reviewing policies created to identify federally funded procurements and ensure that the suspension and debarment verifications are performed prior to awards being made.

As we have reported current year findings, Finding Nos. 2011-1, 2011-2 and 2010-1 will not be carried forward.

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



PETER B. CARLISLE
MAYOR

MICHAEL R. HANSEN
DIRECTOR

NELSON H. KOYANAGI, JR.
DEPUTY DIRECTOR

December 21, 2012

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

Dear Mr. Young:

Subject: Single Audit Report for the Fiscal Year Ended June 30, 2012

Enclosed is the response to the recommendations included in Accuity LLP's preliminary draft of the single audit report of the City and County of Honolulu for the fiscal year ended June 30, 2012. 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 "Michael R. Hansen", written over a horizontal line.

Michael R. Hansen
Director

MRH:lt

Attachments

APPROVED:

A handwritten signature in black ink, appearing to read "Douglas S. Chin", written over a horizontal line.

Douglas S. Chin
Managing Director

cc: BFS- Internal Control
BFS- Accounting

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2012-1 and 2011-1: Deficiencies in Information and Technology Controls

Audit Recommendation: We recommend and the City has already started performing the following:

- Update its IT policies and 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.

Administration's Comment: The City continues to focus on audit recommendations and incorporate corrective actions as needed to ensure control and best practice compliance. DIT continues to work toward improving policies and procedures to address the current technology environment that it supports.

Anticipated Completion Date: June 2013

Contact Person(s): Gordon J. Bruce, Director and CIO, Information Technology
Keith Ho, Chief of Applications Division, Information Technology

Finding No. 2012-2: Schedule of Expenditures of Federal Awards Errors

Audit Recommendation: We recommend that appropriate City personnel perform a secondary review to ensure that the federal expenditure reporting information is accurate and classified properly.

Administration's Comment: To prevent reoccurrence of such errors, the City will develop practices such as preparing supporting schedules which display ARRA and non-ARRA funds separately.

Anticipated Completion Date: March 2013

Contact Person(s): Felipe Tan, Accountant VI, Budget and Fiscal Services
David C. Hanlon, Acting Chief Accountant, Budget and Fiscal Services

Finding No. 2012-3: Financial Statement Reporting for HART (a City component unit)

Audit Recommendation: The other auditors recommend that management of HART consider the amount of resources needed in order to satisfy its external reporting requirements. In addition, the other auditors recommend that HART implement a more formal review process for financial reporting, which would include a detail review of the financial statements and related financial statement disclosures to ensure that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. This review would also include the completion of a US GAAP disclosure checklist.

**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

In addition, accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. Therefore, in order to provide more accurate and timely accounting information, the other auditors recommend that HART consider establishing more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments.

Administration's Comment: HART addressed the audit recommendations by identifying several specific corrective measures which have been identified and have been or will be implemented as follows: With the hiring of HART's Chief Financial Officer in August 2012, HART has assessed its accounting and financial reporting resource needs, determined that additional accounting staff resources are needed, and is in the process of recruiting and hiring for these positions. This will result in appropriately experienced accounting staff and management preparing the financial statements, and a higher level review process implemented in order to reduce presentation errors including utilization of disclosure checklists.

Anticipated Completion Date: June 2013

Contact Person: Diane R. Arakaki, Chief Financial Officer, HART

Finding No. 2012-4: EECBG – Federal Reporting

Audit Recommendation: We recommend that the City implement a procedure where the SF-425 and ARRA 1512 reports are reviewed by appropriate City personnel prior to submission to the DOE. Additionally, the City should ensure the cumulative expenditure reported is properly supported with documentation to validate the completeness and accuracy of the reported amount.

Administration's Comment: The City has developed and implemented procedures to ensure that quarterly reports SF425 and ARRA 1512 are reconciled to supporting documentation and reviewed prior to submission.

Anticipated Completion Date: July 2012

Contact Person: Allyn Lee, Electrical Engineer VI, Design & Construction

Finding No. 2012-5: HOME – FFATA Reporting

Audit Recommendation: We recommend that the City includes FFATA reporting forms in the HOME agreement documents to ensure that subrecipients are aware of the reporting compliance requirements and provide the appropriate information to the City for reporting on the USA Spending website.

Administration's Comment: The City will include FFATA reporting forms with the HOME agreement documents to ensure that recipients are aware of their reporting requirements and responsibilities.

Anticipated Completion Date: February 2013

Contact Person: Cheryl Tanabe, Budget Analyst, Budget and Fiscal Services

Finding No. 2012-6 and 2011-2: JAG and WIA – Suspension and Debarment

Audit Recommendation: We recommend that the City provide training related to the procurement and suspension and debarment requirements to all personnel involved with the procurement of federally funded contracts. The City should

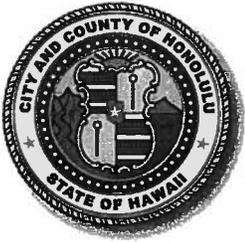
**RESPONSE TO SINGLE AUDIT REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

also develop formalized procedures to perform a suspension and debarment verification on the EPLS and assign responsibility for the performance of the verification.

Administration's Comment: The City standardized certain procurement documents, developed a universal contract template which identifies federal projects and provides federal funding information, and will prepare federal funding procedures.

Anticipated Completion Date: December 2012

Contact Person(s): Mike Hiu, Assistant Central Purchasing and Contracts Administrator, Budget and Fiscal Services



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, 2012

Management Letter



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

In planning and performing our audit of the basic financial statements of the City and County of Honolulu, State of Hawaii ("City") as of and for the year ended June 30, 2012, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration our observations and recommendations designed to help the City improve internal control and achieve operational efficiencies.

This communication is intended solely for the information and use of the City Council, the City Auditor and management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Acuity LLP

Honolulu, Hawaii
December 21, 2012

City and County of Honolulu
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Year Ended June 30, 2012

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City and County of Honolulu
Current Year Comment
Year Ended June 30, 2012

2012-01 Cash Management

During our testing of the cash management of the Community Development Block Grant ("CDBG") and HOME Investment Partnerships ("HOME") programs, we noted two transactions where five days and seventeen days passed between cash receipt and disbursement by the City for the CDBG and HOME transactions, respectively. We also noted that there was no written justification for the CDBG disbursement made in excess of three days after receiving the related cash advances.

Per the Department of Housing and Urban Development ("HUD") Training Guide, Chapter 11, section 11.9.2, Financial Management Uniform Administration Requirements, "Disbursements of funds must occur in a timely manner. While there is no explicit time period, the general rule is that payment must take place within three business days of deposit of CDBG funds. If payment takes longer than three business days, written justification should be maintained in the files."

Per HUD Training Guide Chapter 9, General Administrative and Monitoring Requirements, "All HOME funds must be disbursed to a payee (contractor, etc.) within 15 days of receipt from the U.S. Treasury."

Disbursements made greater than the stated days after the receipt of funds may result in noncompliance with the requirements of HUD.

We understand that the CDBG disbursement was delayed due to not being able to obtain final approval of the payment documents in a timely manner. The HOME disbursement was delayed due to an accounting system error which improperly processed the payment.

Recommendation

We recommend that the City disburses funds within three business days for CDBG funds and 15 days for HOME funds upon receipt of funds as stated in the respective HUD training guides. We also recommend that management ensures that appropriate written justification is maintained for any disbursement made more than three business days after the receipt of funds for the CDBG program.

City and County of Honolulu
Status of Prior Year Comments
Year Ended June 30, 2012

The following is the status of the prior year comments.

2011-01 Improve Accounting for Capital Assets

During our prior year testing of the City's governmental activities capital assets as of June 30, 2011, we noted various capital assets that should have been transferred out of work-in-progress to the proper completed capital asset accounts during fiscal 2011. This resulted in an understatement of \$90.8 million and \$50.3 million in completed capital asset accounts (buildings and improvements and infrastructure) for governmental activities and the Solid Waste Fund, respectively.

Status

Resolved. The City has continued to improve its accounting for capital assets and ensured timely transfers of completed capital asset projects and recordation of depreciation expense in fiscal year 2012.

2011-02 Period of Availability

During our prior year testing of the period of availability of federal awards under the Workforce Investment Act ("WIA") cluster (CFDAs 17.250 and 17.260), we noted the following errors:

- There was \$6,545 of expenditures incurred subsequent to the end of the grant period of December 31, 2010 for one of the WIA grants.
- There was \$8,000 of tuition expenditures for the period August 23, 2010 to August 20, 2011 that was incorrectly charged to a different WIA grant and those expenditures were incurred subsequent to the end of the grant period.

Although we noted subsequent grants allowed the use of federal awards for the periods noted above, the City improperly recorded the expenditures to grants where the period of availability had already expired.

Status

Resolved. No similar instances were noted in the current year.

2011-03 Inaccurate Timesheets and Payroll Expense

During our prior year testing of allowable costs for federal grants under the Justice Assistance Grants ("JAG") Program cluster (CFDA 16.803) which included grants to the Honolulu Police Department and Prosecuting Attorney Department, we noted an employee was overpaid by 24 hours in one pay period and not paid for another pay period during fiscal year 2011 due to calculation errors in the Honolulu Police Department's payroll system. The total difference for both errors was less than \$1,500.

Status

Resolved. No similar instances were noted in the current year.

2011-04 Documenting Inspection Extensions

During our prior year testing of the Section 8 Housing Choice Vouchers ("Section 8") program (CFDA 14.871) Housing Quality Standards inspections, we noted five instances where it appeared that a reinspection did not occur within the required 30 days of the failed inspection. We were informed that an informal extension was verbally granted by the City inspector in each instance.

City and County of Honolulu
Status of Prior Year Comments
Year Ended June 30, 2012

Status

Resolved. No similar instances noted in the current year. We noted that the "Inspection Re-exam Report Cover Sheet" for failed HQS inspections was updated to include the unit failed date, deadline extension date and inspector's initials.

2011-05 Cash Management

During our prior year cash management testing over the CDBG cluster (CFDA 14.218 and 14.253), we noted three instances in which the City disbursed the federal funds more than three days after the funds were received with no written justification for the time lag.

We recommended that the City disburse funds within three days as stated in the U.S. Department of Housing and Urban Development Training Guide Chapter 11, section 11.9.2 or ensure that appropriate written justification is maintained for any disbursement made more than three days after the receipt of funds.

Status

Unresolved. During our testing of cash management for the CDBG program, we noted one transaction in which more than three days elapsed between cash receipt and cash disbursement dates. There was no written justification for the disbursement made in excess of three days after receiving the related cash advances. Refer to Comment 2012-01. This comment will not be carried forward.

2010-04 Required Reporting to State

During our prior year testing of the City's Capitalization Grants for Clean Water State Revolving Funds ("CWSRF") program (CFDA 66.458), we noted that the City failed to submit to the State of Hawaii, Department of Health ("DOH") a report due by December 31st as required by the City's revolving fund loan agreements with DOH.

We recommended that the City assign an individual the responsibility to ensure that the annual reports are submitted to DOH in a timely manner. We also recommended that management monitor to ensure the reports are properly completed and submitted after appropriate review.

Status

Resolved. The City finalized the standard loan agreement with the DOH to permanently remove the annual reporting requirement.

2010-06 Site Visits and Completion of Required Documents

During the fiscal year 2010 audit of the City's Shelter Plus Care program (CFDA 14.238), we noted the following issues:

- Two of the City's three subrecipients should have had site visits during fiscal year 2010, but we noted that site visits were not performed.
- Checklists were not completed to ensure that all required documents are filed.
- An annual re-examination of income was not performed.
- Utility allowances used by various subrecipients were calculated differently.

City and County of Honolulu
Status of Prior Year Comments
Year Ended June 30, 2012

- The prior year's utility schedule was used by some subrecipients for a portion of the year.
- A tenant was determined to be homeless in accordance with HUD guidelines, but the "Certification of Homeless" form could not be located.
- Although regular site visits of tenant housing were performed by the housing specialist, there were instances where the annual inspection checklist was not completed.

We recommended that the City performs site visits every other year in accordance with the City's internal control procedures and maintain a tracking schedule to ensure that program personnel are aware of when site visits are required. The City should also ensure that all required checklists are properly completed and filed in a timely manner.

Status

Unresolved. No changes were noted in the current year.

2010-10 Discrepancies Noted During Physical Inventory Observations

During our prior year observations of the City's Public Transportation System – Bus and Paratransit Operations ("PTS") year-end physical inventory counts of parts and supplies inventories, we noted numerous discrepancies between the amount of items counted by Oahu Transit Services, Inc. ("OTS") personnel and the quantity we independently verified.

- Lack of organization and consistency in the storage of inventory items. It was noted that Bus and Paratransit inventory items were often commingled within the same storage area without being properly identified. It was also noted that inventory items were maintained at multiple locations throughout the PTS's warehouses without OTS personnel knowledge.
- Errors made by the individuals performing the inventory counts.
- Failure to include infrequently used inventory items in the physical inventory counts.

We recommended that the City works with OTS to update the year-end physical inventory counting procedures to address the issues noted above.

Status

Resolved. We noted that the City and OTS improved the physical inventory counting procedures and the inventory items were organized in one location versus various locations. Additionally, there were no exceptions found during the current year testing.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
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PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

NELSON H. KOYANAGI, JR.
DEPUTY DIRECTOR

December 21, 2012

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, 2012

Enclosed is the response to the recommendations included in Accuity LLP's preliminary draft of the management advisory report resulting from the audit of the City and County for the fiscal year ended June 30, 2012. 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 "Michael R. Hansen".

Michael R. Hansen
Director

MRH:lt

Attachments

APPROVED:

A handwritten signature in black ink, appearing to read "Douglas S. Chih".

Douglas S. Chih
Managing Director

cc: BFS- Internal Control
BFS- Accounting

**RESPONSE TO MANAGEMENT ADVISORY REPORT
COMMENT AND RECOMMENDATION**
For the Year Ended June 30, 2012

CURRENT YEAR COMMENT AND RECOMMENDATION

Comment No. 2012-01 and 2011-05: CDBG and HOME Investment – Cash Management

Audit Recommendation: We recommend that the City try to disburse funds within three business days (CDBG) and 15 days (HOME) as stated in the respective HUD training guides. We also recommend that management ensures that appropriate written justification is maintained for any disbursement made more than three business days after the receipt of funds for the CDBG program.

Administration's Comment: The City staff was reminded to comply with the established procedures for the receipt and disbursement of CDBG funds. In the event of any time delays, written justification will be prepared and filed in the project folder.

Anticipated Completion Date: December 2012

Contact Person(s): Ann Sakurao, Fiscal Officer II, Budget and Fiscal Services
David C. Hanlon, Acting Chief Accountant, Budget and Fiscal Services

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Comment No. 2010-06: Site Visits and Completion of Required Documents

Audit Status: Unresolved. No changes were noted in the current year.

Administration Comment: For Shelter Plus Care grantees, the City will continue to develop and adhere to a schedule of site visits, and will ensure that all required checklists are properly completed and filed in a timely manner.

Anticipated Completion Date: June 2013

Contact Person: Michael Shiroma, Acting Administrator, Community Based Development Division,
Community Services