

RECEIVED
CITY CLERK
C & C OF HONOLULU

2013 MAR 18 AM 8:05

Natalie

Subject: testimony Bill 4 2/27/13 budget
Attachments: Leeward benefits audit recommendations 12-10.pdf

From: Natalie

Sent: Tuesday, February 26, 2013 2:58 AM

To: 'akobayashi@honolulu.gov'; 'ianderson@honolulu.gov'; 'Harimoto, Breene'; 'kpine1@honolulu.gov'; 'rmenor@honolulu.gov'; 'Chang, Stanley'; 'jmanahan@honolulu.gov'; 'cafukunaga@honolulu.gov'; 'emartin@honolulu.gov'

Subject: Bill 4 suggested amendments

Aloha Councilmembers,

As you know, I am very concerned with Bill 4 and related Resolution 13-24. Therefore, following are my suggestions for improving the bill. I believe these changes allow for most of councilmembers' concerns to be addressed as well, without tipping the balance of control too far in council's favor.

Sec. 6- .2 Purpose

There are 29 different types of nonprofit organizations. Under the current wording of the bill, labor unions, political action committees, social clubs and credit unions qualify as recipients. Grants should be limited to charitable organizations; therefore, "federal income tax exempt non-profit organizations" should be changed to "charitable organizations as defined under Section 501(c)(3) of the Internal Revenue Code." Note that government agencies are not charitable organizations; therefore, a city department would not qualify for a grant if this wording is used.

If a particular organization is not charitable but councilmembers believe it should be included as an eligible recipient, I would be happy to help refine the definition of a qualified nonprofit.

Sec. 6- .3 Deposit

Interest earned on the fund should be deposited into the general fund to allow for more flexibility in the budgeting process.

Sec. 6- .4 Additional expenditure requirements

The type of commission set up should be a selection commission rather than merely advisory. In addition to reviewing applications for GIA, the commission should select recipients and notify council of the selections via resolution. Public notice should be given for all meetings, and public input allowed. This would allow for independent selection of awardees, apart from councilmembers who may feel pressure to "reward" nonprofits in their districts.

Sec. 6- .4(b) and (c)

The budget process is complex and time consuming. Therefore, the application deadlines should be moved to later in the year.

Sec. 6- .4(d)

Councilmembers should **not** select projects, especially via the budget process. While I appreciate the current budget chair's budget review and amendment procedures, it must be remembered that future budget chairs will likely handle the process differently.

Councilmembers should approve selections made via adoption of the resolution provided by the GIA commission.

Sec. 6- .4(e)

According to the December 2010 report of the audit of the Leeward Coast Community Benefits Program (LCCBP), "the administration's change to an 80-20 distribution ratio further reduced grantee accountability and transparency and the risk for fraud, waste and abuse increased." The move to 100% payout within 45 days of the new fiscal year goes even beyond the 80-20 distribution that the auditor warned about. Based on my experience with one nonprofit organization that has not been paid for more than two years, it appears to me staff of the DCS need additional training. A discussion should also be held regarding DCS's September 2011 report to council, including an understanding of what improvements the new administration plans to make to avoid these types of problems in the future.

Sec. 6- .4(g)

Remove the requirement that any balance left in the fund not lapse. By including such a provision, budget flexibility is reduced. (This requirement reminds me of the 10% administrative fee the state has with respect to the county general excise tax surcharge.)

Sec. 6- .5 Administration

The resolution underlying the charter amendment indicated the administration of the GIA program would be done by DCS, not budget and fiscal services. In addition, good internal controls include procedures that separate various functions. This separation of duties would provide additional oversight of the program. While the auditor's report cited problems with DCS's administration of the LCCBP, implementation of the recommendations he provided will mitigate most of the concerns noted in the audit.

Attached are the recommendations from the December 2010 audit report. I hope councilmembers will incorporate some of them in this new program as well as propose an amendment to Bill 4 based on the suggestions I have provided.

A hui hou, Natalie Iwasa, CPA

Recommendations

1. The Department of Community Services should establish formal policies, procedures, and guidelines for lapsing any unspent LCCBP grant funds back to the general fund 12 months after the end of the contract period.
2. The Department of Community Services should return the \$454,621 in unspent and unresolved grant funds from FY2006-07 and FY2007-08 back to the general fund.
3. The Department of Community Services should return the additional \$42,027 in unspent FY2008-09 funds back to the general fund in June 2011 if the outstanding, unresolved invoices are not settled.
4. If the City Council decides to continue the Leeward Coast Community Benefits Program, it should consider funding the program through a tipping fee surcharge.
5. The City Council should amend Sec. 9-4.2, Revised Ordinances of Honolulu, *Disposal charges for businesses and federal, state and city agencies*, by adding a tipping fee surcharge to fund the LCCBP.
6. The City Council should consider establishing a special fund to receive any tipping fee surcharge revenues or other funding, and disburse monies from the fund to support community programs and applicable administrative expenses.
7. The Department of Community Services should establish formal policies and procedures that include, but are not limited to, standardized reporting formats, expenses allowed/not allowed, limits on administrative fees and fundraising activities, requiring a workplan based on the actual grant award, requiring departmental approval for all scope of work changes, and lapsing funds 12 months after the end of the contract period.
8. The Department of Community Services should establish a formal contract management program that requires the LCCBP administrator to monitor grants and ensure compliance with city ordinances; contract terms including timely and regular quarterly and final reports; city and departmental policies and procedures; and grant management best practices.

9. The Department of Community Services should develop and implement a pre-award checklist and a post-contract evaluation to assess the grantee's compliance with policies, procedures, best practices, contract requirements, and deliverables. The checklist should include preparation and follow-up on performance measures, work plans, reporting requirements, use of funds, and acceptable delivery of goods and services as detailed in the contracts.
10. The Department of Community Services should establish a formal training program for its LCCBP staff and grantees to include, an understanding of city grant policies, procedures, and reimbursement requirements.
11. The Department of Community Services should use existing, non-profit resources such as the Hawai'i Community Foundation to compile handbooks, develop checklists, and provide training to grantees.
12. The Department of Community Services should reduce the risk of fraud, waste and abuse by eliminating the existing 80-20 grant funding distribution policy and increase accountability and transparency by restoring the cost reimbursement program.
13. The Department of Community Services should prepare an annual report to the CBAC and the city council, within 90 days of the end of the fiscal year, regarding program accomplishments, status of all grants issued in that fiscal year, and amount of grant funds unspent.
14. The Department of Parks and Recreation should establish a *Controlled Items Inventory* of park equipment that will facilitate tracking and accounting for equipment purchased with LCCBP funds.
15. The Department of Parks and Recreation should disallow the use of LCCBP grant funds for departmental administrative expenses.
16. If the Department of Parks and Recreation and CBAC determine that use of LCCBP funds for administrative-related expenses are appropriate, the department should clearly identify proposed expenditures as a department-related expense, and issue a year-end report accounting for the expenditures.

17. The Department of Parks and Recreation should ensure that all pCard purchases with LCCBP funds receive pCard coordinator approval prior to purchase.
18. The Department of Parks and Recreation should prepare an annual report, within 90 days of the end of the fiscal year, regarding program accomplishments, status of all LCCBP CIP projects, and amount of operating funds unspent.

**Management
Response**

The Managing Director and administrators for the Departments of Community Services, Budget and Fiscal Services, Parks and Recreation, and Environmental Services generally agreed with the audit recommendations and are taking actions to implement a number of the recommendations based on the draft report. The management comments are responsive to our audit report and audit recommendations.

The Managing Director and his staff expressed some concerns regarding the tipping fee surcharge recommendation. Currently city vehicles are exempt from landfill tipping fees. If the City Council decides that city vehicles should pay tipping fees, the assessment would involve an intra-departmental transfer from the solid waste fund and, for cost accounting purposes, would more accurately reflect the true cost of operating the landfill.

The recommendation for the tipping fee surcharge was offered as an alternative to general fund appropriations and a way to tie the LCCBP to the landfill. We acknowledge that as the volume of waste deposited at the landfill changes, the impact and subsequent revenues for the program would also adjust to reflect the changing impact on the nearby communities. Establishing a tipping fee surcharge or the special fund to support the LCCBP does not preclude the administration or council from supplementing the program with general funds. Ultimately, continuing the LCCBP program and determining its appropriate funding mechanisms are policy decisions to be determined by the city administration and council.

A copy of the Managing Director's and his departmental staff's response is provided on page 51. Technical, non-substantive changes were made to the draft report for purposes of accuracy, clarity, and style.