

REPORT OF THE COMMITTEE ON BUDGET

Voting Members:

Ann H. Kobayashi, Chair; Joey Manahan, Vice Chair;
Carol Fukunaga, Trevor Ozawa, Kymberly Marcos Pine

Committee Meeting Held
May 18, 2016

Honorable Ernest Y. Martin
Chair, City Council
City and County of Honolulu

Mr. Chair:

Your Committee on Budget, which considered Resolution 16-121 entitled:

"RESOLUTION AUTHORIZING THE DIRECTOR OF THE DEPARTMENT OF BUDGET AND FISCAL SERVICES (BFS) TO ENTER INTO A COST SHARING INTERGOVERNMENTAL AGREEMENT WITH THE STATE OF HAWAII'S OFFICE OF THE AUDITOR FOR THE INDEPENDENT AUDIT OF THE STATE OF HAWAII'S EMPLOYEES RETIREMENT SYSTEM (ERS) PENSION ACTUARIAL VALUATION REPORT,"

transmitted by Communication D-311, dated April 29, 2016, from the BFS, reports as follows:

The purpose of the Resolution is to authorize the Director of Budget and Fiscal Services to enter into a cost sharing intergovernmental agreement with the State of Hawaii's Office of the Auditor for the independent audit of the State of Hawaii's ERS pension actuarial valuation report.

The Director of Budget and Fiscal Services testified in support of the Resolution stating that the Government Accounting Standards Board (GASB) now requires an actuarial valuation of the total pension liability.

No public testimony was presented or received on this Resolution.

CITY COUNCIL

CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

ADOPTED ON

JUN 01 2016

COMMITTEE REPORT NO. 178

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Your Committee considered and approved a hand-carried proposed CD1 version of the Resolution that makes the following amendments:

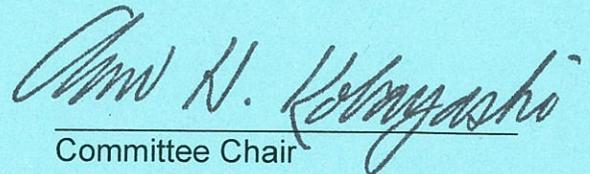
A. Adds a new "BE IT FURTHER RESOLVED" clause to read:

"BE IT FURTHER RESOLVED that the agreement with the State of Hawaii's Office of the Auditor is hereby consented to and approved; and"

B. Makes miscellaneous technical and nonsubstantive amendments.

Your Committee on Budget is in accord with the intent and purpose of Resolution 16-121, as amended herein, and recommends its adoption in the form attached hereto as Resolution 16-121, CD1. (Ayes: Kobayashi, Fukunaga, Manahan, Ozawa, Pine – 5; Noes: None.)

Respectfully submitted,


Committee Chair

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CITY OF HONOLULU
JUN 18 2016

CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

ADOPTED ON JUN 01 2016

COMMITTEE REPORT NO. 178

SUMMARY OF PROPOSED COMMITTEE DRAFT:

Resolution 16-121

AUTHORIZING THE DIRECTOR OF THE DEPARTMENT OF BUDGET AND FISCAL SERVICES (BFS) TO ENTER INTO A COST SHARING INTERGOVERNMENTAL AGREEMENT WITH THE STATE OF HAWAII'S OFFICE OF THE AUDITOR FOR THE INDEPENDENT AUDIT OF THE STATE OF HAWAII'S EMPLOYEES RETIREMENT SYSTEM (ERS) PENSION ACTUARIAL VALUATION REPORT

PROPOSED CD1 makes the following amendments:

- A. Adds a new "BE IT FURTHER RESOLVED" clause to read:

"BE IT FURTHER RESOLVED that the agreement with the State of Hawaii's Office of the Auditor is hereby consented to and approved; and"
- B. Makes miscellaneous technical and nonsubstantive amendments.



RESOLUTION

AUTHORIZING THE DIRECTOR OF THE DEPARTMENT OF BUDGET AND FISCAL SERVICES (BFS) TO ENTER INTO A COST SHARING INTERGOVERNMENTAL AGREEMENT WITH THE STATE OF HAWAII'S OFFICE OF THE AUDITOR FOR THE INDEPENDENT AUDIT OF THE STATE OF HAWAII'S EMPLOYEES RETIREMENT SYSTEM (ERS) PENSION ACTUARIAL VALUATION REPORT.

WHEREAS, Chapter 1, Article 8, Revised Ordinances of Honolulu 1990, as amended, requires that any intergovernmental agreement or amendment thereto which places an obligation to the City or any department or agency thereof, receive the prior consent and approval of the Council of the City and County of Honolulu; and

WHEREAS, Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires an actuarial valuation of the total pension liability at least every two years; and

WHEREAS, ERS has elected to perform actuarial valuations annually; and

WHEREAS, in accordance with government auditing standards and the requirements of the Auditing Standards Board, the senior technical committee designated by the American Institute of Certified Public Accountants, additional audit procedures, beyond those performed in the audit of the basic financial statements of ERS, are necessary to accumulate sufficient and appropriate audit evidence of the pension amounts and allocations contained in the pension actuarial valuation report; and

WHEREAS, the City's independent auditors are not expected to issue an unqualified or "clean" audit opinion that the City's financial statements present its financial position fairly without these further audit procedures on the applicable pension amounts reflected in the pension actuarial valuation report; and

WHEREAS, an unqualified or "clean" audit opinion is crucial to maintaining a favorable bond rating; and

WHEREAS, the auditors of ERS are willing to perform cost effectively the additional audit procedures on the pertinent information included in the pension actuarial valuation report; now, therefore,



RESOLUTION

BE IT RESOLVED by the Council of the City and County of Honolulu that the Director of the Department of Budget and Fiscal Services is hereby authorized to enter into an intergovernmental agreement with the State of Hawaii's Office of the Auditor in substantially the form attached hereto as Exhibit A to fund its proportionate share of the additional costs to audit the pension amounts and the allocations contained in the actuarial valuation report for the implementation of the pension statements of the Governmental Accounting Standards Board; and

BE IT FURTHER RESOLVED that the agreement with the State of Hawaii's Office of the Auditor is hereby consented to and approved; and

BE IT FINALLY RESOLVED that a copy of this Resolution be transmitted to the Director of the Department of Budget and Fiscal Services, 530 South King Street, Room 208, Honolulu, Hawaii 96813.

INTRODUCED BY:

Ernest Martin (BR)

DATE OF INTRODUCTION:

May 4, 2016
Honolulu, Hawaii

Councilmembers

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU") is effective the _____ day of _____, 2016, by and between the OFFICE OF THE AUDITOR, STATE OF HAWAII ("Auditor") and CITY AND COUNTY OF HONOLULU ("Employer").

RECITALS

- A. The following state or county government employers (the "employers") have requested assistance from the Auditor in conducting an audit of the schedule of employer allocations of the Employees' Retirement System of the State of Hawai'i ("ERS") and the total for all employers of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense included in the schedule of pension amounts by employer of ERS for the fiscal year ended June 30, 2015, from actuarial information received from Gabriel, Roeder, Smith & Company ("GRS"), the actuary for ERS. The information is provided to meet reporting requirements under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- i. State of Hawai'i;
 - ii. City and County of Honolulu;
 - iii. County of Maui;
 - iv. County of Kaua'i;
 - v. County of Hawai'i;
 - vi. Board of Water Supply, City and County of Honolulu;
 - vii. Department of Water Supply, County of Hawai'i;
 - viii. Department of Water, County of Kaua'i;
 - ix. Honolulu Authority for Rapid Transportation; and
 - x. University of Hawai'i.
- B. The Auditor is willing to use KPMG LLC ("KPMG"), the contract auditor for ERS, to conduct the audit of the above-mentioned schedule and information.
- C. The purpose of this MOU is to provide for payment by the Employer to the Auditor as authorized under § 23-3.5, HRS, for the audited schedule and information to meet the reporting requirements of GASB 68.

TERMS AND CONDITIONS

1. Upon execution of this MOU, the Auditor will request KPMG to audit the schedule and information to meet the reporting requirements of GASB 68.
2. The cost of the audit to the Employer will be \$3,500.00.
3. The Auditor will bill the Employer for the audit cost after the Auditor receives the bill from KPMG.
4. This MOU may be amended or modified only by a written agreement signed by both parties.

IN WITNESS WHEREOF, the parties have executed this MOU as of the last date written below.

OFFICE OF THE AUDITOR
STATE OF HAWAII

EMPLOYER:
CITY AND COUNTY OF HONOLULU

By: _____
Leslie H. Kondo
State Auditor

By: _____
Nelson H. Koyanagi, Jr.
Director of Budget and Fiscal Services

DATE: _____

DATE: _____

APPROVED AS TO FORM:

Deputy Corporation Counsel
City and County of Honolulu