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Committee on Budget Presentation

July 21, 2021

Office of the City Auditor



COUNCIL COM. 285

BUD

Office of the City Auditor

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- Audit Process



About Us

- Mission Statement: *To promote honest, efficient, effective, and fully accountable city government*
- In 2002, Honolulu voters approved a charter amendment to create an official auditing and accountability agency for city government
- The Office of the City Auditor (OCA) was established in 2003 by Revised Charter of Honolulu Article III, Chapter 5
- OCA is located in Kapolei, O`ahu's Second City
- In FY 2022, OCA is comprised of 13 FTE and an annual budget of \$1.8 million

Types of Audits

OCA issues two types of audit reports:

1. Financial Audits
2. Performance Audits



AUDIT

Financial Audits

- Performed under contract by private accounting firms using Certified Public Accountants (CPA)
- OCA administers the contract
- Council chair signs the contract for the city
- Financial auditor selected by bid for a five-year period
- The City's current financial audit contract, which runs from FY 2019 to FY 2023, is held by Accuity LLP
- The five-year contract is valued at \$2 million



Financial Audits: What is the Purpose?

- An objective examination and evaluation of an organization's financial statements to ensure that the financial records are a fair, in all material respects, representation of an organization's financial performance
- Issuance of an opinion on the fair presentation of the City's financial statements
- Determine if expenditures were made in compliance with applicable laws, rules, and guidelines
- Gain an understanding of internal controls and consider in planning other audit procedures



Financial Audits: Four Primary Reports

OCA issues four primary audit reports performed by contracted auditors:

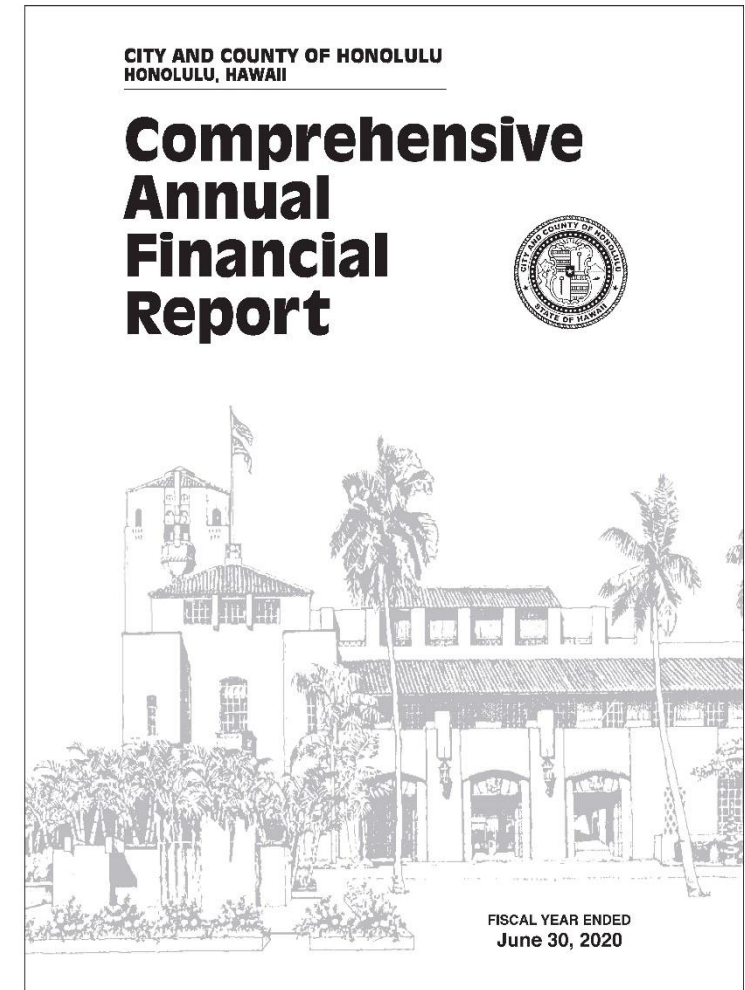
1. Annual Comprehensive Financial Report (ACFR)
2. Public Transportation System
(Bus and Paratransit Operations)
3. Sewer Fund
4. Single Audit of Federal Financial Assistance
Programs



Financial Audit:

Annual Comprehensive Annual Report (ACFR)

- The ACFR presents the financial status of the City (the primary government) and its discretely presented component units (Board of Water Supply, Honolulu Authority for Rapid Transportation, and O`ahu Transit Services, Inc.)
- ACFR standards are established by the Governmental Accounting Standards Board (GASB)
- In accordance with standards, the City's financial statements must be audited by an independent auditor using generally accepted auditing standards



Financial Audit: ACFR FY 2020 Highlights

- For FY 2020, the City received a *clean opinion*
- Auditors found that the ACFR:
 - Data was fairly presented and accurate in all material aspects
 - Included all disclosures the GASB deemed necessary to enable the reader to gain a full understanding of the City's financial affairs
 - Represents all accounting activities of the City during the year, and covers all funds of the City and its component units



Financial Audit: ACFR FY 2020 Highlights

- Revenues from governmental activities totaled approximately \$2.50 billion for fiscal year 2020 compared to \$2.01 billion for the prior fiscal year. Expenses before transfers amounted to \$1.97 billion for the current fiscal year compared to \$1.83 billion for the prior fiscal year
- The net position for the City's business-type activities increased by \$180.9 million for the current fiscal year compared to \$211.0 million for fiscal year 2019 despite an \$11.1 million increase in operating expenses
- The combined ending governmental fund balances as of June 30, 2020 increased by \$336.2 million to \$1.66 billion
- Net capital assets for the governmental activities rose from \$2.84 billion at the end of the prior fiscal year to \$3.18 billion at June 30, 2020
- The debt applicable to the legal debt margin totaled \$3.21 billion, representing less than 10% of the City's \$36.34 billion statutory debt limit

Financial Audit:



TheBus
TheHandi-Van

Public Transportation System (Bus and Paratransit Operations)

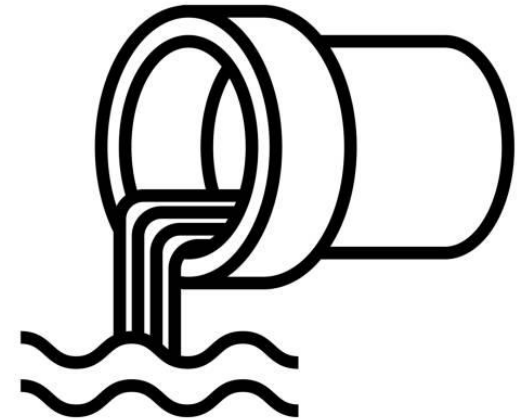
The City's public transportation system is audited separately because of the high dollar amount advanced to O`ahu Transit Services. Highlights from the FY 2020 report are:

- Financial statements present fairly, in all material respects, the financial position of the bus and paratransit operations
- The Bus and Paratransit Operations' net position decreased by \$10 million or 5.6% in FY 2020
- Operating revenues decreased by \$10.7 million or 18.7% over the prior fiscal year
- Total expenses for the fiscal year increased by approximately \$14 million or 5% compared to the prior fiscal year

Financial Audit: Sewer Fund

The Sewer Fund is audited separately because of the revenue bonds issued on its behalf. Highlights of the FY 2020 report:

- Financial statements present fairly, in all material respects, the financial position of the Sewer Fund
- 107.0 million gallons per day of wastewater were collected and treated in fiscal year 2020, a decrease of 3.3% from fiscal year 2019
- Total assets increased by \$368.6 million to \$5.2 billion, representing a 7.6% increase from the prior fiscal year
- Total current liabilities increased by 10.7% or \$22.4 million to \$231.7 million at June 30, 2020, primarily due to an increase in accounts payable



Single Audit of Federal Financial Assistance Programs

A Single Audit is required when a non-federal entity (e.g. state or local government) expends \$750,000 or more of federal awards in a fiscal year. In FY 2020, the City expended over \$167 million in federal funds. Report findings include:

City and County of Honolulu Summary Schedule of Prior Audit Findings Year Ended June 30, 2020

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2019-001	Financial Statement Reporting – HART	Material Weakness		X	2020-001
2019-002	Accounting for Environmental Remediation Liabilities – HART	Material Weakness		X	2020-001
2019-003	Information Technology General Controls Deficiencies	Significant Deficiency		X	2020-002
2019-004	Change Order and Contract Amendment Management – HART	Significant Deficiency		X	2020-003
2019-005	Allowable Costs/Period of Performance	Material Weakness		X	2020-005



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, 2020

Single Audit of Federal Financial
Assistance Programs

Conducted by Accuity LLP

Financial Audit

Single Audit: Finding No. 2020-01

Finding No. 2020-001: Timely Financial Statement Reporting for the Honolulu Authority for Rapid Transportation (“HART”) (Material Weakness)

Condition

HART reports on a cash basis throughout the fiscal year and only prepares accrual basis financial statements for its annual report as of and for the fiscal year ended June 30. Accordingly, in preparing accrual basis financial statements, there should be written procedures to clearly define the reporting and closing procedures, the timing of such procedures, and the review and approval process involved. Included in the reporting and closing procedures should be account reconciliations that must be prepared, and adjustments that must be recorded in order to properly present timely accrual basis financial statements. This process ensures the accuracy and validity of the financial information provided.

Similar findings were reported as a material weakness in the prior year as Findings No. 2019-001 and 2019-002.

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting to permit the preparation of HART’s financial statements in conformity with accounting principles generally accepted in the United States of America. These accounting principles require financial statements to be prepared using the economic resources measurement focus and accrual basis of accounting. Effective internal control supports timely and accurate financial reporting.

Cause

The accuracy and delay of the preparation of the accrual basis financial statements and the trial balance were affected by the following:

- Account reconciliations not being performed timely;
- Numerous audit and client adjustments proposed after receipt of the initial trial balance;
- Follow-ups with management regarding classification of the information contained in the supporting schedules; and
- Insufficient or inappropriate resources devoted to timely closing process.

Effect

The preceding issues resulted in numerous audit and client adjustments proposed after receipt of the initial trial balance. The issues also resulted in significant delays in receiving the trial balances and financial statements resulting in a delayed audit process and issuance of the audited financial statements.

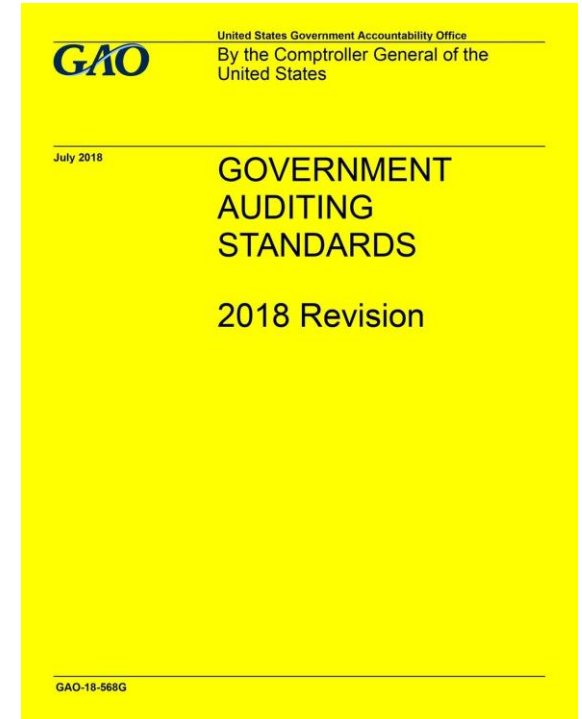
Recommendation

HART’s auditors recommend that HART management re-evaluate its annual closing process to clearly define financial reporting and closing procedures, the timing of such reporting, and the review and approval process involved. These written procedures should also document the process to ensure the trial balance and financial statement preparation process captures all valid journal entries and accruals, and that the year-end trial balance is complete and accurate.

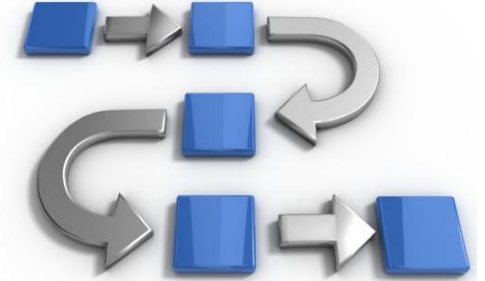
HART management should also consider performing adjustments, including cash to accrual or capitalization of costs, etc., prior to fiscal year-end closing, either on a quarterly or semi-annual basis, or at the end of the third quarter of the fiscal year. An evaluation should be made by management to determine if additional resources are needed to perform these procedures.

Performance Audits

- Evaluate management's efficiency, effectiveness, and economy of operations in carrying out its responsibilities
- Performance audits are conducted in accordance with *Government Auditing Standards* established by the U.S. Government Accountability Office
- Audits are initiated at the request of the City Council via resolution, or self-initiated by the city auditor
- The charter provides for the completion of audits within one calendar year
- Performance audits are conducted by OCA staff
- In FY 2021, OCA issued 8 performance audit reports



Performance Audit: Process



There are three primary steps in the audit process:

1. **Preliminary Survey.** In this step, auditors obtain background information, interview appropriate staff, and review documents to gain an understanding of audited agency's program, system, or operation. Auditors will conduct a risk assessment and, based on information gathered, establish audit objectives and prepare an audit plan.
2. **Fieldwork.** Auditors will perform audit tasks including financial and operational data analysis, testing, and verification.
3. **Report Writing.** Upon completion of fieldwork, auditors will draft the audit report. This step also includes an independent report review where report findings are verified for accuracy. A draft report is presented to the audited agency for feedback before the final report is issued to the City Council, administration, and the public.

Performance Audit: Impact

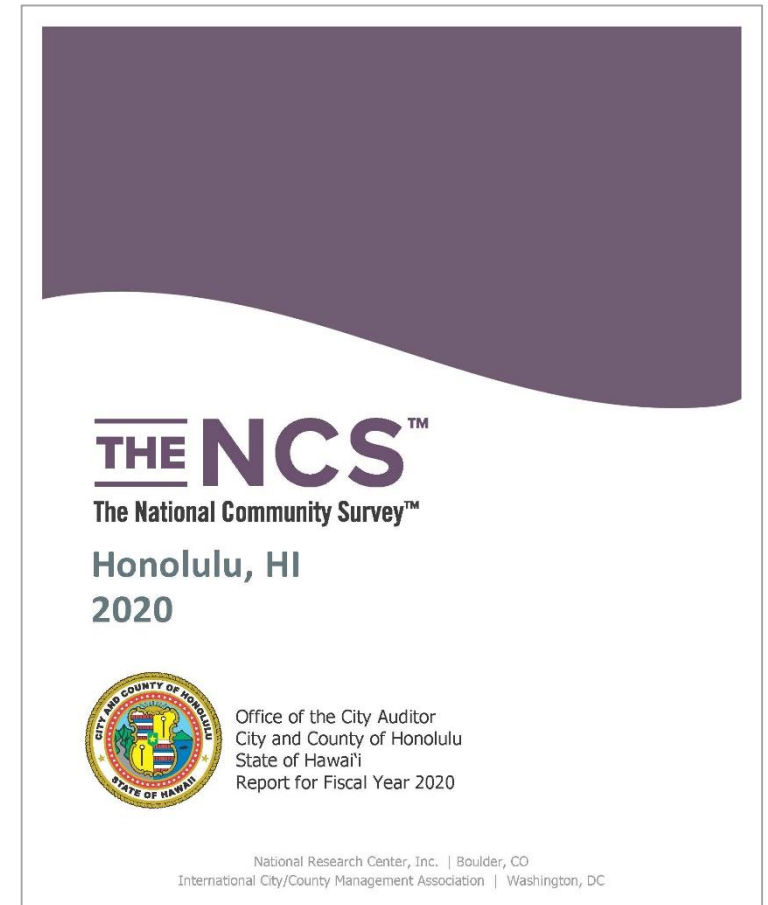
- Performance audits identify financial impacts to the City
 - 2020 audit of the City's bikeshare program (Biki) found that the city lost an estimated \$460,728 in FY 2019 revenue due to displaced parking meters and fee exemptions.
 - 2019 audit of the Honolulu Zoo found that, due to weak internal controls, the Department of Enterprise Services was unable to account for \$658,343 in contributions from the Honolulu Zoo Society.
 - 2016 audit of the City's paratransit operation found that the service was unsustainable under its current structure. In FY 2013, operating expenses totaled over \$40 million, while revenues collected was slightly above \$1.6 million, for a fare box recovery rate of 4.2%. We also found that the \$2 Handi Van fare had not been increased since 2001.
 - 2012 audit of the City's ambulance operations found that EMS incurred \$15.7 million in overtime costs over three years. Some employees were earning between \$130,000 and \$207,000 in annual salary, which impacted the City's long-term pension cost liability.



Other Reports

In addition to issuing financial and performance audits, OCA also prepares other reports that provide important information for the City Council, administration, and the public:

- National Community Survey
- Citizen-Centric Report
- OCA Annual Report



Mahalo

For more information visit our website at:

<http://www.honolulu.gov/auditor>

Or follow us on social media:

