

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
ANNUAL REPORT ON GOALS, OBJECTIVES AND POLICIES

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Program ID/Title: AGS-104/Internal Post-Audit

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I. Goal

To achieve compliance with State laws by the State's Executive departments, agencies and other entities on accounting procedures and internal control systems and other audit requirements of State laws through financial, compliance and verification audits performed by external auditors and the Audit Division.

II. Objectives and Policies

- A. #1 – To ensure that the State's Executive departments and agencies maintain the accounting and internal control systems and that the systems function effectively as designed and; as applicable to certain State departments and other entities based on State laws, to ensure that such State departments and other entities comply with the accounting and internal control policies and procedures and related State laws applicable to such State departments and other entities.
- B. #2 –To schedule an adequate audit cycle to ensure that every department in the executive branch will be audited at least once every six years.
- C. #3 - To establish verification procedures to comply with the certification requirements of HRS §40-81.5 related to the invoices for the capital costs of a locally preferred alternative for a mass transit project. As deemed necessary, based on the nature of the costs of the rapid transportation authority, develop the appropriate verification policies and procedures to determine compliance with the capital cost requirements of HRS §46-16.8 (e).

III. Action Plan and Timetable

- A. Objective/Policy #1 – To ensure that the State's Executive departments and agencies maintain the accounting and internal control systems and that the systems function effectively as designed and; as applicable to certain State departments and other entities based on State laws, to ensure that such State departments and other entities comply with the accounting and internal control policies and procedures and related State laws applicable to such State departments and other entities.

1. Required Actions.
 - a. Define the target group.
 - b. Establish for the fiscal year a plan for the review of audits of financial statements conducted by external auditors and for the financial and compliance audits to be performed by the Audit Division.
 - c. Report the results of the review of the audited financial statements of departments and agencies conducted by external auditors and the audits conducted by the Audit Division.

2. Past Year Accomplishments.
 - a. The target group was defined.
 - b. Reviews of 11 audits conducted by external auditors were completed during the fiscal year. The Audit Division completed reviews of the audited financial statements and related compliance audits. Additional information is provided in c. and d. below.
 - c. 10 of 18 departments covered by the 11 audits identified noncompliance with the accounting system or internal controls including noncompliance with Federal award program compliance requirements. The departments and agencies have responded to these findings and have or are in the process of implementing corrective actions.
 - d. 57 total audit findings were reported for the fiscal year. The average number of findings of 5 for each department was a decrease of 14% from the previous year.
 - e. 29 audits including 5 certification statements related to the certification requirements of HRS §40-81.5 were completed by the Audit Division during the fiscal year. Additional information is provided in f. through h. below.
 - f. 23 of the 24 audits excluding the results from the 5 certification statements completed identified noncompliance with the departments' and other entities' accounting system or internal control policies and procedures.
 - g. 399 audit findings were reported for the fiscal year. The average number of findings of 16 represented no change from the previous

fiscal year. Responses to these findings were received indicating that corrective actions were implemented or were in the process of implementation.

- h. With respect to the certification requirements of HRS §40-81.5, the following results and other matters are noted:
 - i. As of October 18, 2019, the total cumulative amount of invoices submitted to the Comptroller for payment by the Honolulu Authority for Rapid Transportation (HART) totaled \$744,392,504 of which 8 certification statements have been issued for 253 invoices totaling \$569,818,931 that were verified as qualifying capital costs under HRS §46-16.8 (e). The cumulative average amount of invoices verified as capital costs totaled \$2,252,249. The amount of \$569,818,931 which was remitted to the City and County of Honolulu was limited by the amount of available funds in the Mass Transit Special Fund in accordance with the requirements of HRS §248-2.7.
 - ii. For the fiscal year ended June 30, 2019, 5 certifications for 166 invoices totaling \$327,723,873 that were verified in compliance with the capital cost requirements of HRS §46-16.8 (e) were issued. The average amount of invoices verified as capital costs totaled \$1,974,240.
 - iii. As of October 18, 2019, the cumulative number and amount of invoices that the DAGS Audit Division determined were not qualifying as capital costs under HRS 46-16.8 (e) and, accordingly, not reimbursed to the City and County of Honolulu from the Mass Transit Special Fund totaled 39 invoices totaling \$87,949,537, respectively.
 - iv. For the fiscal year ended June 30, 2019, 6 invoices totaling \$11,203,802 were deemed not qualifying as capital costs under HRS §46-16.8 (e) and, accordingly, not reimbursed to the City and County of Honolulu from the Mass Transit Special Fund.
 - v. As disclosed in Note 3 to the Comptroller's Certification dated October 18, 2019 adjustments may be made to reduce the amount of future reimbursements to HART for prior invoices certified by the Comptroller that are found to be in error due to fraud, illegal activities or other violations of laws and regulations. This policy was implemented in response to HART being served by 3 separate subpoenas by the United States Attorney for the District of Hawaii and a resolution passed by the City Council of the City and County of Honolulu

(City) for the Office of the City Auditor to select an independent auditor to ensure that no City or HART employee, consultant, or contractor exploited the City's or HART's internal control weaknesses to misappropriate public assets or commit illegal actions.

As further noted in the Comptroller's Certification the objective of the procedures performed by the Audit Division were limited to verifying that the invoices submitted by HART complied with a specific law. Accordingly, the verification procedures were not designed to detect fraud or other illegal activities.

3. One Year
 - a. Define the target group.
 - b. Monitor the progress of the plan for the review of audited financial statements performed by external auditors and for the audits to be performed by the Audit Division.
 - c. Review the completed audit reports as to noncompliance with established accounting procedures and internal controls and that written policies and procedures are functioning as designed.
 - d. Report the results of the review of the audits of financial statements of departments and agencies conducted by external auditors and the financial and compliance audits conducted by the Audit Division.
 - e. Conduct follow-up inquiries, as necessary, on the results of the audits.
 4. Two Years – Continue the implementation timetable of the first year.
 5. Five Years – Continue the implementation timetable of the prior years.
- B. Objective/Policy #2 –To schedule an adequate audit cycle to ensure that every department in the executive branch will be audited at least once every six years.
1. Required actions.
 - a. Define the target group.
 - b. Monitor and review the audited financial statements of executive departments and agencies performed by external auditors.

- c. Establish a plan for the audits to be performed by the Audit Division.
 - d. Report the results of the monitoring and audits.
 - 2. Past Year Accomplishments.
 - a. The target group to be audited was defined.
 - b. Planned for the review of 11 financial and compliance audits to be performed by external auditors and 18 financial, compliance and verification audits to be performed by the Audit Division were established.
 - c. 11 audit reports of audits of departments conducted by external auditors were reviewed by the Audit Division and 29 audits were completed by the Audit Division during the fiscal year.
 - d. Conducted follow-up inquiries, as necessary, on the audit findings identified by external auditors and the Audit Division.
 - 3. One Year
 - a. Define the target group to be audited.
 - b. Establish a plan for the review of audits conducted by external auditors and audits to be conducted by the Audit Division.
 - c. Review audit reports of planned audits performed by external auditors and perform audits by the Audit Division.
 - d. Determine if the average number of years between audits for the target group is 6 years or less.
 - e. Conduct follow-up inquiries as to scheduled audits not completed on time.
 - 4. Two Years – Continue the implementation timetable of the first year.
 - 5. Five Years – Continue the implementation timetable of the prior years.
- C. Objective/Policy #3 – To establish verification procedures to comply with the certification requirements of HRS §40-81.5 related to the invoices for the capital costs of a locally preferred alternative for a mass transit project. As deemed necessary, based on the nature of the costs of the rapid transportation authority,

develop the appropriate verification policies and procedures to determine compliance with the capital cost requirements of HRS §46-16.8 (e).

1. Required Actions
 - a. Define the target group.
 - b. Develop an understanding of the accounting and expenditure processes and procedures of the rapid transportation authority.
 - c. Develop a general and detailed verification plan and related procedures for complying with the verification section of the Act.
 - d. Develop the certification statement and related supporting documents to comply with the certification requirements of the Act.
 - e. Perform the verification procedures and report the results in the certification statement.
2. Past Year Accomplishments
 - a. The target group has been identified.
3. One Year
 - a. Define the target group.
 - b. Develop an understanding of the accounting and expenditure processes and procedures of the rapid transportation authority.
 - c. Develop a general and detailed verification plan and related procedures for complying with the verification section of the Act.
 - d. Develop the certification statement and related supporting documents to comply with the certification requirements of the Act.
 - e. Perform the verification procedures and report the results in the certification statement.
4. Two Years – Continue the implementation timetable of the first year.
5. Five Years – Continue the implementation timetable of the prior years.

IV. Performance Measures

- A. HRS §40-81.5 - Program has standard measures of performance based on the number of verifications and related certification statements issued for each fiscal year.
- B. Program Standard Measure – Program standard will be the completion of reviews of audited financial statements performed by external auditors of departments and agencies with follow-up, if necessary, by the Audit Division and the completion of planned audits performed by the Audit Divisions.
- C. Cost Effective Measure – Cost to conduct the audits by the program will be monitored to ensure that they are reasonable and fair and do not exceed budgeted costs and comparable audit fees.