

OVERVIEW

Financial Audit of the Housing and Community Development Corporation of Hawaii

Report No. 01-14, September 2001

Summary

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Housing and Community Development Corporation of Hawaii, State of Hawaii for the fiscal year July 1, 1999 to June 30, 2000. The audit examined the financial records and transactions of the corporation; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the corporation. These deficiencies included the corporation's inadequate planning for the implementation of its new information system that resulted in numerous delays and additional costs to the corporation. The corporation still does not have an adequate understanding of the problems and has not formulated a strategic plan to expedite completion of the system implementation. As a result, the corporation is unable to estimate the expected completion date of the project.

The corporation is not timely in its execution of some contracts resulting in the execution of a design consultant contract 23 months after the funds became available. Also, corporation management has failed to implement internal control procedures to ensure the accuracy of the calculation of the final operating subsidy from the federal government and the reconciliation of the final calculation to the estimated operating subsidy.

An extremely large number of applicants are on the waiting list for low-income housing and tenant rental assistance programs. At the rate at which the corporation is currently placing applicants in housing, a waiting period of two to seven years is likely. We also found that a required report was not submitted to the U.S. Department of Housing and Urban Development within the prescribed deadline, which could have resulted in a "freeze" of federal financial assistance. In addition, we found that there is an inadequate segregation of duties over the corporation's petty cash fund.

Recommendations and Response

We recommend that the corporation assess the status of the implementation of the new information system, identify the causes of the problems associated with the implementation, and develop a strategic plan to meet the objectives of the implementation. The corporation should meet with Memory Lanes Systems Inc. and develop a work plan for completion of the information system implementation and should assign a project manager to oversee and monitor the project. The corporation should assess liquidating damages of \$100/day against Memory Lanes Systems Inc. The corporation should also develop a contingency plan should problems arise and deadlines be missed.



The corporation should complete capital improvement projects in a timely manner and communication with the Board of Directors should be improved. The corporation should implement sufficient internal control procedures to ensure that the calculation of the actual operating subsidy is proper. Current and future projects should be monitored to ensure that they are efficiently and effectively completed; methods should be developed to spur facilitated developments and assist in the placement of applicants in tenant rental-assisted units; and staffing workloads and processes should be reviewed to ensure efficiency and effectiveness. Also, HUD reporting requirements should be adhered to and staff who are involved with the completion of HUD reports should be made aware of the significance of time deadlines. Finally, segregation of duties over the petty cash process could be improved.

The corporation generally agrees with most of our findings and recommendations. The corporation also indicated that it has implemented or are in the process of implementing all of our recommendations.

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