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Jan K. Yamane
Acting State Auditor
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Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Hawai'i Public Housing Authority

Financial Statements, Fiscal Year Ended June 30, 2013

The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai'i Public Housing Authority as of and for the fiscal year ended June 30, 2013, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

About the Authority

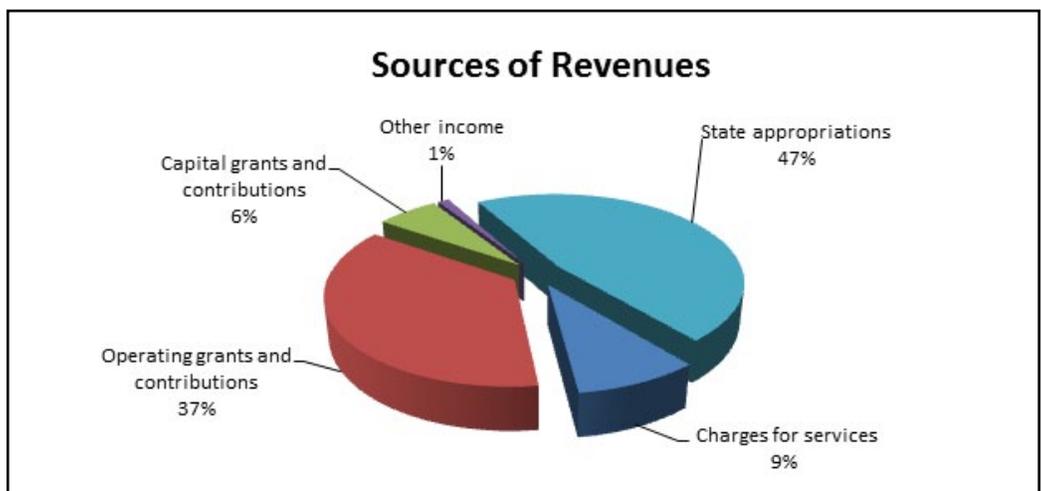
The authority's mission is to provide safe, decent and sanitary dwelling for low- and moderate-income residents of Hawai'i and to operate its housing programs in accordance with federal and state laws and regulations. Some of the authority's housing assistance programs are funded by the U.S. Department of Housing and Urban Development (HUD).

The authority is administratively attached to the State's Department of Human Services (DHS). The authority operates under the direction of its executive director and Board of Directors, which consists of 11 members, of whom nine are public members appointed by the governor. The director of human services and the governor's designee are ex-officio voting members.

Financial Highlights

For fiscal year ended June 30, 2013, the authority reported total revenues of \$198.3 million and total expenditures of \$125.9 million, resulting in an excess of revenues over expenses of \$72.4 million. The authority also reported nearly \$7.8 million in capital contributions.

Sources of revenues included \$18 million in charges for services, \$72.4 million in operating grants and contributions, \$12.5 million in capital grants and contributions, and \$2.3 million in other income. The authority also reported \$93.1 million in state appropriations, net of lapsed funds.





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Auditors' Opinions

Financial Statements: **Unmodified opinion** +

Federal Compliance: **Qualified opinion** -

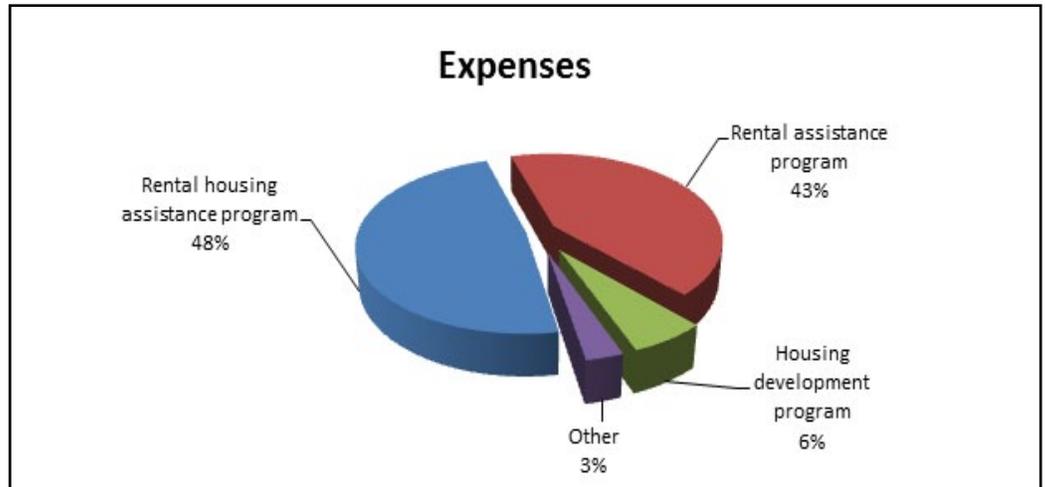
Issues of Concern

Material Weaknesses
4

Significant Deficiencies
2

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Expenses consisted of \$60.8 million for the rental housing assistance program, \$53.5 million for the rental assistance program, \$7.8 million for the housing development program, and \$3.8 million for other costs.



Total assets of the authority exceeded total liabilities by \$452.2 million. Total assets were \$477.1 million and total liabilities were \$24.9 million. Total assets were comprised of cash of \$65.3 million, due from State of \$98 million, other receivables of \$12 million, net capital assets of \$298.7 million, and other assets of \$3.1 million.

Auditors' Opinions

The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The authority received a qualified opinion on its compliance with requirements that could have a direct and material effect on the authority's major federal programs.

Findings

There were no reported deficiencies in internal controls over financial reporting that were considered to be material weaknesses and required to be reported under *Government Auditing Standards*. However, there were two significant deficiencies in internal controls over financial reporting:

- The financial management competencies of the authority's fiscal management office staff were not sufficient to meet all of the authority's accounting and reporting requirements. Proper supervision and review of accounting transactions and reporting requirements during the year was also lacking.
- Certain inter-fund balances and fixed asset accounts were not timely reconciled, which resulted in incorrect amounts recorded in the accounting records to persist.

There were four deficiencies in internal controls over compliance that were considered material weaknesses:

- Not all of the supervisor quality control reviews were completed for the Section 8 Housing Choice Vouchers program.
- Lack of appropriate monitoring of fixed assets and construction in progress balances may lead to misstatements and future noncompliance with program requirements.
- Supervisory quality reviews of Public and Indian Housing program tenant files designed to ensure program eligibility requirements were not always performed.
- Failure to monitor central maintenance services section costs can lead to noncompliance with program requirements and potential disallowed costs.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2013_Audit/HPHA2013.pdf