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# Auditor's Summary

## Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report

May 2019



PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

**ACT 1**, passed by the Hawai'i State Legislature during the 2017 First Special Session, requires the Auditor to audit the financial records of the Honolulu Authority for Rapid Transportation (HART) and analyze its financial management. We contracted with professional services firm Baker Tilly Virchow Krause, LLP (Baker Tilly) to examine HART's contractor invoice review and payment processes for compliance with documented policies and procedures, as well as the rail authority's enforcement of contract billing terms and conditions.

Baker Tilly prepared the *Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report*. It is the fourth report on HART's financial management in accordance with Act 1.

For this audit, Baker Tilly reviewed 150 of the 1,070 invoices processed by HART in fiscal years 2017 and 2018 (July 1, 2016-June 30, 2018). Valued at \$205,210,198, the invoices in the test population represent 31 percent of the costs HART incurred during that two-year period. Baker Tilly found that HART's review and payment of contractor and consultant invoices was, generally, consistent with HART's documented payment application procedures. However, Baker Tilly noted certain errors and inconsistencies that are reported as "observations" in the report. Although the financial impact of the observations appears relatively insignificant, we note that the

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reported “leakage” of public funds is based on a very small sample of invoices and, irrespective of the amount, constitutes “overspending” of public funds. Baker Tilly did not perform work to assess whether the issues reported about HART’s administration of certain contracts and payments under those contracts existed prior to the test period or are applicable to other contracts that were outside of Baker Tilly’s scope of work.

Specifically, Baker Tilly found that HART paid an additional \$21,302 in labor charges to contractor Lea + Elliott, Inc. (Lea + Elliott) in 2015. Based on Lea + Elliott’s audited overhead rate for that year, HART could have required Lea + Elliott to apply that rate for its 2015 indirect project costs, which would have resulted in a credit of \$21,302 to HART. However, because the difference between the provisional and audited overhead rates was less than 3 percent, HART chose not to require a credit of the amount “overpaid” and allowed Lea + Elliott to continue to use the 2014 labor rate for 2015.

Baker Tilly found that HART allowed Lea + Elliott to provisionally use that same labor rate for 2016, resulting in an additional \$102,655 in costs. HART represents that the 2017 audited overhead rate results in another \$34,312 of costs, and that it intends to reconcile the audited overhead rates for 2016 and 2017 through an amendment to the contract as well as the 2015 and prior years’ audited overhead rates. According to HART, Lea + Elliott has agreed to credit \$21,302 to HART.

Baker Tilly also reviewed 8 of the 40 invoices submitted by HDR Engineering, Inc. (HDR) during the audit period and determined HDR had overcharged HART \$5,143 by applying the wrong billing rate in 12 of the 100 labor transactions in the test sample. HART did not detect the errors in its invoice review process and is seeking reimbursement.

*Baker Tilly test sample represents a tiny fraction of the estimated \$9.188 billion it will cost to complete the rail project, and the overages in this report are correspondingly small. However, Baker Tilly’s observations did demonstrate the potential for error. To restore confidence in this project, HART should be more diligent and mindful about how it manages public money.*