Auditor’s Summary

Audit of the Honolulu Authority for Rapid Transportation: Report 2

Report No. 19-04

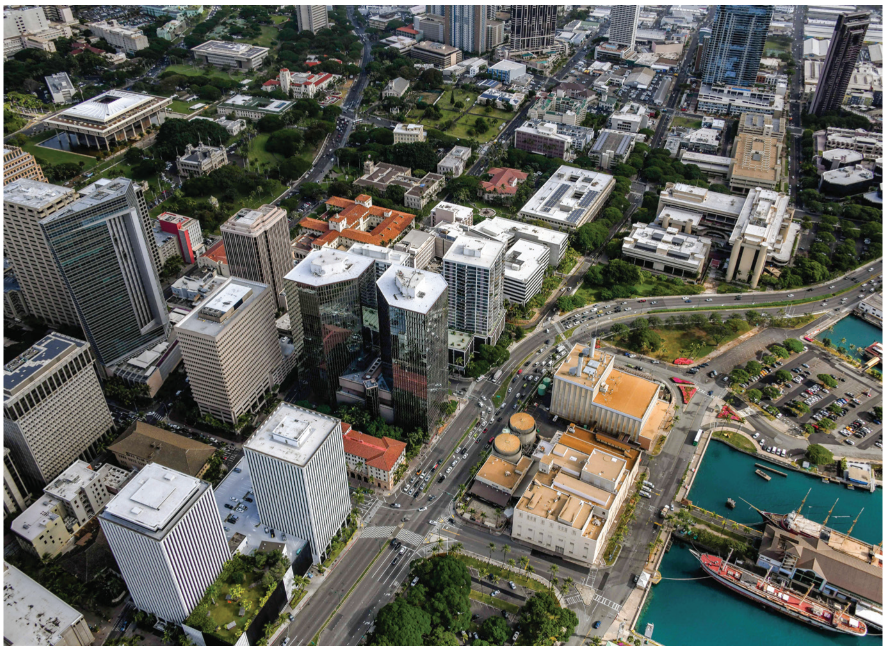

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

HART pays HDR over $505,000 per HDR staff per year or over $42,000 per HDR staff per month. Yet HART does not evaluate the performance of the embedded HDR employees.

IN REPORT NO. 19-04, *Audit of the Honolulu Authority for Rapid Transportation: Report 2,* we examined the Honolulu Authority for Rapid Transportation’s (HART) current management structure, the relationship between HART and its Board of Directors (Board), and HART’s use of third-party consultants to manage the Honolulu Rail Transit Project (Project), focusing on fiscal years 2017 and 2018.

What Did We Find?

We found that, despite recently adopted board rules addressing the division of duties between HART and its Board, there are still gray areas. This provides the Chief Executive Officer (CEO) considerable discretion in what to report to and when to consult with the Board, including information that could critically affect or alter the way HART operates. For instance, HART withholds the amount it has allocated in each contract to cover unexpected costs when reporting to the Board the budget for a particular scope of work, based on the CEO’s belief that disclosing the amount set aside in reserve could lead to higher project costs. In another instance, HART management believed the decision to pursue a public-private partnership, or “P3,” to complete the $1.4 billion City Center Guideway and Stations segment was a matter of “project delivery,” not subject to board approval.

We also found that HART relies on a third-party consultant, HDR Engineering, Inc. (HDR), to staff many of HART’s senior management positions and other positions directly responsible for and critical to the design and construction of the Project, including Project Director; Senior Project Officer of Core Systems, Integration, and P3; Director of Design and Construction; and Risk Manager; among other director, manager and deputy director positions. While HART claims that HDR employees are completely integrated into its organizational structure, with no distinction between HDR and HART employees, the embedded HDR employees are paid and evaluated by their private employer, not

HART, with many HDR employees directly overseeing the work of other HDR employees as well as other third-party consultants. And, we found that HART does not evaluate the performance of the embedded HDR employees and approves HDR monthly invoices that average about $800,000, or over $42,000 per HDR employee, with little substantive review.

Why Did These Problems Occur?

Until passage of a 2016 charter amendment expanded its authority, the Board believed its oversight of administrative affairs was limited to hiring, evaluating, and terminating the CEO. While recent Board actions have sought to clarify the lines of authority, certain aspects of management and governance fall into gray areas. Consequently, the CEO has considerable discretion over what is reported to the Board, leaving the Board hard-pressed to assess HART's budgeting process or hold the CEO accountable for staying within budget.

Further, HART's oversight over its embedded third-party consultant shows a lack of consistent follow-through and monitoring of HDR or embedded HDR employees' performances. According to the CEO, HART hires third-party consultants because it is unable to find highly qualified candidates willing to accept a City and County of Honolulu (City) salary for the positions. In addition, since HART will only operate until the Project is completed, the CEO does not want HART to have to terminate civil service employees at the end of the Project.

Why Do These Problems Matter?

The Honolulu Rail Transit Project is the largest public works project in the State, and has been funded largely by a one-half percent City surcharge on the State general excise tax (GET). Under the 2012 Full Funding Grant Agreement with the Federal Transit Administration (FTA), increases in the Project's costs are borne by the State and City, so rising costs have led to extensions of the GET surcharge to the end of 2030. In addition, as of January 1, 2018, the transient accommodations tax was increased by one percentage point to 10.25 percent, also through 2030, and also to help fund rail. As the price of the Project has risen, the burden on Hawai‘i residents and visitors whose tax payments must fund all overages has nearly doubled from $3.589 billion in 2012 to $7.684 billion in 2018.

Without clear lines as to the specific types of information requiring Board consideration, the CEO is given broad discretion as to what decisions are his to make. The CEO's decision to withhold contract-specific allocated contingency from the Board deprives the Board of being able to assess the total amounts HART has budgeted for specific work and to ensure that the Project is on-budget; without that information, the CEO is not fully accountable to the Board. Similarly, we believe that the transition to an entirely different business model, P3, represents a fundamental shift in the completion and eventual operation and maintenance of the Project, and should be reported to and fully vetted by the Board, not left to the CEO. Although the CEO did decide to seek board approval, which was granted in September 2018, we do not believe that decisions of this magnitude should be subject to the CEO's discretion.

Moreover, with these mounting costs as a backdrop, HART continues to use HDR to staff its key management positions at a cost of $9.6 million per year, or $800,000 per month. Based on an average of 19 HDR-provided employees, HART pays HDR over $505,000 *per HDR staff per year* or over $42,000 *per HDR staff per month*. Yet HART does not evaluate the performance of the embedded HDR employees; HART does not even evaluate HDR, generally. But, HART's ability to complete the Project within the current budget and by the current opening date is dependent on HDR's employees.

As the FTA has pointed out, filling key management positions with third-party consultants instead of HART employees is less than optimal, leading to less "ownership" and accountability. While we recognize the CEO's concerns about the eventual shuttering of HART's operations, there is still a long way to go until the end of the line.