
Auditor's Summary

Review of the Department of Accounting and General Services' Verification of the Honolulu Authority for Rapid Transportation's Invoices

Report No. 19-11



PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

IN REPORT NO. 19-11, *Review of the Department of Accounting and General Services' Verification of the Honolulu Authority for Rapid Transportation's Invoices*, we examined the policies, procedures, and controls implemented by the Department of Accounting and General Services (DAGS) to assess whether invoices submitted by the Honolulu Authority for Rapid Transportation (HART) are eligible for payment using state tax revenues. The Hawai'i State Legislature limited the use of those state tax revenues to pay the rail project's "capital costs" and further identified certain specific expenses that cannot be paid for through the Mass Transit Special Fund.

What We Found

Act 1 requires DAGS to verify that invoices submitted by HART contain only eligible capital costs and authorizes DAGS to promulgate administrative rules to determine how to do so. However, we found that DAGS has no intention of creating rules to guide its invoice verification responsibilities and establish the procedures HART must follow to obtain payment for its capital costs. We also found that DAGS does not provide training for its staff auditors, nor does it have formal policies and procedures in place to guide their work. According to the DAGS audit

DAGS fundamentally misunderstands its responsibilities under Act 1, performing unnecessary busy work that not only wastes time and money but also increases the risk of improper payment.

supervisor, the staff is not even given detailed instructions on how to construe the costs contained in HART's invoices. DAGS did put Invoice Verification Programs in place to review HART's invoices, but they reflect a poor understanding of construction practices and the way work is invoiced, leaving DAGS unable to reasonably assure that the costs can be paid out of the special fund.

We found DAGS is performing unnecessary, duplicative, and counter-productive audit procedures that mimic work already conducted by HART's contract administrators. Rather than ensuring adequate review of each invoice HART submits, DAGS staff spend most of their time verifying the work reflected in the invoices was actually performed and the quantities of materials on the invoice were actually delivered.

Why did this occur?

We found that DAGS misunderstands its core responsibility under Act 1, which is to verify that the invoices submitted by HART are eligible for payment, not to verify that the invoices are free of mathematical errors and that HART complied with its own invoice review and approval process. However, without administrative rules and detailed instructions, DAGS' implementation of its verification duties is opaque and subject to change without notice. Similarly, without defined terms, reviews can vary from auditor to auditor. For instance, Act 1 states that the Mass Transit Special Fund cannot be used to pay for "administrative or operating, marketing, or maintenance costs, including personnel costs," yet DAGS has not provided formal guidance to its staff or HART on how it construes those vague terms, increasing the risk of improper payment.

Furthermore, DAGS staff auditors are spending so much time "re-performing" tasks HART has already completed that they cannot review all the costs HART submits for payment. Instead, DAGS auditors spot check just a small percentage of the costs included on each invoice, an approach that does not fulfill DAGS' responsibility to verify that each cost submitted by HART can be paid for with state revenues.

Why do these problems matter?

In 2017, the Legislature provided HART with additional state funding to complete construction of its rail project – a project that has seen its estimated cost balloon from \$5.122 billion to \$9.188 billion. However, the Legislature explicitly restricted HART from using the state funds for certain types of expenses, such as administrative costs, including its personnel expenses. Without administrative rules and documented procedures detailing how to perform their verification responsibilities, there is a substantial risk DAGS' staff auditors' reviews are arbitrary and inconsistent. In addition, DAGS' cursory invoice reviews substantially increase the risk of approving costs that do not qualify for payment with state revenues. DAGS' review efforts provide nothing more than a false sense of assurance that revenues from the Mass Transit Special Fund are spent as the Legislature intended.