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AUDIT REPORT NO. 58-5  
MARCH 1968

**FINANCIAL AUDIT  
OF THE OAHU  
TRANSPORTATION  
STUDY**

FOR THE PERIOD JULY 1, 1962 TO  
AUGUST 31, 1967

A REPORT TO THE GOVERNOR AND THE  
LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

## THE OFFICE OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



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## FOREWORD

This financial audit report is the result of our examination of the financial books and accounts of the Oahu Transportation Study and the transactions noted therein for the period July 1, 1962 to August 31, 1967. It was conducted pursuant to senate resolution 190, regular session, 1967.

The purpose of the audit was to determine the full cost of the Oahu Transportation Study, its means of financing, the adequacy of the fiscal records, and the nature, legality and propriety of the expenditures made. No assessment of the operational and procedural adequacy of the Study was made, except as they bear directly on the fiscal transactions, statements, books and records under examination.

Our audit findings, in general, indicate that there has been significant shortcomings in the financial administration of the Oahu Transportation Study. Inasmuch as the Study is already terminated in an operational sense, we have made no recommendations for corrective actions. We are hopeful, however, that this audit report can be of assistance to the State in better administering future projects of a similar nature.

The several State and city and county of Honolulu agencies that were a part of the Oahu Transportation Study have taken exception to various portions of our report. Their single coordinated response is shown in Part V of this report as *Memorandum of Comments of Affected Agencies*. Our comments to their response are also presented in this Part.

During the course of our examination, we received the assistance and cooperation of many State and city and county of Honolulu agencies. We acknowledge their role in the audit with thanks. Special mention should be made of the courtesy extended to our staff auditors by Dr. Shelley Mark, director of the department of planning and economic development, Mr. Ah Leong Kam, project director of the Oahu Transportation Study, and members of their respective staffs.

Clinton T. Tanimura  
Legislative Auditor

## TABLE OF CONTENTS

	Page
PART I. INTRODUCTION AND SOME BACKGROUND	
Chapter	
1 Introduction .....	1
2 Some Background of the Oahu Transportation Study .....	2
PART II. FINDINGS	
3 Some General Comments on Maintenance of Financial Records	11
4 The Balance Sheet: Project Costs .....	15
5 Balance Sheet: Fund Contributions and Liabilities .....	24
PART III. SUMMARY .....	29
PART IV. ADDENDUM .....	34
PART V. APPENDICES .....	39
Appendix A - Senate Resolution 190, Regular Session, 1967	40
Appendix B - Letter Dated October 20, 1965, from Housing and Home Finance Agency to Director, Department of Planning and Economic Development .....	41
Memorandum of Comments of Affected Agencies .....	44
Attachment No. 1 - Auditor's Transmittal	
Letter to Affected Agencies .....	53
Attachment No. 2 - Agencies' Comments .....	54



## PART I. INTRODUCTION AND BACKGROUND

### Chapter 1

#### INTRODUCTION

Pursuant to senate resolution no. 190, regular session, 1967,<sup>1</sup> the office of the legislative auditor conducted a financial audit of the Oahu Transportation Study. This is a report on that audit.

##### Purpose of Audit

The audit was conducted to determine the full cost of the Oahu Transportation Study, its funding, the adequacy of the transportation study's fiscal records, and the nature, legality and propriety of the expenditures made for the study.

##### Audit Scope and Limitations

The audit covered the period between July 1, 1962, and August 31, 1967.

Our audit focused on the fiscal aspects of the transportation study. Focusing on fiscal matters necessarily has its limitations. In our audit we made no assessment of the operational and procedural adequacy of the study, except as operations and procedures had a direct bearing on the fiscal transactions, statements, books and records under examination.

<sup>1</sup>See appendix A, *infra*, for the complete text of senate resolution no. 190.

Throughout this report frequent mention is made of *federal contribution* toward payment of the costs of the Oahu Transportation Study. We caution the reader that contrary to what might appear to be the case, we are making no *conclusive* findings as to the exact amounts of the costs of the study which will ultimately be paid for by the federal government. We are unable to make such conclusive findings until the books of the study have been audited by federal auditors. The specific standards by which federal auditors determine what costs are eligible for consideration in determining the federal government's contribution are not explicitly outlined in the contracts between the State and the federal government or in the procedures manuals issued by the federal government. Thus, our conclusions, if any, regarding the amount which the federal government will actually pay must be regarded as tentative rather than conclusive.

This report, unlike other audit reports issued by this office, contains no specific recommendations. Recommendations in this case would be of little use to the Oahu Transportation Study, inasmuch as the work of the study has already terminated, except for the publication of its final report. It is hoped, however, that the findings of our audit will be of assistance and guidance to future studies and projects similar to that of the Oahu Transportation Study.

The audit was conducted in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants and as set forth in the *Manual of Guides of the Office of the Legislative Auditor*. It included tests of the accounting records and such other auditing procedures as we considered necessary.

### Organization of Report

This report is organized in three parts. Part I includes this introductory chapter and a chapter on the background of the Oahu Transportation Study (chapter 2). Part II (chapters 3 to 5) contains our findings on record keeping, costs of the study, and legality and propriety of expenditures. Part III summarizes our findings.

## Chapter 2

### SOME BACKGROUND OF THE OAHU TRANSPORTATION STUDY

The Oahu Transportation Study derived its impetus from senate resolution no. 46, Hawaii State legislature, regular session, 1961. Two pieces of federal legislation influenced the study: the Housing Act of 1954<sup>1</sup> and the Federal-Aid Highway Act of 1962.<sup>2</sup> This

chapter sketches briefly the history of the Oahu Transportation Study, notes how the two federal acts affected the study, and comments on the study's problems and status as of the writing of this report.

### Legislative Authorization

Senate resolution no. 46, regular session, 1961, requested the State department of transportation to study the feasibility of incorporating mass transit facilities in plans for highway improvements within the district of Honolulu. In response to this resolution, the then governor of the State, William F. Quinn, proposed to the legislature that a joint county, State and federal study be undertaken to prepare a workable plan to guide integrated, comprehensive transportation development on Oahu for the next 20 to 40 years. The governor's proposal was included in his recommended capital improvements budget for fiscal year 1963. The proposal contemplated that the State would be assisted financially by the federal government under the Housing Act of 1954.

1. **Housing Act of 1954.** Section 701 of the Housing Act of 1954, as amended by Congress in 1961,<sup>3</sup> authorizes the administrator of the urban renewal administration, housing and home finance agency,<sup>4</sup> to make

<sup>3</sup>Public Law 87-70, 73 Stat. 678, 40 U.S.C. 461.

<sup>4</sup>Administration of the Housing Act of 1954 was transferred to the department of housing and urban development upon its establishment by the Department of Housing and Urban Development Act, PL 89-174, 5 U.S.C. 624, 1965. Thus, when used in this report, *housing and home finance agency (HHFA)*, also means *department of housing and urban development (HUD)*.

<sup>1</sup>Public Law 560, 83d Congress; 68 Stat. 590, 40 U.S.C. 461.

<sup>2</sup>Public Law 87-866, 87th Congress; 76 Stat. 1145, 1148.



grants to qualified state or local planning agencies for the development of comprehensive urban plans. Planning which may be assisted under the section includes *the preparation of comprehensive urban transportation surveys, studies, and plans to aid in solving problems of traffic congestion, facilitating the circulation of people and goods in metropolitan and other urban areas and reducing transportation needs*. A grant may be made to the extent of two-thirds of the cost of a comprehensive planning project.

2. Act 30, SLH 1962. In April 1962, the city council of the city and county of Honolulu adopted a resolution, expressing the city's intent to participate in the joint transportation study proposed by the governor.<sup>5</sup> Subsequently, at its 1962 session, the legislature enacted Act 30, the State's capital improvements appropriations act for fiscal year 1963. In the act, the legislature authorized the expenditure of the following sum for *the preparation of a workable program to guide integrated, comprehensive transportation development on Oahu for the next 20 to 40 years*.

State funds .....	\$100,000
City and county of	
Honolulu funds .....	100,000
Federal funds .....	400,000
	<u>600,000</u>
	<u>=====</u>

<sup>5</sup>Resolution no. 69, city council, city and county of Honolulu, April 3, 1962.

The appropriations act specifically provided that the city and county contribution may be in services or funds. The department of planning and research was named the expending agency of the appropriated State funds.<sup>6</sup>

#### Initial Application for Federal Funds

On June 12, 1962, the director of planning and research, as administrator of the transportation study,<sup>7</sup> submitted a proposal for section 701 urban planning grant, based on a total, estimated budget cost of \$565,000. On November 15, 1962, the proposal was amended to reflect a total budget cost of \$510,000. On March 1, 1963, the amended proposal was approved by the housing and home finance agency.<sup>8</sup> The approval specified that the project must be completed by August 31, 1965. This approval was followed by a formal contract which was signed on May 8, 1963, by the State and the federal government.<sup>9</sup> By that contract, the federal government agreed to grant \$340,000 or two-thirds of the project cost, whichever is less, to the State for the transportation study.

The Oahu Transportation Study received its first allotment of federal funds (\$50,000)

<sup>6</sup>In 1963, by Act 2, SLH 1963, and by executive order no. 20, dated May 16, 1963, the department of planning and research and the department of economic development were merged into a single department called the *department of planning and economic development*.

<sup>7</sup>The director of planning and research was appointed by the governor as the administrator of the joint State and city and county transportation study on February 12, 1962.

<sup>8</sup>Urban planning project budget no. 1, Hawaii P-13.

<sup>9</sup>Urban planning grant contract no. Hawaii P-13 (G).

in August, and its second allotment (\$75,000) in October, 1963. The receipt of further allotments was delayed pending (1) the formal organization of the transportation study and (2) the preparation and submission of the *prospectus and work program* of the study. The organization was formally completed on July 19, 1963,<sup>10</sup> and the prospectus was finalized on November 15, 1963 for forwarding to the housing and home finance agency.<sup>11</sup>

#### Organization of Oahu Transportation Study

When Hawaii's initial application for federal funds was being prepared, through an agreement between the State and the city and county of Honolulu, a policy committee was established to direct the work of the transportation study. The policy committee consisted of the director of the State department of planning and research, director of the State department of transportation, director of the city and county traffic department, and the director of the city and county planning department. There was a general agreement in 1962, that there should be a technical advisory committee, consisting of qualified technical representatives from the State and city and county planning, transportation and traffic departments.<sup>12</sup> A project director (Erwin F. Morrison) was also appointed on July 1, 1962.

<sup>10</sup>Minutes of policy committee's 13th meeting, July 19, 1963.

<sup>11</sup>Minutes of policy committee's 22nd meeting, November 15, 1963.

<sup>12</sup>Minutes of policy committee meeting, August 13, 1962.

This organization scheme, worked out in 1962, was not formalized until July 19, 1963. Two significant events occurred in 1962 and 1963 which affected the formal organization of the study. The first was the election in November 1962, which caused a change in the administration of the State government. The second was the passage of Act 2, SLH 1963, which merged the then existing department of planning and research and the department of economic development into the department of planning and economic development.<sup>13</sup>

The policy committee's actions on July 19, 1963 affirmed the composition of the policy committee<sup>14</sup> and designated it as the body which would provide broad guidelines for the study. The district engineer of the bureau of public roads, United States department of transportation, and the area representative of the United States housing and home finance agency were added to the policy committee as non-voting members.

The director of planning and economic development was affirmed as the project administrator and was named chairman of the policy committee. The department of planning and economic development was expected to provide administrative support to the study.

<sup>13</sup>Act 2, SLH 1963, required the merger by executive order not later than July 1, 1963. It was accomplished on May 16, 1963 by executive order no. 20.

<sup>14</sup>Except, of course, that the director of State department of planning and research was replaced by the director of the State department of planning and economic development.



The policy committee also affirmed the composition of the technical advisory committee and provided that it should furnish technical advice to the project director and his staff and serve as the liaison between the project director and the policy committee. It also affirmed the position of the project director, a full-time position, to tend to the day-to-day operations of the study. The project director was made responsible, in matters of administration, to the project administrator, and in matters of policy, to the policy committee.

The establishment of a citizens' advisory committee was discussed very early in the history of the Oahu Transportation Study.<sup>15</sup> It was then decided that such advisory committee would be developed when the project was underway. A citizens' advisory committee organization manual was adopted by the policy committee on December 17, 1964,<sup>16</sup> and the committee members were appointed in January 1965.

#### Prospectus and Study Concept

The housing and home finance agency required that a prospectus and work program be submitted, prior to the full release of federal funds. Among the information required to be included in the prospectus and work program were those relating to organization, objectives, scope, design and implementation plan of the proposed study. The

<sup>15</sup>Minutes of the policy committee meeting, August 13, 1962.

<sup>16</sup>Minutes of the policy committee's 39th meeting, December 17, 1964.

prospectus and work program could not be finalized until the study's organization was formally approved by the policy committee, and the scope and content as set forth in the application for federal funds, the contract entered into between the State and the housing and home finance agency, and the policies of the policy committee were reconciled. The prospectus and work program was finally approved by the policy committee on November 15, 1963.

At the time of Hawaii's initial application for section 701 urban planning funds, it was intended that the bulk of the work would be done by consultants. When the policy committee formalized the organization of the study, the operational concept changed to that of having all phases of the work done by the staff of the Oahu Transportation Study. This approach was reflected in the prospectus and work program. This change from consultants to a local study staff was influenced by the Federal-Aid Highway Act of 1962.

#### Federal-Aid Highway Act of 1962

The Federal-Aid Highway Act of 1962<sup>17</sup> amended existing federal-aid highway legislation by providing that after July 1, 1965, the bureau of public roads may not approve federal-aid highway projects in urban areas of more than 50,000 population, unless the projects are based on a *continuing comprehensive transportation planning process carried on cooperatively by states and local communities* . . . . The Act further provides that one

<sup>17</sup>Public Law 87-866, 87th Congress; 76 Stat. 1145.

and one-half percent of certain federal-aid highway funds, apportioned to each state for each fiscal year, beginning with fiscal year 1964, shall be available, on a matching basis, for highway planning, research and development. These funds for planning, research and development are known as *HPR* funds.<sup>18</sup> For the State of Hawaii, the matching ratio is approximately 80% federal and 20% State.<sup>19</sup>

On March 27, 1963, the bureau of public roads issued *Instructional Memorandum 50-2-63*, in which the bureau sought to define the *continuing, comprehensive transportation planning process* necessary under the Act for state highway projects to be approved after July 1, 1965. The memorandum requires:

*The establishment of a formal procedure—supported by a written memorandum of understanding—between the State highway departments and the governing bodies of the local communities for carrying out the transportation planning process in a manner that will insure that the planning decisions are reflective of and responsible to*

*both the programs of the State highway department and the needs and desires of the local communities.*

To comply with this requirement, and thus to insure that Hawaii's federal-aid highway projects would be approved after July 1, 1965, the State and the city and county of Honolulu entered into a memorandum of understanding, dated July 2, 1964. The memorandum was signed by the governor of the State, the mayor of the city and county, the director of the State department of transportation, the director of the State department of planning and economic development, the director of the city and county department of planning, and the director of the city and county department of traffic. The memorandum, in effect, designated the Oahu Transportation Study as the *continuing, comprehensive transportation planning process*, and named the study's policy committee as the coordinating body between the State and the city and county of Honolulu to update procedures and effect the assignment of activities. The State department of planning and economic development was assigned the task of providing financial, personnel, and administrative support necessary to service the policy committee in its conduct of the continuing study.

It was understood, of course, that a *continuing study* could not in fact be performed until the Oahu Transportation Study had been completed.<sup>20</sup> It was also understood, that

<sup>18</sup>The Federal-Aid Highway Act of 1962, also provides that in addition to the one and one-half percentage, upon request of the State, a maximum of one-half of one per cent of primary, secondary, and urban funds apportioned to the State for each fiscal year, beginning with the fiscal year 1964, shall be available for highway planning and research and development. These one-half of one per cent funds are known as *PR* funds.

<sup>19</sup>This 80-20 ratio is a reasonable approximation based on past years' experience. To derive the exact ratio requires mathematical computations of the State's annual highway work programs of two kinds—those which are 90% funded and those which are 50% funded by the federal government.

<sup>20</sup>Minutes of policy committee's 44th meeting, April 28, 1965, p. 2; *Prospectus and Work Program*, dated October 29, 1966, p. 24.



once the Oahu Transportation Study was completed, the *continuing study* would be carried on under the administrative direction of the State department of transportation.

The designation of the Oahu Transportation Study as the *continuing, comprehensive transportation planning process* not only satisfied the requirements of the Federal-Aid Highway Act of 1962 and the instructions of the bureau of public roads, but it also enabled the legitimate use of HPR funds, under the jurisdiction of the State department of transportation, in the Oahu Transportation Study.

#### **Amendatory Applications for Federal Funds**

The cost of the Oahu Transportation Study has far exceeded the original estimate of \$510,000. At, at least, two points in the study, the Oahu Transportation Study virtually ran out of funds—once, at the end of April, 1965, and then again at the end of May, 1966. A part of the shortage was made up by an increased contribution by the city and county of Honolulu, a part by the transfer of HPR funds under the administrative jurisdiction of the State department of transportation, and a part from the transfer of State funds. In addition, the transportation study submitted two amendatory applications to the department of housing and urban development for additional funds to support the transportation study.

1. **First amendatory application.** The first amendatory application was submitted by the Oahu Transportation Study on August 27, 1965. The application asked for an additional grant of \$93,000, based on a revised estimated project cost of \$649,500, and an extension of

the study's completion date from August 31, 1965 to June 30, 1966. The request for additional grant was approved on January 4, 1966.<sup>21</sup> The department of housing and urban development also extended the completion date to August 31, 1967. An amendatory contract, amending the original contract, was executed on March 22, 1966.<sup>22</sup> By the amendatory contract, the federal government agreed to grant \$433,000 or two-thirds of the project cost, whichever is less.

The approval of the request for additional grant and extension of time for the completion of the project was conditioned on the State's fulfillment of the following: (1) the development of a short-range (5 years) program as well as the long-range (20 years) program; (2) the engagement of a transportation planning consultant experienced in transit planning and modal split models for the transit analysis phase of the project; (3) the engagement of a transportation consultant on a regular basis, at the rate of 10 to 20 days a year; (4) the institution of an in-service training program for the staff of the Oahu Transportation Study, to assure continued planning process.<sup>23</sup>

The housing and home finance agency estimated that not more than \$40,000 and

<sup>21</sup>Urban planning project budget no. 2, Hawaii P-13.

<sup>22</sup>First amendatory contract amending urban planning grant contract no. Hawaii P-13(G).

<sup>23</sup>Letter, dated October 20, 1965, from regional director, urban renewal, housing and home finance agency, to Dr. Shelley M. Mark, director, department of planning and economic development, State of Hawaii. See Appendix B, *infra*, for the full text of the letter.

approximately six months would be required to satisfy requirement no. 1. It was for this reason that the completion date was extended to August 31, 1967.<sup>24</sup>

2. Second amendatory application. On September 9, 1966, the Oahu Transportation Study submitted a second amendatory application for an additional \$50,000 section 701 urban planning grant, based on a revised, estimated project cost of \$724,500. The study found it necessary to request this additional sum in order for it to comply with conditions (1), (3), and (4) upon which the first amendatory application had been approved. The first amendatory contract did not specifically incorporate these conditions, inasmuch as it was expected that the Oahu Transportation Study would file an application for additional funds to comply with the conditions.<sup>24</sup> It was made quite clear, however, that the department of housing and urban development would not complete its funding obligation until all of the four conditions had been met by August 31, 1967.<sup>24a</sup>

In 1967, the department of housing and urban development expressed misgivings about continued support of the Oahu Transportation Study, and sought to impose the following additional requirement as a condition for approval of the second amendatory application:

<sup>24</sup>Letter, dated February 23, 1966, from the regional director, urban renewal, department of housing and urban development, to Dr. Shelley M. Mark, director, department of planning and economic development, State of Hawaii.

<sup>24a</sup>Letter dated February 25, 1966, from the regional director, urban renewal, department of housing and urban

*Prior to the signing of a contract for this project, the OTS must submit to HUD a program outlining how the products of the completed transportation study will be coordinated with City-County and State Planning Programs and how the results of the transportation study will be presented to the public, advisory committees, and elected representatives. Part of the program must outline how OTS and the City-County propose to meet the comprehensive planning requirements for Urban Mass Transportation Grants and, where possible, to meet the requirements of Section 204 of the Housing Act of 1966.*<sup>25</sup>

A request by the Oahu Transportation Study for additional time to complete this new requirement, as well as those conditions imposed when the first amendatory application was approved,<sup>26</sup> was rejected by the department of housing and urban development.<sup>27</sup>

By letter, dated November 17, 1967, the director of the State department of planning

development, to the director, department of planning and economic development, State of Hawaii.

<sup>25</sup>Letter, dated April 19, 1967, from director, planning branch, programs coordination and services office, department of housing and urban development, to director, department of planning and economic development, State of Hawaii.

<sup>26</sup>Letter, dated April 26, 1967, from the director, State department of planning and economic development, to the director, planning branch, programs coordination and services office, department of housing and urban development.

<sup>27</sup>Letter, dated May 2, 1967, from the director, planning branch, programs coordination and services office, department of housing and urban development, to the director, State department of planning and economic development. The letter states, in part, . . . the OTS project [must] be

and economic development indicated to the director, planning branch, programs coordination and services office, department of housing and urban development, that the Oahu Transportation Study is considering withdrawing its second amendatory application. In the same letter, with reference to the conditions which were imposed when the first amendatory application was granted, the director of the department of planning and economic development stated that (1) expert advisory service would not now serve its purpose since the technical work of the project has been completed; (2) favorable consideration should be given by the department of housing and urban development to terminating the service training program requirement;<sup>28</sup> and (3) the short-range development program will be accomplished in the continuing phase of the transportation planning process by the State department of transportation.

By letter, dated December 18, 1967, the department of housing and urban development agreed to the cancellation of the in-service training requirement. By that same letter, the second amendatory application was returned to the State, without action by the federal government.

#### Extension of Time

At the request of the Oahu Transportation Study, the department of housing and urban

*completed on time and in a manner which will allow for a meaningful decision making process. Delaying the plan review and adoption process is in direct conflict with what both HUD and BPR is saying. For this reason, none of your conditions are acceptable.*

<sup>28</sup>The request for termination of the in-service training program had been made as early as August 1967.

development twice extended the August 31, 1967 project completion deadline—first to November 30, 1967, and then to December 31, 1967. A further request for an extension of time to January 31, 1968 was *reluctantly* granted. In granting this last request, the department of housing and urban development stated that *this will absolutely be the final extension that can be granted.*<sup>29</sup>

#### Current Status of Oahu Transportation Study

The Oahu Transportation Study terminated work, except for publication, revision, review and approval of its final report, on August 31, 1967. The personnel of the study have returned to their respective agencies, and the *continuing* phase of the study is now in the State department of transportation.

The last volume of the three-volume report on the study was sent to the department of housing and urban development on January 31, 1968. As of the writing of this report, the Oahu Transportation Study is awaiting word from the bureau of public roads authorizing the study to distribute copies of the report to the general public. The bureau of public roads' approval is required before general distribution, since highway planning funds were used in the study. A response from the bureau of public roads is expected in mid-February 1968, and the report is expected to

<sup>29</sup>Letter, dated December 7, 1967, from the assistant regional administrator for program coordination and service, department of housing and urban development, to the director, State department of planning and economic development.

be distributed to the State legislature by the end of February 1968.

The termination of the Oahu Transportation Study leaves unanswered the question, how much of the final, total cost of the project will the federal government pay under section 701 of the Housing Act of 1954.<sup>30</sup> This question is raised in the light of the following:

1. The Oahu Transportation Study has not fulfilled one of the conditions imposed when Hawaii's first amendatory application was granted--i.e., a short-range transportation program has not been developed but has been left for the State department of transportation to accomplish.

2. As discussed in the subsequent chapter, the maintenance of fiscal records has been deficient, and whether all expenditures can be properly supported is uncertain.

<sup>30</sup>\$43,300 of the \$433,000 maximum federal contribution is being withheld by the federal government, pending satisfactory completion of the Oahu Transportation Study.



## PART II. FINDINGS

### Chapter 3

#### SOME GENERAL COMMENTS ON MAINTENANCE OF FINANCIAL RECORDS

We commenced our audit of the financial records of the Oahu Transportation Study on May 11, 1967. Our preliminary survey revealed the absence of a complete set of financial books of accounts, as explained in greater detail below. We suspended further audit work, until the Oahu Transportation Study was able to develop its accounting records. Such records were developed by mid-June 1967. We resumed our examination of the records and completed our audit in July 1967, covering the period from the inception of the study to March 31, 1967. However, since the transportation study was scheduled for completion on August 31, 1967, we withheld publication of our report until we had an opportunity to examine the records of the study as of August 31, 1967.

In general, the Oahu Transportation Study has been lax in its handling and maintenance of financial records.

#### Absence of Financial Books of Accounts

Although the Oahu Transportation Study commenced on July 1, 1962, as of May 1967, no complete set of financial books of accounts had been developed. Lacking were such basic

accounting records as books of original entries (warrant voucher journal, general journal, and cash receipts journal) and subsidiary ledgers (accounts receivable, accounts payable, and project costs). During the early months of the study, a general ledger was being maintained, but for some unexplained reason, postings to the ledger had been discontinued as of February 1964.

On July 1, 1964, the project director instituted a cost accounting system. This system, however, was maintained and used for limited, internal purposes only, and was not maintained as a part of an overall accounting system.

This absence of a complete set of financial books of accounts was in violation of federal requirements. The accounting procedures manual issued for urban planning assistance grants under section 701 of the Housing Act of 1954, prescribes the following minimum accounting records:

- General ledger accounts, reflecting cash, accounts receivable, project costs, accounts payable, accrued liabilities and capital.
- Separate project cost subsidiary ledger accounts for each activity classification--i.e., salaries and wages, contracts with technical consultants, travel, etc.
- Separate accounts receivable subsidiary ledger accounts for each agency contributing to

the cost of the study--i.e., federal government's grant, city and county contribution, etc.

None of these required records had been developed as of May 1967.

#### Account Classification

The accounting records as finally developed by the Oahu Transportation Study reflect costs by objects of expenditures--i.e., salaries and wages, consultants' cost, travel, etc. Itemization of expenditures by these objects conforms to the accounting methods of the department of housing and urban development. However, the records are deficient in the following respects:

1. **Classification by phases on activities.** The budgets which were prepared in making the initial and amendatory applications for federal funds estimated costs not only by objects of expenditures, but also by phases or activities of the study. Thus, for example, the budget prepared for the study's initial application for federal funds classified the costs of the study by these activities: (1) inventory of island economy, population growth, land use records and data, and existing transportation network; (2) analysis of existing travel characteristics; (3) projections to the design year; (4) estimating deficiencies in existing transportation systems as they relate to the projections; and (5) developing plans to meet the deficiencies.

In our audit, we attempted to allocate the actual costs of the study to each of these activities. We found, however, that it was impossible to do so because of the failure of the Oahu Transportation Study to segregate

its expenditures by activities. Any attempt at this time to allocate the costs to the various activities would, at best, be guesswork. The present staff members were not with the study during its early phases and are thus unable to provide that information which is necessary for an accurate allocation.

2. **Urban planning grants v. highway planning and research fund.** The cost of the Oahu Transportation Study was paid for from federal funds under two federal statutes--the Housing Act of 1954 (urban planning fund) and the Federal-Aid Highway Act of 1962 (highway planning and research fund). The financial records as finally developed make no attempt to distinguish between those expenditures paid for from the urban planning fund and those paid for from the highway planning and research fund. The highway planning and research fund, administered by the State department of transportation, was intended to supplement the urban planning fund, administered by the Oahu Transportation Study. The two funds were not intended to be commingled, and the funds are subject to audit by two different federal government agencies--the urban planning grant by the U.S. department of housing and urban development, and the highway planning and research fund by the U.S. department of transportation.

A segregation of those expenditures paid for from the highway fund and those paid for from the urban planning fund would have permitted us, and will permit federal auditors, to trace the expenditures from each in determining their legality and propriety. In the absence of records developed in this segregated

fashion, it was necessary for us to leaf through the source documents to determine which fund paid for what expenses. Our search for these source documents was not entirely successful, for the following reason.

About one-half of the expenses paid for from the highway planning and research fund was processed directly by the State department of transportation. The other half, however, was handled by the Oahu Transportation Study. This was made possible by transfers of cash from the highway planning and research fund to the study. Cash so transferred was mixed with the urban planning fund. Expenditures were thereafter made from the urban planning fund by the Oahu Transportation Study without distinction as to the source of the moneys being used.

This being the case, we were compelled to search the records of the State department of transportation for the reasons for the cash transfers to the Oahu Transportation Study. Presumably, the study used the transferred cash for those purposes stated in the records of the department of transportation as reasons for the transfers. The state of the study's fiscal records, of course, does not permit us to be absolutely certain.

#### **Financial Reports**

The Oahu Transportation Study was required to make two kinds of reports: (1) quarterly financial reports to the federal government; and (2) monthly progress reports to the State department of planning and economic development for transmission to the governor. The reports, which were submitted by the study

in compliance with these requirements were inadequate.

**1. Quarterly financial reports.** The accounting procedures manual, issued for urban planning assistance grants under section 701 of the Housing Act of 1954, requires that quarterly financial reports be submitted to the federal government. The Oahu Transportation Study submitted semi-annual, rather than quarterly, financial reports, apparently without objection from the federal government. These semi-annual reports, however, were misleading in at least two respects. *First*, the reports were incomplete and were based on estimates of costs incurred. *Second*, the reports gave an erroneous impression to the federal government that proper fiscal records were being maintained by the study.

Lacking adequate financial records the transportation study prepared the semi-annual financial reports from worksheets. The worksheets were purportedly summaries of financial information taken from source documents supporting the financial transactions of the study. We reviewed the available worksheets and found them to be sketchy and based on incomplete data. Some worksheets were not available for our inspection, since they had been discarded soon after the formal financial reports had been completed.

**2. Monthly reports.** The Oahu Transportation Study was required to submit monthly reports on the progress of the study to the department of planning and economic development for transmission to the governor. These monthly reports were submitted. However, the reports were deficient in that they

failed to contain information relating to the fiscal aspects of the study. They contained no information on budgeted costs, the costs incurred to date, the future costs of the study and the overage or shortage of funds being experienced by the study.

Not only were financial reports not submitted to the department of planning and economic development, no such financial reports were submitted to the study's policy committee on a regular basis. The records and files of the study indicate that financial reports were submitted to the policy committee only on those occasions when the study was running out of funds or was preparing amendatory applications to the federal government for more federal funds. Without such financial reports, of course, full control over the project was hardly possible.

#### **Project Cost Estimates**

As noted in the previous chapter, the Oahu Transportation Study submitted two amendatory applications for more federal funds under section 701 of the Housing Act of 1954. In both instances, the Oahu Transportation Study underestimated the cost of the project. This underestimation was caused by the lack of adequate fiscal records. It appears that, just as in the case of the semi-annual financial reports submitted to the federal government, the estimates submitted with the two amendatory applications were based on incomplete data.

#### **Internal Audits**

No internal audit has ever been made of the fiscal records of the Oahu Transportation

Study. The study covered a period of over five years, and during that time, changes in the office of project director occurred three times --first, when Erwin F. Morrison resigned and Raymond D. Bray took over as acting director (May 1963); second, when Garred P. Jones was appointed director (mid-June 1964); and third, when Garred P. Jones resigned and Ah Leong Kam was appointed project director (August 1965).

It appears as a matter of good accounting practice, that in projects of this kind which last over a long period of time and which handle their own finances, periodic internal audits should be conducted. At least, they should be conducted when there is a change in project directorship to insure that fiscal responsibility is placed on the proper person. Without such an audit, the new director has no assurance that he will not be held responsible for acts committed by his predecessor.

Such periodic audits, or audits upon change in the directorship, would have revealed the lack of financial records as required by the federal government. Such audits would have insisted upon proper recording of receipts, charges and fund contributions from the various governmental agencies. They would have aided in the exercise of full and proper control over the project. Not having had such audits, a serious question arises as to whether or not specific transactions would be properly supportable when a federal audit is made of the study's funds.



## Chapter 4

### THE BALANCE SHEET: PROJECT COSTS

The financial condition of the Oahu Transportation Study as of August 31, 1967 is shown in table I. Except as otherwise indicated in this and the subsequent chapters, in our opinion, the statement of financial condition presents fairly the financial position of the Oahu Transportation Study as of August 31, 1967.

Following table I, we note our findings regarding the expenditures of the Oahu Transportation Study. Our findings on the liabilities and contributions by the various governmental agencies are contained in the next chapter.

#### Assets Generally

Table I shows the assets of the Oahu Transportation Study under five categories: (1) cash with director of finance; (2) federal grant receivable; (3) project costs; (4) furniture, fixtures and equipment; and (5) pre-project costs.

1. **Cash with director of finance.** Cash with director of finance of \$10,697 represents the amount of money available, as of August 31, 1967, for use by the Oahu Transportation Study.

2. **Federal grant receivable.** Federal grant receivable of \$43,300 represents 10% of the maximum federal contribution, which was

withheld pending completion of the Oahu Transportation Study. The rules regarding disbursement of federal grants under section 701 of the Housing Act of 1954, require that 10% of the maximum federal contribution in any project be withheld by the federal government, until the project is completed and the books of the projects are audited by federal auditors. For the Oahu Transportation Study, under the first amendatory contract, the maximum federal contribution is \$433,000 (2/3 of the total estimated project cost of \$649,000).

3. **Project costs.** The remaining categories of assets—project costs; furniture, fixtures and equipment; and pre-project costs—are all cost items attributable to the Oahu Transportation Study. They are, however, distinguished in the balance sheet for the following reasons.

Costs for furniture, fixtures and equipment are distinguished from the other project costs, because these costs were not considered in the preparation of the study's budget when Hawaii's initial application for section 701 urban planning grant was submitted. Costs labeled, *pre-project costs* are distinguished, because these costs were incurred by the study prior to March 1, 1963, the date of approval of Hawaii's initial application for an urban planning grant. Section 701 planning grant covers costs incurred after and not before the date of approval of the initial application.

The balance sheet notes the total cost of the Oahu Transportation Study (including furniture, fixtures and equipment and pre-project costs), as of August 31, 1967, at

TABLE I. BALANCE SHEET

Oahu Transportation Study

August 31, 1967

<i>Assets</i>		<i>Liabilities and Fund Contributions</i>	
Cash with Director of Finance, State of Hawaii .....	\$ 10,697	Liabilities	
Federal Grant Receivable-- Retained Percentage .....	43,300	Accounts Payable .....	\$ 559
Project Costs		Accrued Vacation .....	17,751
Salaries and Wages		Advances Payable to Dept. of Transp., State of Hawaii .....	<u>4,994</u>
Oahu Transportation Study Personnel .....	\$417,143	Total Liabilities .....	\$ 23,304
C&C of Honolulu Personnel .....	133,585	Fund Contributions	
U. of Hawaii Personnel .	123,538	Federal Grants .....	433,000
State Dept. of Transp. Personnel .....	71,179	State Contributions ...	165,844
Technical Consultants		C&C of Honolulu Contributions .....	266,085
Contracted by OTS .....	150,541	Dept. of Transportation Highway Planning Fund Contribution .....	<u>298,250</u>
Contracted by C&C of Honolulu .....	57,500	Total Fund Contributions .....	1,163,179
EDP Services .....	102,348		
Office Supplies .....	25,257		
Travel .....	12,008		
Project Inspection .....	7,356		
Reproduction & Publication .....	4,479		
Office Rental .....	<u>3,550</u>		
Total Project Costs .....	1,108,484		
Furniture, Fixtures and Equipment--at Cost .....	10,035		
Pre-Project Costs .....	<u>13,967</u>		
Total Assets .....	<u>\$1,186,483</u>	Total Liabilities and Fund Contributions .....	<u>\$1,186,483</u>

\$1,132,486.<sup>1</sup> This figure is only partially correct.

The sum of \$1,132,486 is understated by at least \$11,221. The costs for salaries and wages, noted in the balance sheet as having been paid to the personnel of the Oahu Transportation Study, the university of Hawaii, and the State department of transportation, include gross payroll **plus additives**—i.e., the agencies' payments of FICA taxes and its contributions to the employees' retirement system and accrued employees' vacation, sick and health benefits. However, the \$133,585 noted as having been paid as salaries to city and county of Honolulu personnel includes only the gross payroll and not the additives. The additives for the personnel of the city and county of Honolulu should be included in calculating the total, actual cost of the Oahu Transportation Study. We are informed that during 1965, the city and county of Honolulu experienced payment of the additives at the rate of 8.4% of the gross payroll.<sup>1a</sup> At this rate, the additives total \$11,221.

Although the Oahu Transportation Study officially terminated on August 31, 1967, it is anticipated that there will be some additions to the total cost shown on table I. Additional costs are expected, particularly in connection with the printing and publication of the study's final report.

<sup>1</sup>This total consists of the following three figures which appear on table I: *Total Project Costs*—\$1,108,484; *Furniture, Fixtures and Equipment—at cost*—\$10,035; and *Pre-Project Costs*—\$13,967.

<sup>1a</sup>Letter, dated September 22, 1965, from the managing director, city and county of Honolulu, to the comptroller, State department of accounting and general services.

The costs of the Oahu Transportation Study have been grossly underestimated in the various applications made for urban planning grants. In table II, the actual costs incurred (including the city and county of Honolulu's payment of the additives for its employees) are compared with (a) the initial budget submitted on November 15, 1962, and approved by the housing and home finance agency on March 1, 1963; (b) the second budget submitted with the first amendatory application on August 27, 1965, and approved on January 4, 1966; and (c) the third budget submitted with the second amendatory application on September 9, 1966, on which no action has been taken. The second budget is the latest and controlling budget for section 701, Housing Act of 1954, urban planning grant purposes. To facilitate the comparison, the actual costs incurred have been recast along the cost classifications which appear in the approved budgets.

It is apparent from table II that the total, actual cost incurred in the transportation study (\$1,143,707) exceeded the second approved budget (\$649,500) (which is the currently controlling budget under section 701 of the Housing Act of 1954) by \$494,207. As stated earlier, the funds available under section 701 of the Housing Act of 1954, were supplemented by the State department of transportation's planning and research fund, consisting of approximately 20% State moneys and 80% federal moneys. If this supplementary amount (\$298,250) is subtracted from the \$494,207, the total, actual cost of the

transportation study exceeds the second and latest approved budget by \$195,957.

TABLE II. COMPARISON OF ACTUAL COSTS WITH THE FIRST AND SECOND APPROVED BUDGETS AND THE THIRD PROPOSED BUDGET FOR THE OAHU TRANSPORTATION STUDY

Cost Classification	August 31, 1967				Actual Costs
	1st Budget (Initial Application) Submitted 11/15/62 Approved 3/1/63	2nd Budget (First Amendatory Application) Submitted 8/27/65 Approved 1/4/66	3rd Proposed Budget (Second Amendatory Application) Submitted 9/9/66. Not Approved		
1. Salaries & Wages, Planning Agency's Personnel (including all employee benefit contributions)	\$ 91,008	\$305,994	\$290,624	\$	<b>417,143</b>
2. Services by Technical Consultants	295,990	176,361	278,563		331,579
3. Services by C&C	100,000	100,000	101,977		144,806
4. Services by Other Public Agencies					
a. State Dept. of Transp.	--	--	--		71,179
b. EDP	--	--	--		102,348
5. Travel (except travel included in lump-sum contracts under Item 2)	5,000	3,889	6,351		12,008
6. Reproduction & Publication (essential project reports & documents)	15,000	13,947	10,502		4,479
7. Other Expenses					
a. Office Supplies	--	38,413	24,536		25,257
b. Rent	--	3,540	4,191		3,550
c. Office Equipment	--	--	--		10,035
d. Pre-project Costs	--	--	--		13,967
8. Sub-Total	506,998	642,144	716,744		1,136,351
9. Project Inspection Fee	3,002	7,356	7,756		7,356
10. TOTAL	\$510,000	\$649,500	\$724,500		\$1,143,707



The following sections examine the expenditures in some detail. Where appropriate, the reasons for the underestimate in cost figures are analyzed. For convenience, the expenditures are examined in the order of the cost classifications shown in table II.

#### Salaries and Wages, Oahu Transportation Study Personnel

Hawaii's initial application for section 701 urban planning grant was approved on a budget which allocated \$91,008 to salaries and wages of the Oahu Transportation Study personnel. The second budget approved (on January 4, 1966) allocated \$305,994 to salaries and wages. When it filed its second amendatory application on September 9, 1966, the Oahu Transportation Study stated that \$40,000 of the \$305,994 would be used to pay a transportation planning consultant experienced in transit planning and modal split models for the transit analysis phase of the project, as required by one of the conditions imposed by the federal government when it approved the second budget. This meant, then, that the study would consider \$265,994 as the budgeted amount for salaries and wages. The proposed third budget filed with the second amendatory application allocated \$290,624 for salaries and wages. The actual cost for salaries and wages, as of August 31, 1967, was \$417,143. A summary of the actual cost compared with the budgeted and proposed cost is as follows:

1st approved budget .....	\$ 91,008
2nd approved budget (as amended) .....	265,994
Proposed 3rd budget .....	290,624
Actual cost .....	417,143

A part of the total cost for salaries and wages was paid for by the State department of transportation, through its planning and research fund. Of the total \$298,250 planning and research fund applied to the transportation study, \$104,864<sup>2</sup> went toward the payment of salaries and wages of the Oahu Transportation Study personnel. Even when this amount of the department of transportation's planning and research fund is deducted, the cost of the salaries and wages of the study's personnel was underestimated by \$221,271 under the first approved budget, by \$46,285 under the second approved budget, and by \$21,655 under the proposed third budget.

One of the reasons given for this increase in the salaries and wages of the study's personnel, is the change in the study's operational

<sup>2</sup>Of the \$298,250 highway planning and research fund which was used to pay a part of the Oahu Transportation Study's expenses, \$137,324 was expended by the study itself. The balance was expended by the State department of transportation in behalf of the study. To enable the study to expend part of the highway planning and research fund, the State department of transportation made several transfers of cash, totaling \$137,324, to the study. For what specific purpose the study actually expended the \$137,324 is uncertain. Presumably, it spent the sum for those purposes it said it would spend when it applied to the State department of transportation for the cash. The representations made by the study were recorded in the books of the State department of transportation to support the cash transfers. Our analysis of how the transferred cash was spent by the study was derived from these records of the department of transportation. See chapter 3, *supra*, on maintenance of financial records.

concept which came about in mid-1963. At the time of Hawaii's initial application for urban planning grant in 1962, it was contemplated that expert consultants would perform the bulk of the analysis work required by the study. Thus, the first approved budget reflected estimated costs of salaries and wages at \$91,008 and of services by technical consultants at \$295,990. In 1963, however, due in part to the need for the establishment of a *continuing planning process* under the Federal-Aid Highway Act of 1962 for the State department of transportation to receive federal-aid highway project funds after July 1, 1965, the concept in the operation of the study was changed. As changed, the Oahu Transportation Study was to develop its own staff capabilities to plan and perform analysis. The high cost of salaries and wages of the Oahu Transportation Study personnel is laid to the lack of skilled personnel and the necessity of training and developing them. It should be noted, however, that this lack of skilled personnel was presumably taken into consideration when the study submitted its first and second amendatory applications. Yet, the actual total cost exceeded the estimates contained in both applications.

#### Services by Technical Consultants

The initial application for urban planning grant estimated the cost of consultants' services at \$295,990. Upon the change in concept in the operation of the study from that of utilizing predominantly consultants to that of developing the study's own staff capabilities, the estimate was reduced to \$176,361 (first

amendatory application and second approved budget).

The actual cost of consultants' services, as of August 31, 1967, totaled \$331,579-\$155,218 more than estimated in the second and latest approved budget.

Included in the \$331,579 are the services contracted for by the city and county of Honolulu (\$57,500) and the services contracted for by the Oahu Transportation Study (\$274,079). The city and county of Honolulu hired consultants to compile traffic data in a comprehensive fashion.

The Oahu Transportation Study engaged consultants for various services, including advice on the organization of the study itself, advice on the organization of citizen and advisory groups, designing economic forecast, land use and traffic models, and constructing the modal split model and performing the transit analysis. Of these, the three largest service contracts were with the university of Hawaii for research services (\$123,538), with Ronald S. Graybeal for the development of a land use model (\$15,000) and with Daniel, Mann, Johnson and Mendenhall for a modal split model and transit analysis (\$95,000). The other contract services purchased by the Oahu Transportation Study ranged from a low of \$100 to a high of \$7,050.

With respect to the modal split model and transit analysis, it was initially estimated that the contract services would cost roughly between \$20,000 and \$60,000.<sup>3</sup> In its second

<sup>3</sup>Minutes of the Policy Committee's Fifty-First Meeting, November 17, 1965, p. 3.

amendatory application filed on September 9, 1966, the Oahu Transportation Study indicated to the federal government, that it would use \$40,000 of the \$305,994, allocated in the second approved budget for salaries and wages, to pay for this contract services. The cost, of course, was grossly underestimated, inasmuch as \$95,000 was required to complete the modal split model and transit analysis. The additional \$55,000 was paid for by the State department of transportation through its highway planning and research fund.<sup>4</sup>

#### Services by City and County of Honolulu

The planning and traffic engineering staffs of the city and county of Honolulu performed various phases of the transportation study, primarily those relating to traffic. Initially, it was estimated that these services plus city and county's cash contributions would not exceed \$100,000.<sup>5</sup> However, the services alone cost \$133,585, without the additives for FICA taxes, contributions to employees' retirement system, accrued vacation, sick leave and health benefits. With the additives, the services amounted to \$144,806. As noted elsewhere, the city and county's cash contribution amounted to \$132,500, including the payment of \$57,500 for consultants' services in compiling traffic data.

<sup>4</sup>The additional \$55,000 was advanced by the State department of transportation pursuant to a resolution adopted by the policy committee on April 21, 1966. See Minutes of Policy Committee's Fifty-Ninth Meeting, April 21, 1966.

<sup>5</sup>Act 30, SLH 1962.

#### Services by Other Public Agencies

In its initial application for section 701 urban planning grant, the Oahu Transportation Study indicated that \$50,000 worth of electronic data processing services (EDP) would be rendered the study through the highway planning and research fund administered by the State department of transportation. Since highway planning and research is funded to the extent of approximately 80% by the federal government, the \$50,000 was considered as additional moneys available for the transportation study and was not included in the first budget approved by the housing and home finance agency. A part of the \$50,000 in computer services was actually received by the transportation study, and this is reflected in the \$102,348 EDP services noted in table II.

In neither the second approved budget nor the third proposed budget was any mention made of the contributions to be made by any public agency or the need for electronic data processing services. In fact, however, computer services were purchased as shown on the following schedule. Only a portion of these services was paid for from the highway planning and research fund.

Service Purchased	Cost	Payment by HPR fund	Payment by OTS
University of Hawaii	\$ 64,158	\$20,570	\$43,588
State department of transportation	20,953	20,953	—
Service Bureau Corp.	15,547	15,547	—
IBM (reels and tapes)	1,690	—	1,690
Totals	<u>\$102,348</u>	<u>\$57,070</u>	<u>\$45,278</u>

In addition to the computer service time, the Oahu Transportation Study was charged with \$71,179 for the services of the State department of transportation's personnel, including computer personnel and others who worked on various phases of the transportation study. Sixty-six thousand one hundred and eighty-five dollars of this cost was paid for from the highway planning and research fund.

We may summarize the costs of the computer and other public agencies' services, deduct the amount paid for from the highway planning and research fund, and determine the amount required to be paid for from the urban planning fund as follows:

EDP services .....	\$102,348	
State department of transportation personnel ..	<u>71,179</u>	\$173,527
Less HPR fund payment .....		<u>-123,255</u>
OTS urban planning fund payment .....		<u>\$ 50,272</u>

It appears from this summary that the Oahu Transportation Study either underestimated the need for computer services or overestimated the ability of the highway planning and research fund to pay for these services.

#### Travel

Travel expenses, as of August 31, 1967, totaled \$12,008. The first approved budget (initial application) estimated the cost of travel at \$5,000. The second approved budget (first amendatory application) revised this estimate and reduced it to \$3,889. In approving the second budget, the federal government

imposed as one of four conditions that the Oahu Transportation Study institute an in-service training program for its staff. Such in-service training program meant out-of-state travel by the study's staff personnel for training with transportation study projects in other states. In part to meet this training requirement, the Oahu Transportation Study in its proposed third budget (second amendatory application) again revised the travel cost estimate and increased it to \$6,351.

As of August 31, 1967, one-half of the training requirement had been completed at the cost of approximately \$4,000 in out-of-state travel. The remaining \$8,000 of travel costs was spread over a period from February 7, 1964 to March 31, 1967. Here, as in other areas, there was an underestimation of cost. The first amendatory application was filed on August 27, 1965. It proposed a travel budget of \$3,889. Yet, as of June 30, 1965, the Oahu Transportation Study had already incurred \$5,194 in travel costs.

In our examination, we noted that approximately one-half of the travel costs (or \$6,000) was incurred without written authorization from the appropriate federal officials. Planning agency letter no. 6, *Travel Expenses Chargeable to Urban Planning Assistance Projects*, dated May 8, 1958, issued by the housing and home finance agency, states that travel expenses will be excluded from consideration as eligible costs of an urban planning assistance project except when incurred in connection with

*Travel to an HHFA Regional or Central Office or other points outside the State*



*in which the project is located for the purpose of conferring with HHFA personnel or others on matters directly concerning the carrying out of a project, but only upon written authorization in advance by the appropriate Regional Administrator, the Urban Renewal Commissioner, or their authorized representatives. (Emphasis added)*

We also noted that several instances of travel might have been outside the scope of the Oahu Transportation Study and within the meaning of *conventions or professional or similar meetings*, as used in that part of the planning agency letter which states,

*Project costs shall not include travel or other expenses incurred for attendance at conventions or professional or similar meetings. Such expenses fall in the category of regular and continuing expenses of the Planning Agency to be met from non-Federal funds other than those pledged to match Federal funds for the project.*

#### **Reproduction and Publication**

The initial application estimated that it would cost \$15,000 to publish the study's reports and documents. This estimate was revised in the second approved budget to \$13,947. As of August 31, 1967, the sum of \$4,479 was spent. It is expected that additional costs will be incurred when the final completed report is published and distributed.

#### **Office Supplies and Rent**

The initial application did not consider the cost of supplies and rent. However, this cost was included in the first amendatory application, and the second approved budget allocated \$38,413 for supplies and \$3,540 for rents. As of August 31, 1967, \$25,257 was spent on supplies and \$3,550 was paid out in rents. The Oahu Transportation Study rented the following spaces:

1. Two rooms from the State department of defense at \$50 per month, from September 15, 1964 to November 15, 1966. The \$50 was to pay for electricity (\$35) and for water and sewage (\$15).
2. An office from HC&D, Ltd., at \$250 per month, from November 1, 1966 to July 31, 1967.

#### **Office Furniture, Fixtures and Equipment**

The costs of office furniture, fixtures and equipment were not included in any of the estimates of the project costs submitted to the federal government. The approved budgets, therefore, did not allocate any moneys for these costs. The costs of furniture, fixtures and equipment totaled \$10,035, including \$2,068 for equipment rentals and office renovation.

Subsequent to August 31, 1967, \$5,833 worth of the furniture, fixtures and equipment was transferred from the study to other State agencies as follows:

Department of Transportation	
Transportation system	
planning office .....	\$4,661
Governor's office	
State foundation of culture	
and arts .....	418
Department of planning and	
economic development	
Administration office .....	722
Office of natural beauty .....	9
Vocational rehabilitation .....	17
Hawaii technical service .....	3
Manpower and full employment ..	3
Total	<u>\$5,833</u>

Excluding the \$2,068 spent on equipment rentals and office renovation, there remained, as of August 31, 1967, \$2,134 worth of furniture, fixtures and equipment. These items, however, are in poor condition and probably without useful value.

#### Pre-Project Costs

Federal funds under section 701 of the Housing Act of 1954 became available to the Oahu Transportation Study on March 1, 1963, the date of approval of the State's initial application for urban planning grant. The study, however, had incurred \$13,967 in costs prior to this date. Under the urban planning grant contract, these pre-project costs are not eligible for consideration in determining the federal government's contribution to the study.

The \$13,967 represents expenditures for the following items:

Salaries of the first project director,	
July 1, 1962 to Feb. 28, 1963 .....	\$11,666
Travel expenses for Dr. Carroll,	
technical consultant .....	1,852
Supplies .....	449
Total pre-project costs .....	<u>\$13,967</u>

#### Project Inspection Fee

The project inspection fee of \$7,356 represents the amount which the federal government deducted from the total federal grant under the latest approved budget. This sum is provided for in the urban planning grant contract and is used by the federal government for inspections and audits.

## Chapter 5

### BALANCE SHEET: FUND CONTRIBUTIONS AND LIABILITIES

On the right of the balance sheet (table I) displays the sources of funds from which the total cost of the Oahu Transportation Study has been and is being paid for, and the outstanding liabilities of the study as of August 31, 1967.

#### Fund Contributions

A summary of the contributions made by the various governmental agencies to defray the costs of the transportation study is as follows:

Federal grants .....	\$ 433,000
State contributions .....	165,844
City and County of Honolulu contributions .....	266,085
State department of trans- portation highway planning and research fund .....	298,250
Total .....	<u>\$1,163,179</u>

Although Act 30, SLH 1962, contemplated that the State and the city and county of Honolulu would each contribute \$100,000 toward the study (the latter in cash or services), they contributed much more. Both increased their contributions when the Oahu Transportation Study ran out of cash at the end of April, 1965, and at the end of May, 1966. In addition, the State department of transportation's highway planning and research fund assisted the study in meeting its financial obligations.

#### Federal Grants

The original amount of the federal grant under section 701 of the Housing Act of 1954 was \$340,000, based on a total estimated project cost of \$510,000. As amended upon approval of Hawaii's first amendatory application, the amount of the federal grant was increased by \$93,000 to \$433,000, based on the revised estimated project cost of \$649,500. The second amendatory application for an additional \$50,000 in federal grant was returned without approval. Without approval of the second amendatory application, the limit of the federal grant remains at \$433,000.

As of August 31, 1967, \$389,700 in progress grant payments was received by the study. The balance of \$43,300 or 10% of the total grant is being withheld until the federal government is satisfied that the project has been completed and a federal audit of the project has been made.

#### State Contributions

State contributions totaled \$165,844. Of this amount, \$100,000 was provided in Act 30, SLH 1962, and \$44,344 was made available to the study from unrequired balances of completed capital improvements projects authorized under Act 30, SLH 1962. On September 15, 1964, \$1,344 of the unrequired balances was transferred to the study. The remaining \$43,000 of the unrequired balances was transferred to the study on June 6, 1966, when the study ran out of cash at the end of May, 1966.<sup>1</sup>

The amount of \$21,500 was transferred from the State department of transportation to the Oahu Transportation Study in 1965. This money came from the highway special fund which the State legislature appropriated to the department of transportation in Act 99, SLH 1965. When the State legislature appropriated the special fund, it was intended that the \$21,500 would be used by the State department of transportation's planning group for a *continuing, planning process* as required

<sup>1</sup> The Minutes of the Policy Committee's Sixtieth Meeting May 16, 1966, indicates that a letter was submitted to the State director of finance for a *loan of \$43,000*. The allotment advice transferring this sum to the Oahu Transportation Study does not indicate that this was a *loan*.

by the Federal-Aid Highway Act of 1962. This *continuing, planning process* was contemplated, based on the August 31, 1965 completion date of the Oahu Transportation Study.

The following is a summary of the State funds placed at the disposal of the Oahu Transportation Study.

Cash provided under Act 30, SLH 1962 \$100,000

Unrequired balances of completed CIP projects authorized under Act 30, SLH 1962:

Act 30 Item	Description	Date Transferred		
B-3-dd	Wahiawa Bridge	9/15/64	\$ 1,344	
B-3-g	Pokai Bay Beach Restoration	6/06/66	12,671	
B-3-a	Seaward Jet Runway 10-28	6/06/66	13,138	
B-7-a	Air conditioning of certain rooms — Kinau Hale	6/06/66	2,934	
B-7-d	Renovation of Guensberg Building basement, State hospital	6/06/66	<u>14,257</u>	44,344
Cash provided from State department of transportation, State transportation planning group, operating budget provision under Act 99, SLH 1965 .....				<u>21,500</u>
Total .....				<u>\$165,844</u>

#### City and County of Honolulu Contributions

As of August 31, 1967, the city's contributions totaled \$266,085, as follows.

	Traffic Dept.	Planning Dept.	Total
Cash contributions .....	\$37,500	\$ 37,500	\$ 75,000
Service contributions ....	4,355	129,230	133,585
Cost of consultant services to compile comprehensive traffic data .....	<u>57,500</u>	<u>—</u>	<u>57,500</u>
Totals .....	<u>\$99,355</u>	<u>\$166,730</u>	<u>\$266,085</u>

There should be added to the service contributions, the sum of at least \$11,221 for the payments made by the city and county in FICA taxes and contributions to the employees' retirement system and for the employees' accrued vacation, sick leave and health benefits.<sup>2</sup>

#### State Department of Transportation's Highway Planning and Research Fund

The Federal-Aid Highway Act of 1962, provides that after July 1, 1965, the bureau of public works shall not approve any federal highway project in urban areas of more than 50,000 population, unless the project is based on a *continuing comprehensive transportation planning process carried on cooperatively by State and local communities* . . . . The Act further provides for highway planning, research and development funds to be administered by the States. For the State of Hawaii, the highway planning, research and development fund consists of approximately 80% federal and 20% State moneys.

<sup>2</sup>See chapter 4, *supra*.



To assist the State in achieving the requirement for a comprehensive planning process on a continuing and cooperative basis, the bureau of public roads authorized the use of the federal-aid highway planning and research fund to defray part of the cost of the Oahu Transportation Study, upon the signing of the memorandum of understanding, dated July 2, 1964, by the State and the city and county of Honolulu. The memorandum of agreement designated the policy committee of the Oahu Transportation Study to carry on this continuing planning process.

Financial assistance from the highway planning and research fund, however, was not available, other than for computer services, until after fiscal year 1965, because of the fund's prior commitments. Cash from the fund became available in mid-1965.

The sum of \$298,250 of the highway planning and research fund was used in the Oahu Transportation Study, as follows.

Cash to Oahu Transportation Study .....	\$137,324
Vouchers processed and payments made by State department of transportation ...	73,788
Salaries and wages of State department of transportation's personnel assigned to OTS .....	66,185
Computer and equipment use charges .....	20,953
Total .....	<u><u>\$298,250</u></u>

1. Cash to Oahu Transportation Study. The \$137,324 transferred to the Oahu Transportation Study was used to pay for the following items.<sup>3</sup>

Salaries and wages, OTS personnel .....	\$104,864
Services by technical consultants .....	365
EDP (university of Hawaii) .....	20,570
Travel .....	4,404
Other expenses:	
Office supplies .....	4,738
Reproduction and publication .....	124
Rent .....	1,350
Furniture and fixtures .....	<u>909</u>
	<u><u>\$137,324</u></u>

2. Salaries and wages. The sum \$66,185 represents the salaries and wages of the State department of transportation's personnel including those who operated the transportation department's computers which were made available to the Oahu Transportation Study. This sum does not include *administrative charges* of \$4,994 which the Oahu Transportation Study is expected to pay to the State department of transportation. This \$4,994 is noted in the balance sheet, under *Liabilities, as Advances payable to State department of transportation*.

<sup>3</sup>This breakdown was secured from the fiscal records of the State department of transportation's highway planning and research fund. The Oahu Transportation Study's records do not indicate for what specific purpose the \$137,324 was used. Thus, as noted in chapter 3, we presumed then the study expended this sum for those purposes stated in the records of the department of transportation as reasons for the transfers of cash. See also footnote 2, chapter 4, *supra*.

**3. Computer and equipment use charges.** The \$20,953 represents the computer service and equipment use time made available by the data processing section of the State department of transportation. As noted in the previous chapter, this service by the State department of transportation was only a fraction of the total computer services required by the Oahu Transportation Study.

On the basis of an 80-20 ratio, federal funds accounted for \$238,250, and State funds accounted for \$60,000 of the total \$298,250.

#### Liabilities

As of August 31, 1967, the Oahu Transportation Study had \$23,304 in liabilities. A summary of the liabilities is as follows.

Accounts payable .....	\$ 559
Accrued vacation .....	17,751
Advances payable to State department of transportation .....	4,994
Total .....	<u>\$23,304</u>

#### Accounts Payable

Accounts payable consists of bills to be paid for supplies purchased, telephone charges and electronic data processing charges.

#### Accrued Vacation

Vacation credits, totaling \$17,751, accrued to the employees of the Oahu Transportation

Study as of August 31, 1967. This sum includes \$12,086 for four employees who have, since August, 1967, been transferred to the State department of transportation, and \$5,665 for three employees, two of whom have, since August, 1967, utilized all of the accrued vacation credit and one of whom is on extended vacation to early 1968.

#### Advances Payable to State Department of Transportation

Advances payable to the State department of transportation of \$4,994 represents *administrative charges* in connection with the services rendered to the study by the personnel of the State department of transportation. These administrative charges are not payable out of the highway planning and research fund and are charges to be paid for by the Oahu Transportation Study.

#### Liabilities vs. Receivables

The balance sheet notes that there is cash available on deposit with the State director of finance of \$10,697, and there is \$43,300 of federal grant withheld by the federal government. The total receivable is thus \$53,997. If the total liabilities are subtracted from the total receivable, there is balance in the Oahu Transportation Study of \$30,693. It is expected, however, that this balance will be reduced when the report of the study is finally published and distributed.

### PART III. SUMMARY

Pursuant to senate resolution no. 190, regular session, 1967, this office conducted a post-audit of the financial records, books and transactions of the Oahu Transportation Study. The study included the period between July 1, 1962 and August 31, 1967. The following summarizes our findings.

#### The Study Itself

1. The Oahu Transportation Study began operations officially on July 1, 1962, pursuant to Act 30, SLH 1962. It made its initial application for federal funds under the Housing Act of 1954, on June 12, 1962. The initial budget which was approved on March 1, 1963, and the contract which was thereafter executed by the State and the federal government on May 8, 1963, provided for a federal grant of \$340,000. This grant was amended upon application by the State on August 27, 1965. As amended, the federal grant is \$433,000. A third application for an additional \$50,000 in federal grant was filed on September 9, 1966, but it was subsequently returned to the State without approval. The Oahu Transportation Study ceased operating, except for publication of its final report, as of August 31, 1967.

2. The federal government approved the State's first amendatory application and revised the federal grant to \$433,000, on the condition that the study, in addition to performing those tasks contained in the initial

contract, would (a) develop a short-range as well as a long-range transportation plan; (b) engage a transportation consultant to perform the transit analysis phase of the project; (c) engage a transportation consultant on a regular basis; and (d) institute an in-service training program for the study's professional staff.

As an additional condition to the approval of the second amendatory application for another \$50,000 federal grant, the federal government requested that the Oahu Transportation Study submit a program outlining how the results of the study would be presented to the various government bodies and how the comprehensive planning requirements for Urban Mass Transportation grants would be met.

As of the writing of this report, the second amendatory application has been returned to the State without action by the federal government, the short-range transportation plans have been left to the continuing phase of the planning process, which is now lodged with the State department of transportation, and the in-service training requirement has been cancelled by the federal government.

3. Although the initial application for federal funds was approved on March 1, 1963, the study was not formally organized until July 19, 1963, and the prospectus and work program required by the federal government was not submitted until November 1963. The delay was caused in part by three events:

(a) the election of November, 1962, which caused a change in the State administration; (b) the merger in 1963 of the then existing department of planning and research and department of economic development into a new department of planning and economic development; and (c) the change in operational concept from that of having consultants do the bulk of the analytic work needed in the study to that of developing the study's own staff capabilities.

4. The urban planning grant under the Housing Act of 1954 was augmented by the State department of transportation's planning and research funds, consisting of 20% State funds and 80% federal funds under the Federal-Aid Highway Act of 1962. It was in part to secure the funds under the highway act that the change in operational concept came about. Under the highway act, a *continuing planning process* is required for federal aid in highway projects after July 1, 1965. By agreement of the affected agencies, the Oahu Transportation Study was designated as the *continuing planning process*.

5. The federal government has withheld \$43,300 of the promised grant under the Housing Act of 1954, pending completion of the transportation study. How much of this will ultimately be paid to the State is in doubt for the following reasons: (a) the State has not completed one of the requirements imposed when the federal government approved the first amendatory application—i.e., developing short-range transportation plans; and (b) the

study has failed to maintain adequate financial records.

#### The Study's Financial Records, In General

1. The Oahu Transportation Study has been lax in its handling and maintenance of financial records. Our audit commenced on May 11, 1967. We were, however, unable to conduct the audit since the study had failed to maintain a complete set of financial records. The study developed the records by mid-June 1967. Our audit was completed thereafter.

2. The failure of the study to maintain a complete set of financial records was in violation of federal requirements. The accounting procedures manual issued for urban planning grants under section 701 of the Housing Act of 1954 prescribes the following minimum accounting records: (a) general ledger accounts; (b) separate cost subsidiary ledger accounts for salaries and wages, travel, etc.; and (c) separate accounts receivable subsidiary ledger accounts. None of these had been developed as of May 1967.

3. The fiscal records as developed in June 1967 fail to classify expenditures according to project phases or activities—e.g., inventory of island economy, population growth, land use records and data; analysis of existing travel characteristics; etc. The initial budget formulated in preparation for application for section 701 urban planning grants estimated the cost of the project by these activities. In the absence of records kept along these activity categories, we were unable to determine the



amount of money spent in each phase of the project.

4. The fiscal records as developed in June 1967 do not distinguish expenditures paid for from the urban planning grant fund and expenditures paid for from the highway planning and research fund. Such segregation would have aided us, and would be of assistance to federal auditors, in determining the legality and propriety of expenditures from these separate funds.

5. The Oahu Transportation Study filed semi-annual financial reports to the federal government. These reports, however, were misleading in that (a) the reports were incomplete in displaying all financial information, and (b) it gave an impression that the study was maintaining adequate fiscal records, when, in fact, it was not.

6. The monthly progress reports submitted to the director of the State department of planning and economic development for transmission to the governor were inadequate in that they failed to contain fiscal information relating to costs being incurred by the study, the future costs, and the likelihood of overage or shortage in funding. In addition, the study failed to provide fiscal reports to the study's policy committee on a regular basis.

7. In the absence of proper fiscal records, the first and second amendatory applications for more urban planning grant moneys were based on gross estimates and incomplete data. The results were serious underestimations of the funds required.

8. Although the transportation study lasted for over five years, and during that period

there was a change in project directorship three times, no internal audit was ever made of the study's finances.

## **Expenditures**

1. The Oahu Transportation Study's balance sheet, as of August 31, 1967, shows the total project cost at \$1,132,486. This figure is understated by at least \$11,221. The \$11,221 is the estimated amount (based on 8.4% of gross payroll) of the city and county of Honolulu's payment of FICA taxes and contributions to the employees' retirement system for, and the accrued vacation, sick leave and health benefits earned by, the city and county of Honolulu's employees who worked on various phases of the study. In addition, it is expected that the final cost figure will increase upon the revision and publication of the final report of the study.

2. Salaries and wages paid to the personnel of the Oahu Transportation Study totaled \$417,143, as compared with the latest approved budget allocation of \$265,994. One hundred four thousand eight hundred and sixty-four dollars of the \$417,143 was paid for from the State department of transportation's planning and research fund.

3. Costs for consultants' services totaled \$331,579, as compared with the latest approved budget allocation of \$176,361. Fifty-seven thousand five hundred dollars was paid for by the city and county of Honolulu to the consultant it hired to compile traffic data in a comprehensive fashion. Two hundred seventy-four thousand seventy-nine dollars was paid

for by the Oahu Transportation Study. One hundred twenty-three thousand five hundred and thirty-eight dollars of the \$274,079 was paid to the University of Hawaii for research services. Ninety-five thousand dollars of the \$274,079 was paid to Daniel, Mann, Johnson and Mendenhall for the modal split model and transit analysis. The modal split model and transit analysis cost was grossly underestimated. Forty thousand dollars of the \$305,994, allocated in the latest approved budget for the study's personnel cost, was diverted to the payment of the transit analysis cost. However, the \$40,000 was short by \$55,000, which necessitated an advance by the State department of transportation from its highway planning and research fund.

4. In none of the applications submitted by the study for section 701 urban planning grants was the cost of services for computer time and cost of the services of the department of transportation personnel budgeted. EDP services alone totaled \$102,348. In addition, the costs of the State department of transportation's personnel totaled \$71,179. One hundred twenty-three thousand two hundred fifty-five dollars of the total \$173,527 was paid for out of the State department of transportation's planning and research fund.

5. Travel expenses exceeded the latest budget by \$8,119. Four thousand dollars was incurred in providing in-service training to one-half of the study's personnel, in an attempt to meet the in-service training requirement imposed by the federal government when it approved the first amendatory application. Approximately one-half of the total

travel cost of \$12,008 was incurred without written authorization from appropriate federal officials, in violation of federal regulations. In addition, several travel items appear to have been for conventions and professional meetings, which are not entitled to be charged off against the latest budget's travel allocation.

6. The cost of office furniture, fixtures and equipment (including rental of equipment and office renovation) totaling \$10,035 was not considered in the budgets submitted to the federal government for approval. Five thousand eight hundred and thirty-three dollars worth of furniture, fixtures and equipment was transferred from the study to the other State agencies subsequent to August 31, 1967. Two thousand and sixty-eight dollars was spent for equipment rental and office renovation. Two thousand one hundred and thirty-four dollars worth of furniture, fixtures and equipment is in poor condition and of little useful value.

7. Federal funds under section 701 of the Housing Act of 1954 became available after March 1, 1963. All costs incurred by the study prior to that date are not entitled to be considered in determining the amount of federal contribution. Thirteen thousand nine hundred and sixty-seven dollars was spent between July 1, 1962 and March 1, 1963, for the salaries of the first project director, travel expenses of a consultant and supplies.

#### **Fund Contributions and Liabilities**

1. Act 30, SLH 1962, contemplated that the State would contribute \$100,000 in cash, and that the city and county of Honolulu

would contribute \$100,000 in cash or services to the study. As of August 31, 1967, State contributions totaled \$165,844 and the city and county of Honolulu contributions totaled \$266,085 (plus \$11,221 of additives—see no. 3 below). In addition, \$298,250 of the State department of transportation's planning and research fund was used in the study. The federal contribution is limited to \$433,000.

2. The State contribution included the transfer of \$44,344 of the unrequired balances of completed capital improvements projects authorized under Act 30, SLH 1962. In addition, the sum of \$21,500 was transferred from the State department of transportation's highway special fund.

3. The city and county of Honolulu's contributions consisted of services by the city and county's traffic and planning departments of \$133,585, cash of \$75,000, and payment of a consultant's services to compile comprehensive traffic data of \$57,500. There should be added to the service contribution, the sum of at least \$11,221, representing payments made by the city and county in FICA taxes and contributions to the employees' retirement system and for the city employees' accrued vacation, sick leave and health benefits.

4. The State department of transportation's highway planning and research fund applied to the transportation study totaled \$298,250. This sum was expended by the department of transportation by transferring \$137,324 in cash to the transportation study, paying \$73,788 worth of the study's bill, paying \$66,185 in salaries and wages to the transportation department's personnel assigned to

work on some phases of the transportation study, and paying \$20,953 for the use of the department of transportation's computer and equipment.

5. As of August 31, 1967, the Oahu Transportation Study had liabilities totaling \$23,304. Accounts payable, consisting of bills to be paid for supplies, telephone and data processing totaled \$559; accrued vacation for the study's staff personnel totaled \$17,751; and advances payable to the State department of transportation in administrative charges for the use of the department's computers and equipment totaled \$4,994.

6. There was, on August 31, 1967, a cash balance in the study of \$10,697 and account receivable of \$43,300, representing the amount withheld by the federal government, pending completion of the study and audit of the transportation study's books by federal auditors.

## PART IV

## ADDENDUM



# ADDENDUM

The following is the balance sheet issued by the Oahu Transportation Study as of December 31, 1967. No audit has been made of this balance sheet, and it is presented here for information purpose only.

## STATE OF HAWAII DEPARTMENT OF PLANNING AND ECONOMIC DEVELOPMENT OAHU TRANSPORTATION STUDY PROJECT NO. HAWAII P-13

Balance Sheet as of December 31, 1967

ASSETS		
Cash		\$ 4,545.34
Accounts Receivable:		43,300.00
Federal Grants	\$ 43,300.00	
DOT Commitment	-0-	
Project Cost:		1,152,851.71
Salaries & Wages	632,056.19	
Technical Consultants	55,541.07	
City & County of Honolulu	191,084.39	
Daniel, Mann, Johnson, and Mendenhall	95,000.00	
Electronic Data Processing	102,347.60	
Travel	12,008.37	
Reproduction and Publication	4,598.81	
Other Expenses	38,891.82	
Pre-Project Cost	13,967.26	
Project Inspection Fee	7,356.00	
<b>TOTAL ASSETS AND EXPENDITURES</b>		<u><b>\$1,200,697.00</b></u>
LIABILITIES & CAPITAL		
Liabilities:		
Accounts Payable	139.12	
Accrued Vacation	2,606.33	
Advance Payable to DOT	31,285.95	
<b>Total Liabilities</b>		<b>34,031.40</b>
Capital:		
Federal Grants	433,000.00	
State Grants	\$100,000.00	
City & County of Honolulu	266,084.59	
DOT-BPR Funds	301,736.88	
DOT & Other Funds	65,844.18	
<b>Total Capital</b>	<u><b>733,665.65</b></u>	<u><b>\$1,166,665.65</b></u>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>		<u><b>\$1,200,697.05</b></u>

## SUMMARY OF CHANGES

The format of the balance sheet of December 31, 1967, differs from the format of the balance sheet of August 31, 1967. This format difference does not permit easy comparison of the two balance sheets. To facilitate comparison, we summarize in the following table the changes which occurred between August 31 and December 31, 1967. The summary follows the item categories noted in the August 31 balance sheet.

### CHANGES OCCURRING BETWEEN AUGUST 31, 1967 and DECEMBER 31, 1967

Categories	August 31, 1967	Dec. 31 1967	Increase [Decrease]
<b>ASSETS</b>			
1. Cash with Director of Finance, State of Hawaii .....	\$ 10,697	\$ 4,545	\$ [6,152]
2. Project Costs			
a. Salaries & Wages			
Oahu Transportation Study Personnel .....	417,143	419,602	2,459
State Department of Transportation Personnel .....	71,179	88,916	17,737
b. Office Supplies .....	25,257	25,307	50
c. Reproduction and Publication .....	4,479	4,999	120
TOTAL INCREASE IN PROJECT COST .....			\$20,366
NET INCREASE IN ASSETS .....			<u>\$14,214</u>
<b>LIABILITIES AND FUND CONTRIBUTIONS</b>			
1. Liabilities			
a. Accounts Payable .....	\$ 559	\$ 139	\$ [420]
b. Accrued Vacation .....	17,751	2,606	[15,145]
c. Advances Payable to Department of Transportation, State of Hawaii .....	4,994	31,286	26,292
NET INCREASE IN LIABILITIES .....			\$10,727
2. Fund Contributions			
Department of Transportation Highway Planning Fund Contributions .....	298,250	301,737	3,487
NET INCREASE IN LIABILITIES AND CONTRIBUTIONS .....			<u>\$14,214</u>

## NOTES

The increase (or decrease) which occurred during the interim between August 31 and December 31, 1967, may be explained as follows.

### ASSETS

1. Cash decreased by \$6,152 when it was used to pay for the following:

Salaries & wages, OTS personnel .....	\$ 2,325
Accrued vacation taken, OTS personnel .....	3,237
Accounts payable paid .....	420
Office supplies purchased .....	50
Reproduction and publication .....	120
	<u>\$ 6,152</u>

- 2a. Project Costs: Salaries and Wages

OTS personnel cost of \$2,459 includes:

Salaries and wages paid .....	\$ 2,325
Vacation accrued .....	134
	<u>\$ 2,459</u>

State department of transportation personnel cost of \$17,737 includes:

Salaries paid by BPR funds .....	\$ 3,487
Salaries paid by DOT funds (to be reimbursed by OTS) .....	14,250
	<u>\$17,737</u>

- 2b & 2c. Office supplies cost of \$50 and reproduction and publication cost of \$120 were additional costs incurred during the interim.

## LIABILITIES AND CONTRIBUTIONS

- 1a. **Accounts payable.** The sum of \$420 represents payments made of the total \$559 which was outstanding on August 31. Payments were made from cash.

- 1b. **Accrued vacation.** The reduction of \$15,145 resulted as follows:

Vacation taken by OTS personnel (paid from cash) .....	\$ 3,237
Vacation costs for DOT personnel (assumed by DOT to be reimbursed by OTS) .....	<u>12,042</u>
	15,279
Less vacation accrued since August 31 .....	<u>134</u>
	<u>\$15,145</u>

- 1c. **Advances payable to DOT, State of Hawaii.** The increase in the amount OTS owes DOT by \$26,292 is explained as follows:

Salaries paid DOT personnel from DOT funds .....	\$14,250
Accrued vacation costs assumed by DOT for DOT personnel .....	<u>12,042</u>
	<u>\$26,292</u>

2. **Fund contributions: DOT Highway Planning Fund**  
The increase of \$3,487 represents the amount of salaries paid to the department of transportation personnel during the interim from the Federal-Aid Highway planning and research fund.



## LIABILITIES AND CONTRIBUTIONS

- 1a. **Accounts payable.** The sum of \$420 represents payments made of the total \$559 which was outstanding on August 31. Payments were made from cash.

- 1b. **Accrued vacation.** The reduction of \$15,145 resulted as follows:

Vacation taken by OTS personnel (paid from cash) .....	\$ 3,237
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Less vacation accrued since August 31 .....	<u>134</u>
	<u>\$15,145</u>

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Salaries paid DOT personnel from DOT funds .....	\$14,250
Accrued vacation costs assumed by DOT for DOT personnel .....	<u>12,042</u>
	<u>\$26,292</u>

2. **Fund contributions: DOT Highway Planning Fund**  
The increase of \$3,487 represents the amount of salaries paid to the department of transportation personnel during the interim from the Federal-Aid Highway planning and research fund.

PART V

APPENDICES

## RESOLUTION

WHEREAS, in Act 30, Session Laws of Hawaii 1962, a provision was made for the Oahu Transportation Study (OTS) to be financed by state, county and federal monies; and

WHEREAS, the original deadline for the study set for August 31, 1965 was extended at the request of the project administrator to June 30, 1966 and then further to August 31, 1967; and

WHEREAS, the original budget for OTS was a total of \$510,000, yet its cost to date, according to reports has risen to a fantastic \$1,018,000 and its eventual cost may exceed \$1.2 million dollars by August 31, 1967; and

WHEREAS, information concerning progress of the study has been withheld from members of the officially appointed Citizens Advisory Committee leading its members to seriously consider mass resignations; and

WHEREAS, delayed highway planning and construction and lack of transit facilities mean greater highway risks on out-moded facilities and injury to our population; and

WHEREAS, the history to date of the OTS raises serious questions concerning the expenditures made in connection with the study; and

WHEREAS, the Senate Committee on Economic Development, Tourism and Transportation recommends on the basis of hearings held on the OTS and its study of the history of the OTS and the testimonies and evidences presented that the Legislative Auditor conduct an audit of the OTS; now, therefore,

BE IT RESOLVED by the Senate of the Fourth Legislature of the State of Hawaii, General Session of 1967, that the Legislative Auditor be, and he is hereby requested to conduct an audit of the expenditures of the Oahu Transportation Study forthwith, and to make the audit report available to all Senators as soon as it is completed; and

BE IT FURTHER RESOLVED that certified copies of this Resolution be forwarded to the Legislative Auditor; Dr. Shelley M. Merk, Project Administrator of the OTS; and Mr. Ah Leong Kam, Project Director of the OTS.

*COPY*

HOUSING AND HOME FINANCE AGENCY  
Office of the Regional Administrator  
450 Golden Gate Avenue  
Box 36003  
San Francisco, California 94102

Region VI

October 20, 1965

Dr. Shelley M. Mark  
Director  
Department of Planning and  
Economic Development  
426 Queen Street  
Honolulu, Hawaii 96813

Dear Dr. Mark:

Subject: Project No. Hawaii P-13, Amendatory Application

We are proceeding with our review of the above amendment. Its approval will be subject to the following conditions:

1. A short-range (i.e., 5-year) development program is to be prepared in addition to 1985 plan to provide a basis for development decisions. The development program will require a short-run forecast of land use, trip generation, trip distribution and traffic assignment. In addition, project priorities should be assigned for incorporation into the capital improvement programs of the jurisdictions responsible for implementation of the development program. The development program should make recommendations to appropriate jurisdictions for changes in zoning ordinances and subdivision regulations which effect the efficient operation of the recommended transportation system.
2. The transit analysis phase of the project, including the three work items titled "Modal Split Research", "Formulating Modal Split", and "Mass Transit



Analysis” is to be contracted to a transportation planning consultant experienced in transit planning and modal split models. Also, the consultant is to assist with the selection, testing and evaluation of alternative transit systems undertaken as a part of the Testing and Evaluation Phase of the Study (Work Items 90-91, 56-92 and 100-101). Work Item 1-42 should include coding of the 1964 transit network. The long-range analysis of mass transportation systems should follow the guidelines set out in Planning Agency Letter No. 44. The budget for transit analysis phase and the testing and evaluation phase of the P-13 amendment is sufficient to test a wide range of transit system alternatives including express bus systems, monorail, etc. The long-range transportation plan should produce recommendations regarding the potential level of transit service, and the general location and types of system needed to provide that service, and not merely include a distribution of possible transit trips. Short-range transit programming should give specific attention to routes, equipment, scheduling, headways, points of transfer from one mode to another, fares, financing, and other economic and travel demand factors needed to determine transit system costs and benefits. The transit systems analyzed should include the entire study area. The transit consultant should work closely with the transportation study staff to provide training in methods of transit analysis.

3. Expert advisory consulting services by John Hamburg, or some other qualified transportation consultant, are to be continued on a regular basis at the rate of ten to twenty days a year. Special attention is to be given to training your staff in transportation planning procedures.
4. An in-service training program is to be instituted to strengthen your staff for the continuing planning process. This might be done by recruiting recent graduates from the University of Hawaii, or elsewhere, who are interested in urban transportation planning. The training program should include 4 to 6 month assignments with Transportation Studies such as BATS, Detroit, Cleveland, Pittsburgh, Chicago, PSRTS, UNYTS, or other similar organizations.

The total additional cost of item 1, above, should not exceed \$40,000, and will take about six months of additional time. In view of this added requirement, and our opinion that the work outlined in your program, as submitted, will require 18 rather than 10 months, the planning period will be extended by 24 months.

We will expedite our processing of this application as rapidly as possible, and hope that we may be able to notify you of approval in two to three weeks.

Sincerely yours,

Richard G. Mitchell  
Regional Director  
Urban Renewal

[signed] OLIVER EVERETT

By: Oliver Everett  
Assistant Regional Director  
For Special Programs

## MEMORANDUM OF COMMENTS OF AFFECTED AGENCIES

Our report on the Oahu Transportation Study was completed in mid-February, 1968. On February 20, 1968, we distributed a copy of the report to each of the affected agencies, via a transmittal letter, a copy of which is attached as Attachment No. 1. The agencies were requested to submit to us their comments, if any, no later than March 1, 1968. The affected agencies to which copies of our report were sent are:

State transportation systems planning office  
State department of planning and economic development  
State department of transportation  
City and county of Honolulu, department of traffic  
City and county of Honolulu, department of planning.

At the request of the agencies concerned, our deadline of March 1, 1968, for the submission of agency comments, was postponed until March 8, and then, later to March 12, 1968. The agencies desired time to permit them to secure from the United States department of housing and urban development clarifications on some of the points raised in our report and to permit the policy committee of the Study to convene to review our report. All affected agencies participated in submitting a single reply, which is attached as Attachment No. 2. It was received on March 12, 1968.

### General Nature of Response

The covering letter to which the comments of the agencies were attached hints at unprofessionalism in the conduct of our audit and objects strenuously to what the agencies refer to as *some leading opinions and conclusions and some strong, unqualified statements which may, in our judgment, be misleading as to the validity of the project*. We think the agencies protest too much.

Our review of the agencies' comments leads us to conclude that, generally, the comments are not directed to the issues raised in our report, but to semantics and language. Our response to some of the points raised in the agencies' comments are as follows. (The item numbers refer to the item numbers contained in the agencies' comments. The paragraph and page references contained in the agencies' comments were changed to conform to the page numbering of this final draft of our report.)

**Item No. 4.** The agencies object to the statement in our report that at two points, the Oahu Transportation Study *virtually ran out of funds*. They suggest that this condition *was caused in large part by the inability of some of the participating agencies to fulfill their prior budgetary commitments at those times*. The point is, of course, that the participating agencies were asked to commit more than initially intended because the Study was running out of funds.

**Item No. 9.** Footnote 2/ notes that on March 5, 1968, the Study's project director requested confirmation from the department of housing and urban development that the State is no longer bound by the four conditions prescribed at the time of the approval of the first amendatory application, and that on March 6, 1968, the department of housing and urban development wired a message stating that *the State is relieved of any further obligation to pursue these four specific items*. We are pleased that the Study finally secured an official communication to that effect.

**Item No. 10.** The facts noted in this item have been taken into account in this final draft of our report.

**Item No. 11.** We agree that No. 1 is answered by the March 6, 1968 wire received from the department of housing and urban development. That the matter of the Study's fiscal records *should pose no problem*, is the agencies' opinion.

**Item No. 15.** The agencies state that our report, in table II, compares *oranges with apples* in reaching the conclusion that the Study grossly underestimated the costs in the various applications made for urban planning grants. The comments state,

*... approved budgets in urban planning grant applications represent only that portion of the cost of the project which is participated into by the Department of Housing and Urban Development on a matching basis of one-third State to two-thirds Federal, while that portion of the cost of the project which is participated into by other funds appears in tabular tables submitted as supplementary material in grant requisitions.*

The comments then conclude that,

*... in order for one to determine the extent to which the Study has estimated the cost of the project, one must compare the actual cost incurred in the transportation study (\$1,143,707) with the Study's estimate of the project cost.*

The comments then purport to show what the estimated project cost was at the time of the submission of the first and second amendatory applications. In support, the agencies attached to their comments three tables, labeled Appendix A, B, and C, respectively.

Our response is as follows:

1. Our report points out that the Oahu Transportation Study grossly underestimated the cost of the project at the time of the submission of the various applications for urban planning grants. We said that this gross underestimation resulted from the Study's failure to keep adequate financial records, and we noted that the Study had not set up a complete set of financial books of accounts until after we began our audit in May, 1967. Adequate fiscal records are needed to estimate what a project is finally going to cost, since estimations of the total cost include past expenditures, plus expected future expenditures. Thus, each time an application for urban planning grant was made, the Study needed to determine exactly how much had been spent up to that date, and based on the experience of the past, estimate how much would be required to complete the project.

The agencies' calculations and the figures noted in appendices A, B, and C, as to what had been expended up to June 30, 1965 and June 30, 1966, were based on inadequate fiscal records. At the time we made our audit, we were aware of the existence of appendices A, B, and C. At that time, however, as we pointed out in our report, the Study was unable to supply us with the worksheets from which the appendices were constructed. As we also pointed out, the Study often constructed statements, such as these, upon incomplete data.

Thus, the figures in appendices A, B, and C, and the resultant calculations, regarding what the Study had already spent at the time of the submission of the first and second amendatory applications are of questionable validity. Indeed, they are classic examples of the confusion generated by the Study's failure to maintain adequate records.

We illustrate below some of the difficulties in using the figures noted in appendices A, B, and C.

2. The figures which purport to show how much was spent as of June 30, 1965, are not consistent as between appendix A and appendix B. For example, appendix A



purportedly prepared at the time of the Study's submission of its first amendatory application in August 1965, notes in column (3) that as of June 30, 1965, the adjusted expenditure of OTS was \$480,282.

If we read appendix B correctly, it appears that in September, 1966, OTS changed its mind as to what the adjusted expenditure as of June 30, 1965, was. Based on the figures supplied in appendix B, we calculate that in September, 1966, OTS believed that the adjusted expenditure as of June 30, 1965, was not \$480,282, but rather \$418,945. The calculation is as follows:

Project Expenditure (column (1)) .....	\$567,802.00
Non-DHUD & Other Non-DHUD Matching	
Funds (column (4)) .....	<u>151,858.73</u>
Net .....	\$415,943.27
Inspection Fee (footnote 2/) .....	<u>3,002.00</u>
Adjusted expenditure as of June 30, 1965 .....	<u>\$418,945.27</u>

Our own findings based on the records and source documents of the Study, indicate that as of June 30, 1965, OTS in fact expended a total of \$581,432, including the value of the services rendered by the State department of transportation, and the city and county of Honolulu traffic and planning departments.

3. The agencies' calculations, contained in their comments to show what its estimates of the project costs were at the time of the first and second amendatory applications, is misleading.

a. For the first amendatory application, the agencies' comments state that OTS made the following estimate:

Total 701 and matching funds .....	\$649,500
Total other funds .....	<u>225,660</u>
Total estimated cost .....	<u>\$875,160</u>

The comments do not explain what is included in the \$225,660 *total other funds*. Our examination revealed that included in this sum are:

- \$114,000 - future estimated *total other funds* noted in column (6) of appendix A; and
- \$111,600 - noted in parenthesis in column (3) of appendix A.

We note:

The \$111,600 was added as *other funds* as if that amount and only that amount had in fact been spent in services by other public agencies as of June 30, 1965. The records of OTS do not support this belief. It is interesting to note, that appendix B, column (1) lists \$0 for *services by other public agencies* for fiscal year ending June 30, 1965.

The \$114,000 includes amounts which OTS expected to receive from the highway planning and research fund (HPR fund). (In this connection, if \$111,600 was in fact spent, some of the moneys in all probability came from the HPR fund.) As we indicated in our report, we recognize that the total, actual expenditure of OTS includes \$298,250 of HPR moneys.

b. For the second amendatory application, the agencies' comments state that OTS made the following estimate:

Total 701 and matching funds .....	\$ 724,500
Total other funds .....	403,064
Total estimated cost .....	<u>\$1,127,564</u>

The comments again fail to state what is included in the \$403,064, *total other funds*. Our examination revealed that included in this sum are:

- \$177,564 - future estimated *total other funds* noted in column (6) of appendix C; and
- \$255,500 - *total Non-DHUD and other non-DHUD matching funds* noted as having been spent as of June 30, 1966, in column (6) of appendix B;
- LESS some \$30,000.

We note:

The \$177,564 plus \$255,500 equals \$433,064. The agencies, however, chose to subtract \$30,000 from this to arrive at what they claim they estimated the project would cost. Why \$30,000 was subtracted is not explained. Our reading of the files of OTS indicate that somewhere along the line, the sum of \$30,000 of the State's initial contribution of \$100,000 was used for *non-HUD participating* cost. If this is the reason for the subtraction, the deduction is in error, since the **total** cost of the project is calculated on the basis of **both** participating and non-participating costs, as appendices A, B, and C apparently try to do.

Without a subtraction of the \$30,000, the total project cost estimate claimed by the agencies is \$13,857 more than the actual cost noted in our report (\$1,143,707). No claim of having **overestimated** is made by the agencies. Why the estimate totals \$1,157,564, when calculated the way the agencies have in their comments, is easily explainable. Included in that total sum is the sum of at least \$75,000, the amount of additional HUD participating funds for which the second amendatory application was submitted. In the letter, dated September 9, 1966, written by the director of the State department of planning and economic development, which letter accompanied the Study's second amendatory application, the director stated that the \$75,000 HUD participating funds would be used for the purpose of complying with the four conditions which were imposed at the time of the approval of the first amendatory application.

The letter further indicated that the Study was not asking for HUD's assistance in the other estimated future costs of the Study, unless HUD agreed to participate in those costs.

The second amendatory application was not approved, and the four conditions for which the \$75,000 was intended were not undertaken, except for one-half of in-service staff training. Thus, in determining what the Study estimated in terms of its requirements for the remainder of the project, at least \$71,000 (\$75,000 minus \$4,000 for in-service cost actually incurred) must be deducted. When so deducted, the cost estimated by OTS in September, 1966, was not \$1,127,564, as the comments suggest, but rather no more than \$1,056,564.

The \$1,056,564, of course, includes federal highway planning and research fund, which we said in our report should be taken into account in comparing the actual cost of the Study with the budgeted amount.

c. We sum up our findings regarding the agencies' complaint and method of calculation thus: The agencies' comments utilize figures which do not exist or which cannot be substantiated to calculate what the agencies claim to be were the estimates of OTS at the time of its first and second amendatory applications.

**Item No. 16.** The agencies' comments state,

*Here again, one may show the differences between the amounts of the grant budgets allocated for salaries and wages and the actual costs, but one should not use the differences to draw conclusions regarding the over and under-estimating of the cost of this item in the Study.*

The comments then proceed to show for the budgeted and proposed costs the total salaries and wages *estimated by the Study*, the amounts to be participated into by HUD, the amounts to be participated into by other funds, and the actual costs as determined by our audit, thus:

	<i>1st Approved Budget</i>	<i>2nd Approved Budget (As Amended)</i>	<i>Proposed 3rd Budget</i>	<i>Actual Cost</i>
Total 701 and matching funds .....	\$91,008	\$265,994	\$290,624	
Total other funds .....	—	72,603	177,946	
	<u>\$91,008</u>	<u>\$338,597</u>	<u>\$468,570</u>	<u>\$417,143</u>

The foregoing tabulation was included in the agencies' comments apparently to show that the Study was not far off in estimating the cost of salaries and wages. We cannot agree with the agencies' calculations. The figures used by the agencies in their calculations are of questionable validity. For instance, the \$177,946 (the proposed third budget calculation) is the sum of \$105,321, shown on line 1, column (6) of appendix B and \$72,625 shown on line 1, column (6) of appendix C. These figures were derived from inadequate fiscal records, and are, thus, inaccurate. We noted for example that included in the \$177,946 is the sum of \$11,666 in pre-project costs. Our actual salaries and wages cost figure of \$417,143, however, is exclusive of pre-project costs. In table II of our report, we show *pre-project cost* as a separate item.

Under the same item (item No. 16), the agencies state,

*The Legislative Auditor, in our judgment, is not qualified to determine whether the cost of salaries and wages are either high or low for the Oahu Transportation Study. Thus, it is our opinion that he has gone beyond the scope and limitation of the audit by assessing the operational adequacy of the Study (see Audit Scope and Limitations, page 1).*

This statement was made with reference to our statement that *The high cost of salaries and wages of the Oahu Transportation Study personnel is laid to the lack of skilled personnel and the necessity of training and developing them.* We think the agencies read too much into our statement. Our statement simply says that the high cost of salaries and wages is *laid* to the lack of skilled personnel, etc. We made no

judgment as to whether the salaries and wages were high or low. If anything, our statement is incomplete to the extent that we failed to state that the high cost of salaries and wages *is blamed by the Study* to the lack of skilled personnel. The minutes of the Policy Committee's forty-third meeting held on April 22, 1965, read, in part, as follows:

*On the question why the Study was costing so much more than originally planned, Mr. Jones cited as one example the land use survey which has cost the City three times their original estimate. This increase reflects the amount of data collected and therefore must be processed. He further pointed to the complete lack of personnel trained in the processes of a transportation study as a major cost element. (Emphasis added.)*

Item No. 17. The agencies complain that we have not made an accurate comparison between the actual cost of consultants' services and the Study's estimate for those services. We do not believe that the complaint has merit. Even if the agencies' purported estimate of \$249,550 (the first amendatory application) is considered, we find that, the total cost for consultants' services exceeded the budgeted amount by \$82,029.

Item No. 19. The comments state that our statement to the following effect is not exactly correct:

*In neither the second approved budget nor the third proposed budget is any mention made of the contributions to be made by any public agency or the need for electronic data processing services.*

The agencies contend that (a) it was not necessary to mention that the cost of data processing services of the State department of transportation and the Service Bureau Corporation were paid for by HPR funds, since the amounts appearing in the urban planning project budget represent only those amounts which are to be participated in by HUD, and monies which are not being matched with 701 funds are not shown or mentioned on the form; and (b) that, in any event, HUD knew of the purchase of the services from the department of transportation and the Service Bureau Corporation.

This statement reveals inconsistency on the part of the Study. Appendices A, B and C, to the agencies' comments show other costs paid for from HPR funds.



Evidently, in the case of data processing, the Study chose not to do so. Such inconsistency casts additional questions as to the validity of the figures in the appendices.

Item No. 23. The comments state,

*In light of budget estimate, the absence of proper fiscal records caused only an understatement of the expenditures. The underestimations of the funds required were not due to this absence of records. It was due to the underestimation of the time required to accomplish the scope-of-work.*

The comment plays on words. In estimating future requirements, adequate financial records will indicate accurately how much cost has been incurred, and how much can be expected in the future for what kind of activity required to finish a project.

CLINTON T. TANIMURA  
AUDITOR



THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
IOLANI PALACE  
HONOLULU, HAWAII 96813

February 20, 1968

Dr. Shelley M. Mark, Director  
Department of Planning and  
Economic Development  
State of Hawaii  
Honolulu, Hawaii

Dear Dr. Mark:

Enclosed is a copy of our preliminary report on the financial audit of the Oahu Transportation Study. The term, *preliminary*, indicates that the report has not been released for general distribution. However, copies of this report have been submitted to the Administrative Director of the State, the Speaker of the State House of Representatives, the President of the State Senate, and all State and county agencies affected by our examination.

I would appreciate receiving your written comments on this report. Your comments must be in our hands by March 1, 1968. The report will be finalized and released shortly thereafter.

If you wish to discuss the report with us we will be pleased to meet with you on or before February 26, 1968. We await a call from your office to fix the appointment. A *no call* will be assumed to mean that a meeting is not required.

We are deeply thankful for the help and cooperation extended by your staff to our auditors.

Yours very truly,

  
Clinton T. Tanimura  
Legislative Auditor



Department of **PLANNING AND  
ECONOMIC DEVELOPMENT**  
426 QUEEN STREET • HONOLULU, HAWAII 96813 • PHONE 504-426

ATTACHMENT NO. 2

JOHN A. BURNS  
Governor  
SHELLEY M. MARK  
Director  
Cabin Address  
DEVELOPMENT

March 11, 1968

RECEIVED

Mr. Clinton T. Tanimura  
Legislative Auditor  
The Office of the Auditor  
State of Hawaii  
Honolulu, Hawaii 96813

DATE OF FILE 3-11-68  
PAGE 1

Dear Mr. Tanimura:

It is our understanding that Dr. Shelley Mark, former chairman of our Policy Committee, and Mr. Ah Leong Kam, Study Director, were able to meet with you and your staff to discuss your preliminary report on the financial audit of the Oahu Transportation Study.

The purpose of your audit as we understand it was to determine the full cost of the Oahu Transportation Study, its funding, the adequacy of the transportation study's fiscal records, and the nature, legality and propriety of the expenditures made for the study. We are not familiar with your audit standards but we presume you will agree that a professionally conducted audit should reveal the true reflection of the element which is being audited. In your assessment of the fiscal matters of the Oahu Transportation Study, however, you have rendered some leading opinions and conclusions and some strong, unqualified statements which may, in our judgment, be misleading as to the validity of the project. In addition, your report extends issues which do not really exist.

We are informed that the meeting with your staff, in hopes of producing a better understanding of the events which took place in the project and a better report which would be a true reflection of the project, was disappointing in that it resulted in only one change in your report--i.e., in regards to the revisions and publication of the final report of the study. The reasons given for not revising your report were: (a) that the comments were many and that it would be better for us to submit them in written form; (b) that many of our conclusions were only opinions; and (c) that we did not have written evidences to show otherwise.

We therefore transmit our written comments to your preliminary report. It is our feeling that the conclusions we have reached are fully justified by the evidence presented.

Also, it should be noted that much of the process of study conception, contract formulation, and development of fiscal and accounting procedures should have taken place as long ago as 1961 and 1962, well before the present Policy Committee and Study Staff assumed their connections with the project. We feel that the Study Staff has done an outstanding job in producing a useful, high-quality report under these circumstances.

Mr. Clinton T. Tanimura  
Page 2  
March 11, 1968

Please be informed that your field audit was conducted in a very cooperative and courteous manner by the representative of your office.

Very truly yours,



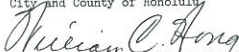
SHELLEY M. MARK, Director  
Department of Planning and  
Economic Development  
State of Hawaii



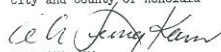
FUJIO MATSUDA, Director  
Department of Transportation  
State of Hawaii



FRANK SKRIVANEK, Director  
Planning Department  
City and County of Honolulu



WILLIAM C. HONG, Traffic Engineer  
Department of Traffic  
City and County of Honolulu



AH LEONG KAM  
State Transportation Planner  
Department of Transportation  
State of Hawaii

Enclosure

COMMENTS TO THE PRELIMINARY REPORT,  
DATED FEBRUARY 1968, ON THE FINANCIAL AUDIT  
BY THE LEGISLATIVE AUDITOR OF THE OAHU  
TRANSPORTATION STUDY

The following comments are made in an attempt to put the audit report in proper perspective and to provide a more accurate reflection of the background, scope and nature of the project:

1. Paragraph 6, page 1.

The publication of the final reports was completed before the project completion date of January 31, 1968. In separate submittals to HUD, the mailings of the reports were as follows:

<u>Volume</u>	<u>Contents</u>	<u>Date of Mailing</u>
I	Population, Economics and Land Use	January 26, 1968
II	Mass Transit, Transportation Facilities, Travel Patterns, Volumes and Forecasts	January 29, 1968
III	Plan Development and Plans	January 31, 1968

Thus, we suggest that the phrase "except for the publication of its final report" be deleted from the second sentence of this paragraph.

2. Last sentence, paragraph 4, page 3.

This sentence is not complete. The words "project cost" used in this specific instance should be qualified by including the words "as determined by the Housing and Home Finance Agency." Thus, we suggest the sentence be revised to read as follows:

"By that contract, the federal government agreed to grant to the State for the transportation study an amount of \$340,000, or an amount not exceeding two-thirds of the actual cost of the Project as determined by the Housing and Home Finance Agency (now the Department of Housing and Urban Development), whichever is less."

3. Paragraph 2, page 7.

This concluding paragraph under the section Federal-Aid Highway Act of 1962 gives the impression that the designation of the Oahu Transportation Study as the "continuing, comprehensive transportation planning process" satisfied the requirements of the Federal-Aid Highway Act of 1962 and the instructions (IM 50-2-63) of the Bureau of Public Roads. This impression is not exactly correct for reason that the effectuation of the Memorandum of Understanding, dated July 2, 1964, between the State and the City and County of Honolulu satisfied only the cooperative requirement of the transportation planning process.



Memoranda are issued by the Bureau of Public Roads for the purpose of providing the definitions and interpretations of this urban transportation planning process and the guidelines for developing each element of the planning process. The first memorandum issued by the Bureau of Public Roads was IM 50-2-63, dated March 27, 1963, but was superseded by IM 50-2-63(1), dated September 13, 1963; later by IM 50-2-64, dated May 28, 1964; and then by PPM 50-9, dated June 21, 1967. All issuances defined (a) the comprehensive requirement, (b) the continuing requirement, and (c) the cooperative requirement of the transportation planning process.

Thus, to properly clarify this second paragraph of page 7, it is suggested that the word "requirements" which appears in the third line be replaced with the words "cooperative requirement."

4. AMENDATORY APPLICATION FOR FEDERAL FUNDS, page 7.

The report states that at two points the Study "virtually ran out of funds." We wish to note that the condition alluded to was due primarily to budgetary and financial procedures which the Study's participating agencies must adhere to. We suggest inclusion of this sentence immediately following the above reference: "However, this condition was caused in large part by the inability of some of the participating agencies to fulfill their prior budgetary commitments at those times."

It should be noted that when references are made to the estimated cost of the project and/or the budget in either the Urban Planning Project Budget, Form H-6703, or the Application for Urban Planning Grant, Form H-6701, the amounts appearing on those forms need not be the same as the estimated total cost for completing the project. Thus, erroneous conclusions could be drawn when comparisons are made between the actual expenditure of the project and the values shown in the applications.

The amount of \$649,500, which appears in the second amendatory application, does not represent the estimated cost for completing the Oahu Transportation Study. It represented only that portion of the cost, as determined by HUD, which is participated in by 701 funds on a basis of one-third State to two-thirds Federal.

Thus, to put this paragraph in proper perspective, we suggest that it be revised to read as follows:

"1. First amendatory application. The first amendatory application was submitted by the Oahu Transportation Study on August 27, 1965. The application asked for an additional grant of \$93,000, based on a revised estimated (701 participating) project cost of \$649,500, and an extension of the study's completion date from August 31, 1965 to June 30, 1966. The request for additional grant was approved on January 4, 1966.<sup>21</sup> The Department of Housing and Urban Development also extended the completion date to August 31, 1967. An amendatory contract, amending the original contract, was executed on March 22, 1966.<sup>22</sup> By the amendatory contract, the federal government agreed to grant an amount of \$433,000 or an amount not to exceed two-thirds of the project cost (as determined by the Department of Housing and Urban Development), whichever is less."

5. Paragraph 5, page 7.

The approval of the request for additional grant and extension of time for the completion of the project was not conditioned on the State's fulfillment of the four conditions but rather on the State's agreeing to fulfill the four conditions, provided that proper arrangements are made for further financial assistance. This was the understanding between the State and the Department of Housing and Urban Development. The factors bearing on this problem are as follows:

- (a) October 20, 1965 -- HUD (then HHAFA) advised the State that they are reviewing the first amendatory application and its approval will be subject to four conditions.
- (b) November 26, 1965 -- State advised HUD that the Policy Committee discussed the four conditions and agreed basically that the added requirements be undertaken under separate arrangements involving the assistance of both the Housing and Home Finance Agency and the Bureau of Public Roads and that commitments regarding the extension of project time should be left open at this time.
- (c) December 1, 1965 -- HUD advised the State that they are not willing to recommend the separation of the programs as described in Mr. Everett's letter of October 20, 1965 from the amended program for the Study because they believe that the program activities are essential to the preparation of a soundly-based and fully useful transportation plan.
- (d) December 29, 1965 -- The State advised HUD that the Policy Committee discussed their letters of October 20, 1965 and December 1, 1965 and that feelings were mixed because of many unanswered questions concerning (1) further commitments of financial assistance on the part of the Department of Housing and Urban Development in the respective short-range development and transit programs and (2) the reasons for mandating the respective short-range development and transit programs under the current project. This letter further stated:
  - (1) That the State agrees the respective short-range programs are essential to the preparation of a soundly-based and fully useful transportation plan and agrees also that both activities must be accomplished in addition to the long-range (1965) plan, but the Policy Committee asks why such programs could not be undertaken under a separate project, i.e., Project No. Hawaii P-17, etc.
  - (2) That Mr. Everett's letter (October 20, 1965) advised his willingness to recommend extension of the project period by 24 months if the added requirements were agreeable under P-13, but there was no indication of further financial assistance on the part of the Department of Housing and Urban Development.

- (3) That the amended budget is not sufficient to absorb the costs of the respective programs and that the Policy Committee could not commit itself to a work program which costs could not nearly be covered under the proposed amended program unless proper arrangements are provided for further financial assistance.
- (4) That it presently commits itself to completion of the long-range plan, that action has been initiated to invite proposals on the mass transit phase of the Study, and that if the amendatory application for \$93,000, which is required to complete the long-range plan, is not assured, contract negotiations will be delayed.
- (e) February 23, 1966 -- HUD advised the State that the four conditions imposed deliberately were not included in the grant contract and that the amount which may be requisitioned will be limited to \$370,000, or about \$64,000 more than the State already has requisitioned, until such time as the four conditions in Mitchell's letter of January 4, 1966 have been met.
- (f) Circa March 14, 1966 -- Project Director requested Shoji Kato, during his visit to HUD, to inquire whether it was HUD's intention to require the State to complete all four conditions before the State can requisition the balance of the available grant.
- (g) March 15, 1966 -- Shoji Kato informed the Project Director that the word "satisfaction" is taken to mean a submittal of application and securing approval and that the extent of effort for satisfaction of condition means a definite and approved initiation of the process leading to the completion of the work item requirement.

In summary, HUD could not require fulfillment of the conditions unless it could commit grant funds in advance and the State could not commit itself to fulfillment unless it was assured of further Federal financial assistance.

Thus, to put the fifth paragraph of page 7 into proper context, it is suggested that the first sentence be revised to read as follows:

"The approval of the request for additional grant and extension of time for the completion of the project was conditioned on the State's agreeing to fulfill the following conditions on the basis that proper arrangements will be provided for further financial assistance."

6. Paragraph 1, page 8.

This paragraph conveys the impression that the reason the completion date was extended to August 31, 1967 was because the Department of Housing and Urban Development (then HHFA) estimated that it would require approximately six months to prepare a short-range development program in addition to a long-range plan. This impression is only partially correct.

It should be noted that the first application submitted by the Oahu Transportation Study asked for an additional grant of \$93,000 and an extension of the Study's completion date to June 30, 1966 (a period of 10 months from August 31, 1965 to June 30, 1966). In the review of the application, it was HUD's (then HHFA) opinion that the work outlined in the Study's program will require 18 months rather than 10 months and that an additional 6 months would be required to prepare a short-range development program in addition to the 1985 plan. Thus, the planning period for the first amendatory application was extended 24 months, making August 31, 1967 the new completion date for the Study. 1/

To put this paragraph into proper context, it is suggested that it be revised to read as follows:

"The Housing and Home Finance Agency estimated that the remaining work outlined in the Study's program will require 18 months and in addition not more than \$40,000 and approximately 6 months would be required to satisfy requirement No. 1. It was for these reasons that the completion date was extended to August 31, 1967."

7. Last sentence of item 2. Second amendatory application, page 8.

This sentence erroneously stated the position of the Department of Housing and Urban Development regarding the completion of its funding obligation to the Study.

Much confusion has been caused by the phrases "...until all four conditions...have been satisfied." As stated earlier, the term "satisfied" is taken to mean, in this case, a submittal of application and securing approval, and in general, the extent of effort for satisfaction of condition means a definitive and approved initiation of the process leading to the completion of the work item requirement.

Thus, HUD's position was not that it would not complete its funding obligation until all of the four conditions had been met by August 31, 1967, but rather that it would complete its funding obligation when it has received a second amendatory application in satisfactory form.

It should be noted that the approval of the first amendatory application for \$433,000 made available for requisition an amount equalling \$389,700. HUD, however, limited this available requisition to only \$470,000 which in effect froze the balance of \$19,700. By letter dated April 6, 1966, HUD confirmed its and the State's understanding that, "When the second amended application has been received in satisfactory form, the remaining presently authorized \$19,700 in Federal grant funds will be released for requisition. Further grant funds will be available

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1/ Letter, dated October 20, 1965, from Regional Director, Urban Renewal, Housing and Home Finance Agency, to Dr. Shelley N. Mark, Director, Department of Planning and Economic Development, State of Hawaii.

upon approval of the second amended application." As of December 31, 1966, the Study received all its requested grant funds.

Thus, to put this sentence in proper context, we suggest that it be revised to read as follows:

"It was understood that the Department of Housing and Urban Development will complete its funding obligation when the second amended application was received in satisfactory form."

8. Third paragraph, page 8.

The compounding of the first paragraph will, in our judgment, lead one to conclude that HUD sought to impose the following additional requirement as a condition for approval of the second amendatory application for reason that it had expressed misgivings about continued support of the Oahu Transportation Study. It would be well for the Legislative Auditor to expand on this paragraph.

By letter dated April 19, 1967, the Director, Planning Branch, Programs Coordination and Services Office, HUD, informed the Project Administrator (Dr. Shelley M. Mark) that "To nobody's surprise, HUD has had numerous misgivings as to the propriety of continuing support" and that "Even though we are not completely satisfied with this project, we feel that significant steps have been taken to eliminate the reasons for delay which have plagued this project." The letter also went on to say that because of the competence of the Project Director, HUD should be able to proceed in an orderly manner; and for reason that many improvements have been made since the application was submitted, one of the conditions which HUD will place upon approval of a contract for amending the OTS application will require submission of information which would have been included had the application been made recently.

Thus, the imposition of the condition for approval of the second amendatory application was an attempt to focus the OTS effort toward a more active role in the development of policy.

Therefore, we suggest that this paragraph be revised to read as follows:

"In 1967, the Department of Housing and Urban Development expressed misgivings about continued support of the Oahu Transportation Study. But because significant steps have been taken to eliminate the reasons for delay which have plagued this project and because of the competence of the Project Director, the Department of Housing and Urban Development would proceed to review the application in an orderly manner. In an attempt to focus the OTS effort toward a more active role in the development of policy, the Department of Housing and Urban Development sought to impose the following requirement as a condition for approval of the second amendatory application:"



9. Paragraph 6, page 8.

This paragraph does not give the full background on this matter of withdrawing the second amendatory application.

By letter, dated November 9, 1967, the Director, Planning Branch, Programs Coordination and Services Office, HUD, informed the Project Administrator (Dr. Shelley M. Mark) that the demands for TOL funds are far exceeding the supply and that a relatively low priority will be assigned to the second amendatory application. By the same letter, HUD questioned the purposes which this amendment would now serve since the technical work for which the funds were requested has apparently been completed and requested the submission of a resume, in letter form, stating (1) the projects for which the funds would be used and (2) how the projects would be accomplished in view of the reassignment of the OTS personnel to other state and local transportation agencies.

The Project Administrator (Dr. Shelley M. Mark) responded by letter, dated November 17, 1967, reminding the Director, Planning Branch, Programs Coordination and Services Office, HUD, that it was they who imposed several conditions when they recommended approval of the first amendatory application for \$93,000, that their many correspondences between HUD and the Study regarding HUD's commitment of the necessary funds to carry out the conditions imposed, and that it was they who advised that available grant requisitions would be withheld unless a second amendatory application which incorporated the conditions imposed was submitted in satisfactory form. In the same letter, the Project Administrator stated that,

"We are considering recalling the second amendatory application. This, of course, would mean that the conditions imposed, for which the funds would have been provided from the application, would be off. We look forward to hearing from you on this matter."

By letter, dated December 15, 1967, the Department of Housing and Urban Development returned the second amendatory application to the State, without action. Although it was not explicit in the letter, the return of the application, in effect, relieved the State of all the four conditions listed in Mr. Everett's letter of October 20, 1965.<sup>2/</sup>

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<sup>2/</sup> It should be noted that the staff of the Legislative Auditor was not convinced of this conclusion claiming that it was the State's conclusion that the State was relieved of the four conditions upon the return, without action, of the second amendatory application and that there was no statement of proof from the Department of Housing and Urban Development which indicated that the State was relieved of these four conditions. On March 5, 1968, the Project Director requested confirmation on this matter from the Department of Housing and Urban Development; and on March 6, 1968, the Department of Housing and Urban Development wired the following message:

10. Fifth paragraph, page 9.

By letter, dated January 24, 1968, the Project Director informed the Director, Planning Branch, Programs Coordination and Services Office, HUD, that progress in the editing and printing of the three volumes of the OTS report indicates that the project can be terminated on January 31, 1968. In separate transmittals to HUD, the mailings of the reports were as follows:

<u>Volume</u>	<u>Contents</u>	<u>Date of Mailing</u>
I	Population, Economics and Land Use	January 26, 1968
II	Mass Transit, Transportation Facilities, Travel Patterns, Volumes and Forecasts	January 29, 1968
III	Plan Development and Plans	January 31, 1968

By letter, dated January 31, 1968, the Project Director informed the Director, Planning Branch, Programs Coordination and Services Office, HUD, that the project is now complete.

It should be noted that copies of the reports were simultaneously mailed to the Bureau of Public Roads and that approval for distribution was requested. By letter, dated February 15, 1968, the Division Engineer, Bureau of Public Roads, informed the Director, State Department of Transportation, that the three volumes of the OTS report are approved for distribution to the State Legislators.

Therefore, we suggest that this fifth paragraph of page 9 be updated.

11. Items 1, 2 & 3, page 10.

Problems relating to items 1 and 2 do not exist (see comments No. 9 & 10).

Item 3 should pose no problem. The Oahu Transportation Study now has accounting records conforming to the accounting methods of the Department of Housing and Urban Development and all expenditures can be properly supported by either executed payrolls, time records,

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"Mr. Everett's letter of 10/20/65 was addressed to four specific items. Since the second amendatory project application was not approved by HUD, the State is relieved of any further obligation to pursue these four specific items. This waiver is in accordance with Mr. Pitt's letter of 12/15/67."

The Legislative Auditor's Office was made aware of this message on March 6, 1968.

invoices, contracts, or vouchers evidencing in proper detail the nature and propriety of the charges.

Thus, the statements appearing on page 10 are not reflective of the Section heading, CURRENT STATUS OF OAHU TRANSPORTATION STUDY.

12. FINANCIAL REPORTS, pages 13 & 14.

Monthly progress reports to the State Department of Planning and Economic Development for transmission to the Governor were not intended to be financial reports. These monthly narrative statements were not transmitted as separate reports to the Governor but were included in the monthly progress to the Governor statements which are prepared by the State Department of Planning and Economic Development and which reports on all progress of on-going activities of the Department. These monthly reports were not intended to contain financial statements.

13. Third paragraph, page 14.

The underestimation of the project cost for completing the scope-of-work was not caused entirely by the lack of adequate fiscal records.

Adequate fiscal records give only an accurate picture of past expenditures. They give or contain no estimates of what the expenditures will be for completing the project.

Underestimating the period for which the study can be completed has more to do with underestimating the project cost than the lack of adequate fiscal records.

It is suggested, therefore, that the words "in part" be inserted following the word "caused" in line 7 of this last paragraph of page 14.

14. Parenthetical statement, item 2. Federal grant receivable, page 15.

This parenthetical statement should be corrected to read as follows:

"(2/3 of the total estimated project cost of \$649,000 as determined by the Department of Housing and Urban Development)."

15. Page 17 and Table II, page 18.

The audit compared the various approved urban planning grant budgets with the actual cost incurred in the Oahu Transportation Study and concluded that the Study has grossly underestimated the costs in the various applications made for urban planning grants. In effect, the audit compared "oranges with apples" in drawing this conclusion because approved budgets in urban planning grant applications represent only that portion of the cost of the project which is participated into by the Department of Housing and Urban Development on a matching basis of one-third State to two-thirds Federal, while that portion of the cost of the project which is participated into by other funds appears in tabular tables submitted as supplementary material in grant requisitions.

Therefore, in order for one to determine the extent to which the Study has estimated the cost of the project, one must compare the actual cost incurred in the transportation study (\$1,143,707) with the Study's estimate of the project cost.

Appendix A shows the calculations for urban planning project budget No. 2 (the first amendatory application) and Appendices B and C show the calculations for urban planning project budget No. 3 (the second amendatory application). It should be noted that copies of these calculations accompanied the submission of the respective applications as supplementary supporting data.

The following summarized the Study's estimate of the project cost at the time when the respective urban planning grants were prepared and compared them with the actual cost incurred in the Study as determined by the audit.

<u>Total Estimate of Project Funds</u>	<u>Initial Application</u>	<u>First Amendatory Application</u>	<u>Second Amendatory Application</u>	<u>Actual Cost</u>
Total 701 and matching funds	\$510,000	\$649,500	\$ 724,500	
Total other funds	-0-	225,660	403,064	
Total Estimated Cost	\$510,000	\$875,160	\$1,127,564	\$1,143,707

It should be noted that the project cost estimate which was prepared for the first amendatory application represented only an increase in the project cost of an additional 10 months. As stated earlier, HUD estimated that its review of the program indicated that it would require an additional 18 rather than 10 months to complete the original requirements of the contract. The application was approved with no change in the cost except for the completion period which was revised from 40 to 54 months. Thus, the estimated cost of the project in the first amendatory application represented the cost for 40 months rather than for 54 months. The estimated cost of the project for 54 months is represented in the second amendatory application.

16. Pages 19 and 20.

Here again, one may show the differences between the amounts of the grant budgets allocated for salaries and wages and the actual costs, but one should not use the differences to draw conclusions regarding the over and underestimating of the cost of this item in the Study.

The following shows for the budgetted and proposed costs the total salaries and wages estimated by the Study, the amounts to be participated into by HUD, the amounts to be participated into by other funds, and the actual cost as determined by the audit.

	1st Approved Budget	2nd Approved Budget (As Amended)	Proposed 3rd Budget	Actual Cost
Total 701 and matching funds	\$91,008	\$265,994	\$290,624	
Total other funds	<u>-0-</u>	<u>72,603</u>	<u>177,046</u>	<u>          </u>
Total	\$91,008	\$338,597	\$468,570	\$417,143

Locating and maintaining a technically qualified and experienced staff were problems of the Study. Sufficient data, however, are not available to relate the differences in the cost of salaries and wages to the lack of skilled personnel and the necessity of training and developing them. The Legislative Auditor, in our judgment, is not qualified to determine whether the cost of salaries and wages are either high or low for the Oahu Transportation Study. Thus, it is our opinion that he has gone beyond the scope and limitation of the audit by assessing the operational adequacy of the Study (see Audit Scope and Limitations, page 1).

17. SERVICES BY TECHNICAL CONSULTANTS, page 20.

This page requires further clarification.

The initial application for urban planning grant estimated the cost of consultants' services at \$295,990. For the first amendatory application, the estimate for this line item was \$205,653 of which \$176,361 was to be participated in by HUD and the remaining \$29,292 to be participated in by other funds. For the second amendatory application, the total estimate was \$249,550 for this same line item of which \$213,563 was to be participated into by HUD and the remaining \$35,987 to be participated in by other funds (see Appendices A, B and C). In all three applications, the services contracted for by the City and County of Honolulu were included in "Services by Municipal or County Public Agencies" (Line 3 of Urban Planning Project Budget, Form H-6703). Also, the modal split model and transit analysis (\$95,000) was treated as a separate line item in the application.

Thus, the third paragraph of page 20 is not an accurate comparison between the actual cost of consultants' services and the Study's estimate for those services.

18. Line 4, paragraph 2, page 21.

The words "and land use." should be added following the word "traffic."

19. SERVICES BY OTHER PUBLIC AGENCIES, page 21 and 22.

The following sentence (paragraph 4, page 22) is not exactly correct:



"In neither the second approved budget nor the third proposed budget was any mention made of the contributions to be made by any public agency or the need for electronic data processing services."

As stated earlier, budgets appearing in the Urban Planning Project Budget, Form H-6703, represent only those amounts which are to be participated in by HUD. Monies which are not being matched with 701 funds are not shown or mentioned on the form.

The costs for data processing services purchased through the University of Hawaii are included in line item 2, Services by Technical Consultants, of the Urban Planning Project Budget, Form H-6703. This data processing service is mentioned in the contract between the University of Hawaii and DPED (for the State).

Data processing services provided by the State Department of Transportation personnel and by the Service Bureau Corporation are paid for with HPR funds. Since these funds already possess matching federal (BPR) monies, they do not appear in the Urban Planning Project Budget, Form H-6703. The mention of these contributions relating to these matters are found in the following:

- (a) Letter dated August 27, 1965, from Mark (State) to Mitchell (HUD):

"Please be informed that the Department of Transportation, in addition to its commitment of \$21,500, is also making available to the Oahu Transportation Study approximately \$113,500 of HPR funds, consisting both in cash and in services."

- (b) Letter HPR-P 2.32661, dated August 27, 1965, from Matsuda to March, which letter was transmitted to HUD as supplementary material accompanying the application for increase in grant:

"...please be informed that the Department of Transportation will provide the Oahu Transportation Study with the following items of financial and personal services support for the balance of fiscal year 1965/66:

- c. "open end" contract      \$27,000      Act 195, SLH 1965  
Computer Services      Section 1, Item No. D-1"

- (c) Cost Allocation, Item 7d. Electronic Computer Service (SBC) of Appendices B and C.

The mention of the need for electronic data processing services in accomplishing the study activities is found in the Summary Description of Study Activities, 7/1/65 - 6/30/66, which accompanied the application for increase in grant. Thus, there were sufficient evidences (which accompanied the grant application) that mentioned the need for data processing services and the contributions to be made by other public agencies.

20. Item 5, page 30.

As stated earlier, reasons (a), (b) and (c) no longer exist (see comments No. 9, 10, & 11).

21. Item 2, page 30.

The report states that "failure of the study to maintain a complete set of financial records was in violation of federal requirements." We believe use of the term "violation" in this context implies illegal action or willful negligence, which clearly has not been the case. The federal requirements themselves have been nebulous, subject to changing interpretation, and not updated for more than 10 years.

The audit report itself (page 1) states that "specific standards" have not been "explicitly outlined in the contracts between the State and the federal government or in the procedures manuals issued by the federal government." (Underlining supplied).

22. Item 6, page 31.

It is the opinion of the Legislative Auditor that the monthly reports were inadequate and that the Study failed to provide fiscal reports on a regular basis. Thus, we suggest that the phrase "in our opinion" be inserted at the beginning of the sentence and that the word "fail" be replaced with the words "did not."

Thus, the revised paragraph would read as follows:

"In our opinion, the monthly progress reports to the Director of the State Department of Planning and Economic Development for transmission to the Governor were inadequate in that it did not contain fiscal information relating to costs being incurred by the Study, the future costs, and the likelihood of average or shortage in funding. In addition, the Study did not provide fiscal reports to the Study's Policy Committee on a regular basis."

23. Item 7, page 31.

In light of budget estimates, the absence of proper fiscal records caused only an understatement of the expenditures. The underestimations of the funds required were not due to this absence of records. It was due to the underestimation of the time required to accomplish the scope-of-work.

24. Items 2 & 3, page 31.

As stated earlier, comparisons between actual costs and budgeted items appearing in the Urban Planning Project Budget, Form H-6703, are not valid comparisons. It has no meaning (see comments No. 16 & 17).

25. Item 4, page 32.

This paragraph is not exactly correct. (See comment No. 19.)

APPENDIX A

URBAN PLANNING PROJECT BUDGET

(1) Line No.	(2) Cost Allocation	(3) Adjusted Expenditure As of June 30, 1965	(4) Required Budget For Fiscal Period 1965-1966	(5) Total Anticipated Budget (3) + (4)	(6) Total Other Funds	(7) Total H.H.F.A. + Matching Funds	(8) Latest Approved Budget H.H.F.A.	(9) Adjustments (7) - (8)
1	Salaries & Wages	\$198,667	\$179,930	\$378,597	\$ 72,603	\$305,994	\$ 91,008	+\$214,986
2	Services by Technical Consultants	133,059	72,594	205,653	29,292	176,361	295,990	- 119,629
3	Services by Municipal or County Agencies	100,000	-0-	100,000	-0-	100,000	100,000	-0-
4	Services by Other Public Agencies	(111,660)						
5	Travel	2,696	2,000	4,696	807	3,889	5,000	- 1,111
6	Reproduction & Publication	5,000	15,000	20,000	6,053	13,947	15,000	- 1,053
7	Other Expenses:							
	a. Office Supplies	36,108	10,000	46,108	4,035	42,073	-0-	+ 42,073
	b. Rental (office)	1,750	3,000	4,750	1,210	3,540	-0-	+ 3,540
8	Subtotal	477,280	282,524	759,804	114,000	645,804	506,998	+ 138,806
9	Project Inspection Fee	3,002	694	3,696	-0-	3,696	3,002	+ 694
10	TOTAL	\$480,282	\$283,218	\$763,500	\$114,000	\$649,500	\$510,000	+\$139,500

## APPENDIX B

CALCULATIONS OF ADJUSTED EXPENDITURES AS OF JUNE 30, 1966  
FOR URBAN PLANNING PROJECT BUDGET NO. 3

Cost Allocation	Project Expenditures			Non DHUD and Other Non-DHUD Matching Funds			Adjusted Expenditure As Of June 30, 1966 (3)-(6)
	(1) Ending FY 65	(2) FY 66	(3) Total	(4) Ending FY 65	(5) FY 66	(6) Total	
1. Salaries & Wages	\$227,368.35	\$122,551.32 <sup>1/</sup>	\$349,919.67	\$ 52,580.32 <sup>1/</sup>	\$ 52,740.79	\$105,321.11	\$244,598.56
2. Services by Technical Consultant	134,031.45	73,131.77	207,163.22	18,156.88	-0-	18,156.88	189,006.34
3. Services by Municipal or County Agencies	160,316.00	14,414.00	174,730.00	60,316.00	14,414.00	74,730.00	100,000.00
4. Services by Other Public Agencies	-0-	23,409.00	23,409.00	-0-	23,409.00	23,409.00	-0-
5. Travel	3,009.34	1,597.94	4,607.28	-0-	646.00	646.00	3,961.28
6. Reproduction & Publication	3,205.00	657.37	3,862.46	-0-	26.00	26.00	3,836.46
7. Other Expenses							
a. Office supplies, repairs, etc.	21,346.02	6,958.67	28,304.69	4,029.78	3,625.90	7,655.68	20,649.01
b. Rental.(office), electricity, etc.	1,750.00	1,872.00	3,622.00	-0-	605.00	605.00	3,017.00
c. Furniture	12,472.31	310.93	12,783.24	12,472.31	310.93	12,783.24	-0-
d. Electronic Computer Service (SBC)	4,303.44	7,864.25	12,167.69	4,303.44	7,864.25	12,167.69	-0-
e. Daniel, Mann, Johnson, and Mendenhall	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	\$567,802.00 <sup>2/</sup>	\$252,767.25 <sup>3/</sup>	\$820,569.25	\$151,858.73	\$103,641.87	\$255,500.60	\$565,068.65

<sup>1/</sup> Includes accrued vacation of \$15,561.00<sup>2/</sup> Excludes inspection fee of \$3,002.00<sup>3/</sup> Excludes inspection fee of \$4,354.00

## ADJUSTMENT CALCULATIONS FOR URBAN PLANNING PROJECT BUDGET NO. 3

## PROJECT NO. HAWAII P-13, SECOND AMENDATORY APPLICATION

(1) Line No.	(2) Cost Allocation	(3) Adjusted Expenditure as of June 30, 1966	(4) Required Budget For FY 67	(5) Total Anticipated Budget (3) + (4)	(6) Total Other Funds	(7) Total DHUD + Matching Funds	(8) Latest Approved Budget DHUD	(9) Adjustments (7) - (8)
1	Salaries & Wages	\$244,599	\$118,650	\$363,249	\$ 72,625	\$290,624	\$265,994 <sup>1/</sup>	+ \$24,630
2	Services by Technical Consultants	189,006	42,387	231,393	17,830	213,563	176,361	+ 37,202
3	Services by Municipal or County Agencies	100,000	22,203	122,203	20,226	101,977	100,000	+ 1,977
4	Services by Other Public Agencies	-0-	-0-	-0-	-0-	-0-	-0-	-0-
5	Travel	3,961	6,000	9,961	3,610	6,351	3,889	+ 2,462
6	Reproduction & Publication	3,836	17,000	20,836	10,334	10,502	13,947	- 3,445
7	Other Expenses							
	a. Office Supplies, etc.	20,649	10,000	30,649	6,113	24,536	38,413	- 13,877
	b. Rental (office)	3,017	3,000	6,017	1,826	4,191	3,540	+ 651
	c. Furniture & Equipment	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	d. Electronic Computer Services	-0-	15,000	15,000	15,000	-0-	-0-	-0-
	e. Daniel, Mann, Johnson, and Mendenhall	-0-	95,000	95,000	30,000	65,000	40,000	+ 25,000
8	Subtotal	\$565,068	\$329,240	\$894,308	\$177,564	\$716,744	\$642,144	+ \$74,600
9	Project Inspection Fee	7,356	400	7,756	-0-	7,756	7,356	+ 400
10	Total	\$572,424	\$329,640	\$902,064	\$177,564	\$724,500	\$649,500	+ \$75,000

<sup>1/</sup> adjusted to reflect reduction of \$40,000 budgeted for transit contract.



**PUBLISHED REPORTS  
OF THE LEGISLATIVE AUDITOR**

- 1965 1. Long and Short Range Programs of the Office of the Auditor.  
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii.
- 1966 1. Examination of the Office of the Revisor of Statutes.  
2. An Analysis of the State-Wide Information System Including Comments on its Operating Budget for Fiscal 1966-1967.  
3. Procedural Changes for Expediting Implementation of Capital Improvement Projects.
- 1967 1. Overtime in the State Government.  
2. Management Audit of Kula Sanatorium.  
3. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii.  
4. State-City Relationships in Highway Maintenance and Traffic Control Functions.  
5. Federal-Aid Highway Cut-back.  
6. An Inventory of Responses to the 1965 Legislative Requests.  
7. An Inventory of Responses to the 1966 Legislative Requests.  
8. The Planning- Programming-Budgeting System and Hawaii's Program Budget: A Comparison.  
9. Manual of Guides of the Office of the Legislative Auditor.
- 1968 1. Financial Audit of the Department of Health for the fiscal year ended June 30, 1967.  
2. Financial Audit of the Department of Planning and Economic Development for the fiscal year ended June 30, 1967.  
3. Financial Audit of the Department of Regulatory Agencies for the fiscal year ended June 30, 1967.