

HCR181 / HR119

Testimony

HOUSE CONCURRENT RESOLUTION

REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AND MANAGEMENT
AUDIT OF THE HONOLULU AUTHORITY FOR RAPID TRANSPORTATION.

1 WHEREAS, the Honolulu Rail Transit Project, referred to as
2 the largest public works project in the State's history, is a
3 20-mile elevated rail transit project spanning from East Kapolei
4 to Ala Moana Center and is scheduled to be completed by 2019;
5 and

6
7 WHEREAS, paying for this \$5.2 billion project includes
8 \$1.55 billion that was awarded to the Honolulu Authority for
9 Rapid Transportation (HART) by the Federal Transit
10 Administration, a half-percent general excise tax and use tax
11 surcharge for rail that has been collected since 2007, and funds
12 from other federal and locally-generated sources; and

13
14 WHEREAS, HART, a semi-autonomous public transit authority
15 approved by voters in 2010, is responsible for the planning,
16 construction, operation, and extension of the rail system; and

17
18 WHEREAS, with construction underway, budgetary and funding
19 concerns threaten the continued viability of the rail transit
20 project, with costs to construct the rail transit project
21 outpacing money coming in from federal and state sources, huge
22 shortfalls in the budget, delays in construction, cost overruns,
23 and anticipated construction cost increases; and

24
25 WHEREAS, the reported nearly \$1 billion shortfall, and size
26 and projected growth of the rail transit project necessitates a
27 financial and management audit of HART for internal
28 accountability and public transparency, particularly at a time
29 when public discussion and deliberation centers on the fiscal
30 soundness and continued viability of this project; now,
31 therefore,



1 BE IT RESOLVED by the House of Representatives of the
2 Twenty-eighth Legislature of the State of Hawaii, Regular
3 Session of 2015, the Senate concurring, that the Auditor is
4 requested to conduct a financial and management audit of HART's
5 governance and operations; and

6
7 BE IT FURTHER RESOLVED that the audit examine, at a
8 minimum, the following:

- 9
- 10 (1) HART's management and operations with respect to
11 HART's financial and management policies, practices,
12 and processes associated with the plans, design,
13 bidding, and construction of the Honolulu Rail Transit
14 Project;
 - 15
16 (2) HART's financial plan and related systems of
17 accounting and internal controls;
 - 18
19 (3) The contracts awarded and expenditures associated with
20 the rail transit project contracts, including payments
21 to contractors, subcontractors, and consultants, and
22 what the expenditures are being used for;
 - 23
24 (4) The factors contributing to cost increases, cost
25 inflation, and cost escalation of the rail transit
26 project, including delays in the project; change
27 orders; requirements affecting the planning, design,
28 bidding, and construction of the project; work
29 restrictions; and bidding procedures; and
 - 30
31 (5) Cost containment measures, efficacy of fiscal
32 operations and decisions, and other actions HART has
33 taken to mitigate the burgeoning costs and shortfalls
34 of the rail transit project; and

35
36 BE IT FURTHER RESOLVED that the Auditor is requested to
37 submit to the Legislature a report of the completed audit,
38 including its findings and recommendations, no later than twenty
39 days prior to the convening of the Regular Session of 2016; and



H.C.R. NO. 181

1 BE IT FURTHER RESOLVED that certified copies of this
 2 Concurrent Resolution be transmitted to the Governor, Mayor of
 3 the City and County of Honolulu, Council Members of the Honolulu
 4 City Council, Acting Auditor, and Executive Director and Chief
 5 Executive Officer of HART.

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OFFERED BY:

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Nicole E. Louie

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 2 Resolution be transmitted to the Governor, Mayor of the City and
 3 County of Honolulu, Council Members of the Honolulu City
 4 Council, Acting Auditor, and Executive Director and Chief
 5 Executive Officer of HART.
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OFFERED BY:

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K.A.

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[Signature]

Nicole E. Luna

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[Signature]

Linda Chingame

[Signature]

MAR 13 2015



IN REPLY REFER TO:
CMS-AP00-01170

HONOLULU AUTHORITY for RAPID TRANSPORTATION

Daniel A. Grabauskas
EXECUTIVE DIRECTOR AND CEO

BOARD OF DIRECTORS

Ivan M. Lui-Kwan, Esq.
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William "Buzz" Hong
Keslie W.K. Hui
Damien T.K. Kim
Carrie K.S. Okinaga, Esq.

Statement of
DANIEL A. GRABAUSKAS
Executive Director and CEO, Honolulu Authority for Rapid Transportation
before the

HOUSE COMMITTEE ON TRANSPORTATION

Wednesday, March 25, 2015
10:30 A.M.
State Capitol, Conference Room 309

In consideration of
HCR181
**REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AND MANAGEMENT AUDIT OF THE HONOLULU
AUTHORITY FOR RAPID TRANSPORTATION**
and
HR119
**REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AND MANAGEMENT AUDIT OF THE HONOLULU
AUTHORITY FOR RAPID TRANSPORTATION**

Chair Aquino, Vice Chair LoPresti and Members of the House Committee on Transportation,

The Honolulu Authority for Rapid Transportation (HART) appreciates the intent of HCR181 and HR119, which requests the State Auditor to conduct a financial and management audit of HART, and if passed, we will fully cooperate with the auditor. In addition, we provide the following comments for your consideration.

Annual Financial Statement Audit by and Independent Auditor (Certified Public Accountant)

HART is subject to annual audits of its financial statements by an independent audit firm (certified public accountant) to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The audit process includes a review of HART's internal controls to identify deficiencies and tests of its compliance with laws, regulations, contracts, and grant agreements which could have an impact on the amounts reported on the financial statements. The audit process takes approximately four to five months and in FY2013/14, there were no findings. The current audit firm is KMH LLP.

Annual Audit of Federal Transit Administration

HART's Federal Transit Administration (FTA) grant is also subject to an annual audit by an independent auditor, commonly referred to as a single audit that tests Federal grant compliance requirements. A single audit encompasses an examination of a recipient's financial records, financial statements, Federal award transactions and expenditures, the general management of its operations, internal control systems, and Federal assistance it received during the audit period. There were no findings in FY2013/14.

FTA Triennial Review

Every three (3) years, the FTA conducts an extensive review of their Grantees in 17 different subject areas such as Procurement, Financial Capacity, Americans with Disabilities Act, Operation and Maintenance, Planning, Technical Capacity, Title VI, Disadvantaged Business Enterprise, Legal, Satisfactory Continuing Control, Planning, Public Comments, Half Fares, Security, Drug Free Workplace and Drug and Alcohol Program, Equal Employment Opportunity, and Buses.

- The goal is to ensure the Grantee has appropriate capacity, internal control, plans, resources, processes, and procedures in place in which to handle Federal funds.
- Ensure that each Grantee is following all of FTA's applicable rules.
- Grantee is asked to complete a 166-page Grantee Information Request (GIR) and provide over 100 documents before the site visit and nearly 50 documents at the site visit.
- The Grantee's answers to the 17 different subject areas on the GIR, past findings from audits and reviews, and events that generate news may trigger another questionnaire called Enhanced Review Module (ERM). HART completed the Technical Capacity ERM and the Procurement ERM.
- The 2014-2015 Triennial Review site visit occurred in February 2015.

FTA and FTA's Project Management Oversight Contractor (PMOC) Audits

The FTA and PMOC have the ability to perform audits of HART at any point during the project.

- Improper Payments Elimination and Recovery Act of 2010 (IPERA) Audit
 - The IPERA requires the FTA to review all of its programs and activities annually. Therefore, HART is subject to IPERA review annually to insure proper use of Federal funds per FTA guidelines and regulations.
- National Transit Database (NTD) Reporting
 - The NTD was established by Congress to be the Nation's primary source for information and statistics on the transit systems of the United States. Recipients or beneficiaries of grants from the FTA under the Urbanized Area Formula Program (§5307) or Other than Urbanized Area (Rural) Formula Program (§5311) are required by statute to submit cost information to the NTD. HART reports required information to the City Department of Transportation Services (DTS), who in turn submits the NTD report on behalf of the City.

FTA Procurement Systems Review

Every three (3) years the FTA conducts a Procurement Systems Review (PSR) which is separate and distinct from the Triennial Review mentioned above and is an in-depth review of HART's procurements. The FTA objectives of the PSR are to encourage and facilitate improved procurement operations, promote the use of best practices, and assess compliance with all Federal procurement requirements. The PSR looks at both system-wide elements and individual procurement elements. System-wide procurement elements are FTA requirements that apply to the procurement system as a whole. Individual procurement elements are requirements elevated on an individual contract-by-contract basis. PSR reviews whether HART has in place procurement system and process that are in compliance with Federal requirements, and also reviews for implementation of the system and process by reviewing individual contracts. The PSR concludes with a report of findings. The report identifies any deficiencies, corrective actions required and a schedule for completion. The last PSR on-site visits were June 11 to June 15, 2012.

City Auditor's Office

HART is subject to, and has been comprehensively audited by the City Auditor's Office in 2013/14. Future audits of HART are scheduled to occur by the Office of the City Auditor in FY2015/16.

As discussed above, HART currently has significant oversight by the FTA on a monthly and ongoing basis, by independent auditor of HART's financial statements on an annual basis, by independent auditor of HART's FTA grant on an annual basis, by Federal audits as periodically required by law, and by City audits scheduled by the Office of the City Auditor.

Thank you for the opportunity to provide this testimony.

TESTIMONY ON HCR 181/HR 119

House Transportation Committee Hearing
Wednesday, March 25, 2015

Aloha and good morning, Chair Aquino and members of the committee:

I STRONGLY SUPPORT both HCR 181 and HR 119 requiring financial and management audits of the apparently behind schedule and over budget Rail boondoggle.

According to its own documents on the HART Web site, the City/HART has plenty of cash. The problem, however, is that like “magic numbers,” the cash on hand number keeps changing:

- **\$360 million** per HART Project Risks Update (12/18/14);
- **\$243 million** surplus per Fig. 10 (Project Revenue vs. Incurred Costs) at page 17 of the Jan. 2015 HART report to its board of directors (as of Dec. 26, 2014). HART reported receiving overall \$1.584 billion and having "incurred costs" are \$1.341 billion, leaving an on-hand surplus.
- But in the same Jan. 2015 HART report at the same page 17, Fig. 11 (Cash Balance Summary), shows a cash balance of **\$322,005,547** (as of Dec. 31, 2014).

Yet despite its own reports, the City/HART have been claiming that there's a \$910 million cost overrun, with only 10% (2 miles of the 20-mile) fixed guideway built as of 2/18/15. (If the figure was extended to 100% of the guideway, the overrun could amount to as much as \$9.1 billion!). As a result, they claim that they may run out of money by June (when they will receive the quarterly infusion of millions in GET Rail surcharge money), and really, really need an extension of the 0.5% Rail GET surcharge (and the issue of hundreds of millions in G.O. bonds by the City & County).

There are also troubling news reports regarding the “magic numbers” touted by the City/HART:

- Nick Grube/Bob Porterfield, Civil Beat – “At Least \$1.25 B Has Been Spent on Rail So Far, But Where Has All the Money Gone?” (01/30/15); and
- Bob Porterfield/Nick Grube, Civil Beat – “Math Problem: Does Honolulu Rail GET Shortfall Really Add Up?” (03/04/15).

In light of all the City/HART obfuscation and the lack of transparency (and accountability), thorough and independent financial and management audits are long overdue. **I Therefore STRONGLY SUPPORT HCR 181 and HR 119.**

Thank you for your attention and consideration.

Gerald Chang

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 24, 2015 5:02 AM
To: TRNtestimony
Cc: michelematsuo@yahoo.com
Subject: Submitted testimony for HCR181 on Mar 25, 2015 10:30AM

HCR181

Submitted on: 3/24/2015

Testimony for TRN on Mar 25, 2015 10:30AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
michele matsuo	Time Out Honolulu Rail	Support	Yes

Comments: Dear Chair Aquino, and members of the Committee, Thank you for this opportunity to testify. I strongly support HR 119 and HCR 181, but request that it include the forensic audit of all the GET surcharge funds received by the City from 2007 -Present, and that such information, particularly the detailed expenditure information of such funds, be provided to the Public (including on HART's website within 2 business days after such information is provided to the Legislature and remain permanently on such website), and that such afore-mentioned forensic audit be completed, tendered, and made public before the hearing of any bills which might extend or increase such GET surcharge. The preceding request, however, is not intended to forestall any action to reduce the surcharge percentage, move earlier the surcharge sunset date (shorten the surcharge period), or re- purpose the surcharge for the establishment of pre-schools, solar tax credits for homeowners, and/or climate crisis/change response. Thank you very much for this opportunity to submit testimony. Respectfully submitted, Michele Matsuo Time Out Honolulu Rail

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Sent: Tuesday, March 24, 2015 5:00 AM
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Cc: michelematsuo@yahoo.com
Subject: Submitted testimony for HR119 on Mar 25, 2015 10:30AM

HR119

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House Transportation Committee

March 25, 2015

TRN testimony in support of HCR181 and HR119

Aloha Chair Aquino and committee members,

I strongly support both bills HCR181 and HR119 as they acknowledge the need for closer scrutiny of the HART organization with respect to the current financial shortfall the rail project is experiencing and the apparent inability to articulate said admitted shortfall to the general public or our elected legislators' satisfaction.

We get excuses of extended lawsuits holding up the project, current bids that came in way over expected or allotted estimates or change orders such as not being able to move four buildings at the Windward College because they were too old?!

Although I'm not an educated CPA by profession, I was trained by an excellent CPA to handle the books of my family financial investment business from 1982-1990. I dealt with very large sums of money and was responsible for reconciling all credits and debits that occurred between our clients and the brokers we used to complete transactions.

I would love to see a clean audit that show how HART could go from a \$633 million contingency fund in September 2014 to a shortfall of \$910 million by January 2015. Every penny should be accounted for in plain English, and carry over costs should be accounted for on a monthly basis when contracts stay open for an extended period of time.

Please be mindful that this quasi governmental HART board is an appointed entity-responsible to whom? Again, I'm very thankful that your concerns mirror mine, and as a committee you are willing to scrutinize the costs and delve into the workings of the HART entity.

Best regards.

Cinnie Frith

Aloha!

LATE

I write in support of HCR181.

An audit of HART by the state auditor (not an auditing company hired by HART) is needed and should be required before extending the rail tax.

In spite of promises from the mayor and HART that the project would be “on time and on budget” I knew there would be cost over-runs, but in my wildest dreams, I never thought it would be this much (\$1 billion) this soon!

There needs to be accountability when spending the taxpayer’s money and HCR181 is a step in the right direction.

“Mahalo”

John Pritchett 2345 Ala Wai Blvd. Suite 2303, Honolulu Hawaii 96815 Phone: 888-3776

