



HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

**Audit/Legal Matters Committee Meeting
Mission Memorial Annex Conference Room
550 South King Street, Honolulu, Hawaii
May 3, 2012, 9:00 A.M.**

PRESENT: Ivan Lui-Kwan Carrie Okinaga
Don Horner Wayne Yoshioka

ALSO IN ATTENDANCE: Dan Grabauskas Mike Hansen
(Sign-In Sheet and Staff) Toru Hamayasu Wes Mott
Gary Takeuchi Jan Mulvey
Joyce Oliveira Edwina Tabata
Jeanne Mariani-Belding Maurice Morita
Andrea Tantoco Joe Magaldi
Cindy Matsushita Russ Honma
Rachelle Nobriga

I. Call to Order by Chair

Audit/Legal Matters Committee Chair Ivan Lui-Kwan called the meeting to order at 9:26 a.m.

II. Public Testimony

Mr. Lui-Kwan called for public testimony, and there was none.

III. Approval of Minutes of the March 29, 2012 Audit/Legal Matters Committee Meeting

Mr. Lui-Kwan called for approval of the minutes of the March 29, 2012 Audit/Legal Matters Committee. There being no objections, the minutes were approved as circulated.

IV. Report on the Procurement of HART Auditor

Director of Budget and Fiscal Services (BFS) Michael Hansen, HART Internal Control Analyst Jan Mulvey, and HART Accountant/Auditor Edwina Tabata presented for Committee approval the selection of an independent auditor. Ms. Tabata stated that

HART had procured the services of PKF Pacific Hawaii LLP (PKF) to audit HART in its first fiscal year. The contract with PKF is for a four-year term, for \$40,000 per year. The initial meeting with PKF would occur the following day, at which time they would finalize the audit timeline, and coordinate with BFS. PKF's goal for completion of a draft statement is mid-September 2012, with final statements to be completed by mid-October.

Mr. Lui-Kwan asked Mr. Hansen to explain how the audit would occur in coordination with BFS and HART. Mr. Hansen stated that this would be the first stand-alone audit of HART through its procurement process. The accounting for the past fiscal year had been done by BFS and accounted for the City's books through a separate transit fund. BFS will be providing a lot of assistance, as prior to July 1, 2011 when HART came into existence, all transactions had been accounted for in the City's books and financial statements. Once HART began, the transactions were transferred into the transit fund. He stated that this being a first year audit, some of the key issues for the auditors will be the beginning balance at the time of transfer, ensuring sound year-end accruals, and ensuring that transactions are capitalized properly. He stated that they would also focus on ensuring that the footnotes to the financial statements are accurate, and that a management discussion analysis would also occur. The audit deadlines are fairly aggressive because of the City's own audit deadlines for its consolidated financial report, of which HART's audit would be a component.

Mr. Lui-Kwan confirmed that the City's auditor is Accuity LLP, and that HART's auditor is PKF. He asked Mr. Hansen whether the Memorandum of Understanding (MOU) between BFS and HART contemplated who would be working on HART's audit. Mr. Hansen replied that, to the extent that this is HART's first audit, there would be substantial assistance by BFS on this audit beyond what was contemplated in the MOU. Mr. Lui-Kwan stated that as a semi-autonomous body, he anticipates that at some point HART would conduct its own audit without having to rely heavily on BFS. He emphasized the desire of the committee and the Board to maintain a degree of independence for HART.

Board member Don Horner stated that in the interest of keeping costs down for taxpayers, HART may want to consider not duplicating work that can be done by another branch in the City. He inquired about the process of selecting the auditor. Mr. Lui-Kwan stated that he agreed with Mr. Horner, but also recognized the need for HART to fulfill its semiautonomous status while remaining conscious of cost.

Mr. Lui-Kwan asked Procurement and Contracts Officer Wes Mott to share how the auditor was selected. Mr. Mott stated that the auditor selection process was initiated pursuant to Section 17-111 of the Revised Charter of the City and County of Honolulu, and the procurement solicitation was conducted pursuant to Hawaii Revised Statutes 103D-303. HART issued the solicitation, to which two firms responded. HART identified its requirements and scope of services. Mr. Horner asked about the advertising for the Request for Proposals (RFP), and Mr. Mott responded that the solicitations were advertised on the City's purchasing website and through other media. Mr. Horner asked

if HART had a list of preferred vendors, and Mr. Mott said not for this RFP. Mr. Horner stated that in the future, the committee would like discussion and input on the criteria and specifications involved in the selection process.

Mr. Lui-Kwan said that there were standard criteria involved in the selection process, which were experience, adequate staffing, ability to complete the work on time, and price. Mr. Mott said that the criteria had been customized for this procurement. Mr. Horner stated that the committee should have the opportunity to weigh in on the selection criteria. Mr. Lui-Kwan stated that he thought the committee had a discussion regarding procurement criteria in the past. Board member Carrie Okinaga said that discussion occurred at the very beginning of HART's existence, and involved the procurement of a recruiting firm. Procurement criteria was discussed, but it was understood that the Board would not play a role in the actual selection of the firm.

Mr. Horner stated that the Board's role is to ensure the procurement process is properly carried out. Mr. Yoshioka agreed that it would be appropriate for the committee to be involved in putting together the selection criteria.

Mr. Horner remarked on the fact that the selection criteria had been customized by the people who were the subject of the audit. Mr. Yoshioka agreed. Mr. Mott clarified that the process itself was not customized, but the contents of the solicitation that were customized pursuant to the requirements set forth by HART. Mr. Horner stated that he wanted more transparency in the process, and requested that the committee be kept in the loop. Mr. Grabauskas stated that there is a balance between the chief procurement officer's duties and the policy authority held by the Board and its committee. The Board should first be solicited regarding policy. He said that the criteria would be provided to the committee.

Mr. Mott continued by saying that the solicitation was issued, and responses obtained. HART staff checked for responsiveness, then it was given to the evaluation committee, who scored the candidates. The highest score-getter was awarded the contract. Mr. Horner stated that the process goes against standard tenets for the people selecting the auditor to be the people being audited. Mr. Lui-Kwan acknowledged Mr. Horner's point, but stated that HART has a legal process it must comply with. Mr. Horner went on to say that although PKF is a good firm, HART needs to be transparent going forward.

Ms. Okinaga said that this conundrum has come before the Board before, as the charter specifies that the Board must contract for these services, and the results must be reported to the Board, the City Council and the Mayor.

Mr. Mott stated that the next step is to make sure that the firm is properly registered and responsible.

Ms. Okinaga stated that last year, RTD's audit was conducted by the City's auditor. She asked whether there were any issues regarding delegation of authority regarding the procurement of an auditor. Mr. Hansen stated that he did not recall any, as HART came

into existence on July 1, 2011 and is empowered to procure its own auditor. Ms. Okinaga asked if the Board of Water Supply (BWS) has its own auditor, and Mr. Hansen replied that it did. BWS, like HART, also conducts a stand-alone audit by an auditor that is different than that hired by the City Council. BWS' audit is incorporated in the City's Financial Report.

Mr. Lui-Kwan recalled at a very early meeting, the Board addressed the question of procuring an auditor, and the decision was made to hire through the chief procurement officer.

Ms. Okinaga stated that the process is being carried out pursuant to Charter, and the Board must ratify the contract. However, she said that the process undertaken by the Board in hiring the CEO recruitment firm is the model for Board contracting, and the Board should have had input earlier.

Mr. Horner recommended that the committee accept the recommendation of, or ratify the selection of PKF Pacific Hawaii LLC. Mr. Yoshioka seconded the motion. Mr. Horner asked that the committee approve the criteria of selection when they are presented.

All being in favor, the motion carried unanimously.

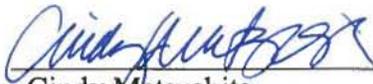
V. Executive Session

There was no need for an Executive Session.

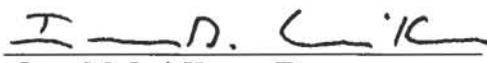
VI. Adjournment

There being no other business before the committee, Mr. Lui-Kwan adjourned the meeting at 9:56 am.

Respectfully Submitted,


Cindy Matsushita
Board Administrator

Approved:


Ivan M. Lui-Kwan, Esq.
Chair, Audit/Legal Matters Committee

AUG 30 2012