



HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

**Government Affairs/Audit/Legal Matters Committee
Mission Memorial Annex
550 South King Street, Honolulu, Hawaii
Thursday, March 7, 2013, 8:30 A.M.**

PRESENT:

Ivan Lui-Kwan	Donald Horner
Robert "Bobby" Bunda	Carrie Okinaga
Michael Formby	

**ALSO IN ATTENDANCE:
(Sign-In Sheet and Staff)**

Paul Migliorato	Daniel Grabauskas
Russell Honma	Diane Arakaki
Joe Magaldi	Joyce Oliveira
Lori Hiraoka	Gary Takeuchi
Doug Chun	Cindy Matsushita
Valerie Sadural	Phyllis Kurio
Frank Genadio	Andrea Tantoco
Brennon Morioka	Jeanne Mariani-Belding
Duane Sayers	Steven Takata
Bill Brennan	Robert Reynolds
Rickie Ajimine	Liz Scanlon

I. Call to Order by Chair

Government Affairs/Audit/Legal Matters Committee Chair Ivan Lui-Kwan called the meeting to order at 8:31 am.

II. Public Testimony on All Agenda Items

Mr. Lui-Kwan called for public testimony. Russell Honma testified regarding the financial capacity of Ansaldo and its parent company Finmeccanica.

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

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

IV. Operational Readiness Assessment Discussion

Diane Arakaki, HART Chief Financial Officer, presented an update on the effort to solicit a contractor to assist with assessing staff operational readiness. She provided the committee with a draft scope of work for the members' review. A copy of the draft scope is attached hereto as Attachment A. Ms. Arakaki stated that the submitted draft was being presented to the committee for feedback before proceeding with solicitation. Mr. Lui-Kwan asked if Ms. Arakaki would come back to the committee with another update before solicitation, and she confirmed she would.

Committee member Don Horner commended Ms. Arakaki and expressed his appreciation for staff reaching out to various organizations that have gone through the audit process. He stated there is a need to examine the cost as it is not included in the budget.

Committee member Carrie Okinaga inquired regarding the form of the scope. Mr. Lui-Kwan stated that HART staff would need to speak to counsel to refine the details. He echoed Mr. Horner in commending Ms. Arakaki for doing an outstanding job. Mr. Horner observed that as HART does not have an audit department, it must outsource this function. However, he stressed that an assessment of risk beyond construction risks must be a priority.

HART Executive Director and CEO Daniel Grabauskas noted that having another set of eyes to point out areas HART needs to pay attention to will be helpful in guiding HART as it moves towards an organization that oversees operations. Mr. Horner observed that it would add a greater degree of transparency that the community deserves and demands. At Ms. Okinaga's request, Ms. Arakaki said that staff would provide the committee with an update on the scope of the assessment before solicitation of services is initiated.

Ms. Okinaga asked if the Operational Readiness Assessment would be incorporated in the Business Plan. Mr. Grabauskas stated that it could if the Board so desired. He informed the committee that Ron Tober was asked to come back and help HART staff in drafting the Business Plan for fiscal year 2014. Mr. Grabauskas noted that Mr. Tober, who is a well-respected member of the transit community and was the general manager for the Charlotte Area Transit System, assisted in the formation of HART. Mr. Tober helped draft HART's first Business Plan, and has returned as a consultant to update the Business Plan on an annual basis.

V. Litigation Update

Gary Takeuchi, Deputy Corporation Counsel, provided the committee members with a litigation update, stating there was little substantive activity since his last report.

Mr. Takeuchi reported that the plaintiffs in the *Honolulutraffic.com* case filed an appeal. He informed the committee that the parties are required to file mediation questionnaires which indicate what they think the issues are and what the chances of mediation might be. Mr. Takeuchi reported that the plaintiffs indicated there is no room for compromise and that mediation is not likely to be successful, as they are requesting a complete invalidation of the project. Mr. Takeuchi stated that the mediation program will review the matter, but counsel has not heard anything further on the subject.

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Mr. Takeuchi reported that the City defendants filed a motion to clarify certain aspects of Judge Wallace Tashima's December 27, 2012 remand order. That order provided for a limited injunction on construction and real estate acquisition in phase four of the project. The order provided that once the three supplemental studies are prepared and certified as completed, the injunction on construction will automatically be lifted after 30 days if the plaintiffs do not file an objection; however, the order does not also provide for the automatic lifting of the injunction on real estate acquisition, even though such activities would precede construction in many instances. The motion was intended to clarify this apparent oversight, as well as the allowed continuance of "geotechnical training," thought to be a misstatement of "geotechnical testing." Mr. Takeuchi reported that after unsuccessfully seeking a stipulation on those items from the plaintiffs, counsel filed the motion to clarify. The deadline for the plaintiffs to file a response is March 8, 2013.

Mr. Grabauskas extended his thanks to Mr. Takeuchi and his team on working to get the project back into construction as quickly as possible. Mr. Lui-Kwan echoed Mr. Grabauskas' comments and commended Mr. Takeuchi and his team on their efforts.

VI. Executive Session

Mr. Lui-Kwan asked if there was any reason for an executive session, and there was none.

VII. Adjournment

There being no further business before the committee, Mr. Lui-Kwan adjourned the meeting at 8:47 a.m.

Respectfully Submitted,



Cindy Matsushita
Board Administrator

Approved:



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

June 13, 2013

Date

ATTACHMENT A

Internal Readiness Assessment/Review

Introduction

The Honolulu Authority for Rapid Transportation (HART) is a new, semi-autonomous agency of the City and County of Honolulu. As such, it is seeking a qualified consultant to assist HART with establishing an internal audit function. The scope of services will include operational, compliance and information system reviews to assess the adequacy and effectiveness of HART's internal control systems.

Agreement Period

The term of the agreement is expected to commence on or around June 1, 2013, and end on September 30, 2013. The term of this contract may be extended, at HART's option.

Scope of Work

The contractor shall provide the following services:

1. Objectives. The contractor understands that the objectives of the work to be performed under contract are:
 - a. To determine whether internal controls over financial and operating data are adequate and effective to provide reasonable assurance that the financial and operating information is accurate and reliable.
 - b. To determine whether HART's policies and procedures are in compliance with laws, regulations, contracts, grants, policies and procedures and that internal controls are adequate and effective to ensure that proper compliance actually occurs.
 - c. To determine whether internal controls over HART operations provide reasonable assurance that assets are accurately recorded exist and are safeguarded against loss or theft.
 - d. To determine whether controls over HART operations provide reasonable assurance that HART resources are used efficiently and economically.
 - e. To determine whether controls over operations and programs are adequate and effective to provide reasonable assurance that the operations and programs are being carried out as planned and that the results of operations are consistent with goals and objectives.

- f. At HART's option, the contractor may be asked to assist in the implementation of optional work as described in paragraph 2 below.

2. Scope of Work. The contractor shall:

Required Work

- a. Perform an internal assessment for HART. Based upon the results, develop a work plan to assess the adequacy and effectiveness of HART's internal control systems through operational, compliance and information system reviews in a form presentable to HART management and the HART Audit Committee and the HART Board.
- b. Perform operational reviews of key business processes to identify deficiencies and weaknesses, and make appropriate recommendations for improvements.
- c. Perform compliance reviews to determine if established policies and procedures are adequate and are being adhered to for purposes of maintaining a positive internal control environment. This would include, but not be limited to, a review of the security and controls of the Contract Management System (CMS), and subsystems currently feeding the system and HART's Document Control system.
- d. Provide recommendations based upon existing "best practice" instances where policies, procedures and processes do not exist and/or could be improved.
- e. Where applicable, develop work programs/plans to strengthen HART's internal controls.
- f. Prepare a report identifying deficiencies and weaknesses in internal controls and recommendations for corrective action and/or improvement to overcome any deficiencies and weaknesses.
- g. Based on the work performed, issue a report to identify and outline the necessary best practices, procedures, processes, and policies that an internal audit function within HART should possess. This would include, but not be limited to, establishing goals and objectives of an internal audit function, a risk assessment framework, and responsibilities with respect to annual planning and administrative activities.

Deliverables:

1. Assessment Work Plan for presentation
2. System shortcomings based on Best Practices
3. Work plan to strengthen HART's internal controls, if applicable
4. Deficiencies and weaknesses and corrective actions report
5. Final report identifying optimum internal control system.

Optional Work:

- a. Assist HART in the development, refinement and implementation of existing plans and procedures identified in the review that are deemed deficient.
- b. Conduct periodic reviews when requested by HART to verify that changes made are being implemented and that the expected results are being achieved.

Deliverables:

1. Updated specific Plans and Procedures
2. Results of subsequent reviews and assessments