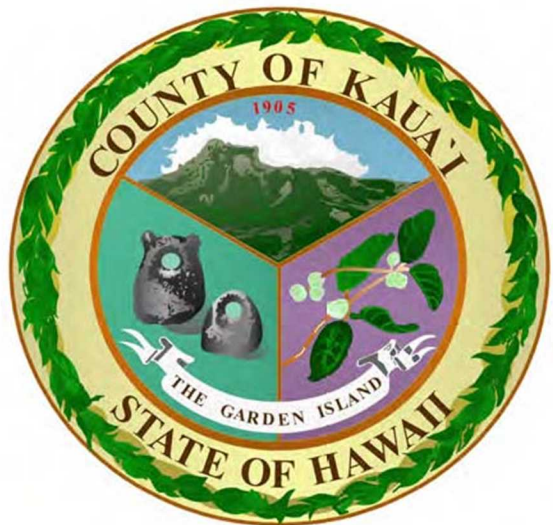


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



**For the Fiscal Year Ended
June 30, 2016**

COUNTY OF KAUA'I

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To the Chair and Members of the County Council
County of Kaua'i
Lihue, Kaua'i, Hawai'i

In planning and performing our audit of the financial statements of the County of Kaua'i, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our findings and recommendations regarding these matters. We previously communicated to you about the County's internal control in our report dated December 12, 2016. This letter does not affect our report dated December 12, 2016, on the financial statements of the County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

This communication is intended solely for the information and use of management, county council, and others within the County, and is not intended to be, and should not be, used by anyone other than these specified parties.

N&K CPAs, Inc.

Honolulu, Hawai'i
December 12, 2016

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS (Continued)
Fiscal Year Ended June 30, 2016

2016-001 Improve Internal Controls Over pCard Purchases

Condition: The County issued purchase cards (pCard) to several departments and agencies for handling of small purchases (less than \$1,500). The procedures for using the pCard did not change the existing procurement procedures. During our current year audit, we noted the following:

- We noted 1 instance (out of 40 samples) where an approval was obtained after the purchase was made.
- We noted 1 instance (out of 40 samples) where the pCard holder, as a Division Head, preapproved their own purchase.
- We noted 6 instances (out of 34 samples) where the pCard holder exceeded the pCard threshold of \$1,500 for a single purchase.

Criteria: Under the County of Kaua'i pCard Policy and Procedures:

- All purchases require prior approval by the Department Head or designee before making a purchase.
- The Department Head is responsible for monitoring and approving cardholder purchases to ensure that the pCard is being used properly in accordance with the pCard Policy and Procedures.
- The approved threshold for use of pCards for small purchases of general County of Kaua'i commodities is \$1,500. Cardholders shall not utilize pCards for single purchases in excess of \$1,500 without the approval of the Director of Finance.

Cause: The County currently requires the respective departments and agencies to self-report any procurement violations to the Division of Purchasing. Other than the self-reporting of violations, the County does not have a monitoring control to ensure that the departments and agencies are following the purchasing procedures. However, specific guidance was provided to all departments through the issuances of memorandums, formal policies and procedures, and formal training to department and agency personnel who were involved in the use of pCards.

Effect: The lack of adequate internal controls over pCard purchases could result in misuse of the pCard for non-approved purchases in violation of the policies and procedures in place.

Recommendation

The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement procedures are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 9.

County of Kauaʻi, Hawaiʻi
CURRENT FINDINGS AND RECOMMENDATIONS (Continued)
Fiscal Year Ended June 30, 2016

2016-002 Review Treasury Trust Accounts

Condition: The County maintains fiduciary funds that are limited to agency funds. The County has the following agency funds:

- Trust and Agency Fund
- Treasury Trust Fund
- Real Property Trust Fund

At June 30, 2016, the County had approximately \$1,398,476 in these treasury trust accounts. We reviewed 3 of the 12 treasury trust accounts totaling \$1,198,653, noting the following:

Planning Treasury Trust - The account holds a total of \$99,404 of deposits held prior to July 30, 2013. The County was unable to provide a listing for these older deposits held in the account. The remaining balance of \$536 was from current deposits from 2013 through 2016.

Criteria: Agency funds are custodial in nature and are used to receive and disburse funds for an entity or individual that is not part of the County. Agency funds function as a clearing account and do not measure results of operations. All funds held by the County should be properly monitored and addressed when it is due back to the individual or entity.

Cause: The County did not have a continuous monitoring process over deposits being held and recorded in the County's funds. Amounts due back to individuals or entities were not properly addressed.

Effect: Deposits that are held that are not accounted for and addressed will continue to be held on the County's funds until the proper disposition can be made. Such deposits can build over time unless a continuous monitoring process is implemented over these agency funds.

Recommendation

The County should continue its efforts in determining the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 9.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kaua'i, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2016

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the management advisory report for the fiscal year ended June 30, 2015, dated December 22, 2015.

Recommendations	Status
<p>2015-001 IMPROVE INTERNAL CONTROLS OVER PCARD PURCHASES (page 4)</p> <p>The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement policies are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.</p>	<p>Partially accomplished. The Purchasing division has issued a policies and procedures manual and has conducted training for individuals using the pCard. However, we noted several findings related to the purchasing process during the current year as noted on finding 2016-001.</p>
<p>2015-002 REVIEW TREASURY TRUST ACCOUNTS (page 5)</p> <p>The County should continue its efforts in determining the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.</p>	<p>Partially accomplished. The Public Works Treasury Trust has been reviewed and reconciled. However, the Planning Treasury Trust still includes older balances that should be reviewed. Refer to current year finding 2016-002.</p>
<p>2015-003 IMPROVE MONITORING OF DELINQUENT RECEIVABLE ACCOUNTS (page 6)</p> <p>The County should improve its monitoring of delinquent receivable accounts by timely submittal of past due accounts to the County Attorney. The County should establish policies and procedures for writing off accounts once they are deemed uncollectible.</p>	<p>Accomplished.</p>

CORRECTIVE ACTION PLAN

Bernard P. Carvalho, Jr.
Mayor



Ken M. Shimonishi
Director of Finance

Wallace G. Rezentes, Jr.
Managing Director

Sally A. Motta
Deputy Director of Finance

DEPARTMENT OF FINANCE
County of Kaua'i, State of Hawai'i

4444 Rice Street, Suite 280, Lihue, Hawai'i 96766
TEL (808) 241-4200 FAX (808) 241-6529

December 12, 2016

Blake S. Isobe
N & K CPA's, Inc.
American Savings Bank Tower
1001 Bishop Street, Suite 1700
Honolulu, HI 96813-3696

Dear Mr. Isobe:

Attached are the County of Kaua'i's responses and corrective action plans related to your fiscal year 2016 audit report *Management Advisory Report's Current Findings and Recommendations*. We appreciate the opportunity to comment on the audit report.

Sincerely,

Ken M. Shimonishi
Director of Finance

Attachment

2016-001 Internal Controls Over the pCard Purchases

Auditor's

Recommendation:

The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement procedures are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.

Corrective

Action:

Client agrees with findings. As of October 7, 2016 the client has instructed the financial institution that issues the county's pCards to place a single transaction maximum limit of \$1,500 on all cards. This will avoid the use of pCards in excess of \$1,500 per transaction. The Finance department will provide routine selective review of pCard transactions to ensure proper procurement procedures were followed as well as semi-annual notification to pCard users of resource documents on "p-card training regarding procurement" on the county's Sharepoint portal.

End Date:

On-going

Responding

Person(s):

Ken M. Shimonishi, Director of Finance, Department of Finance, Phone: (808) 241-4200

2016-002 Review Treasury Trust Accounts

Auditor's

Recommendation:

The County should continue its efforts in determining the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.

Corrective

Action:

We accept the recommendation of the audit, and will continue pursuing proper disposition of older balances held in this account. We have implemented procedures to maintain a continuous monitoring process after a previous audit recommended liquidation of a portion of the trust accounts funds for this same reason. Funds received subsequent to the previous audit finding, we understand, are not in question and therefore we will maintain the implemented procedures moving forward.

End Date:

On-going

Responding

Person(s):

Michael Dahilig, Director of Planning, Department of Planning, Phone: (808) 241-4057

Myles Hironaka, Planner, Department of Planning,
Phone: (808) 241-4072