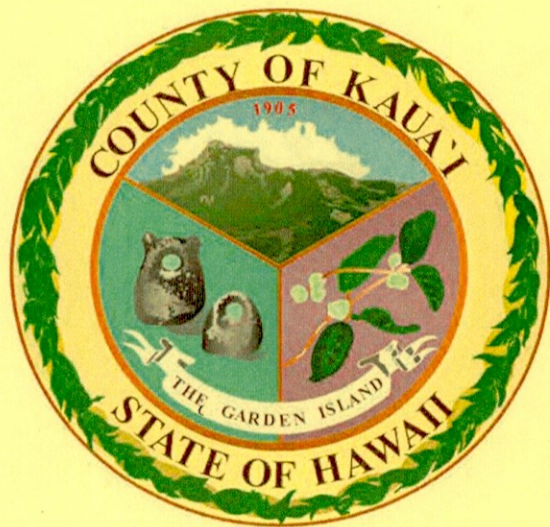


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2014

P-201.1

C-2015-03

COUNTY OF KAUA'I

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT ADVISORY REPORT	
Management Letter	3
CURRENT FINDINGS AND RECOMMENDATIONS	
14-01 Improve Internal Controls Over pCard Purchases	4
14-02 Review Treasury Trust Accounts	5
14-03 Improve Internal Controls Over Emergency Procurement	6
STATUS OF PRIOR YEAR'S RECOMMENDATIONS	
Status Report	8 - 9
CORRECTIVE ACTION PLAN	
Response of County of Kaua'i	11 - 15



N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

AMERICAN SAVINGS BANK TOWER
1001 BISHOP STREET, SUITE 1700
HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090

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, 2014, 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 1, 2014. This letter does not affect our report dated December 1, 2014, 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 1, 2014

CURRENT FINDINGS AND RECOMMENDATIONS

2014-001 Improve Internal Controls Over pCard Purchases

In February 2012, the County started issuing purchase cards (pCard) to several departments and agencies for handling small purchases (less than \$1,500). The procedures for using the pCard did not change the existing procurement procedures. The County's policy requires that any purchase made by the pCard must be preapproved by the respective pCard coordinator and documentation of quotes for purchases over \$500 were still required procedures.

During our audit of 40 pCard transactions during the fiscal year ended June 30, 2014, we noted the following:

- We noted two instances where there was no evidence that the procurement process was followed prior to the purchase being made.
- We noted two instances where the approval was done after the purchase was made.
- We noted two instances where there was no evidence that the purchase was approved prior to it being made.

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.

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.

2014-002 Review Treasury Trust Accounts

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

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

At June 30, 2014, the County had approximately \$2,397,000 in these treasury trust accounts. We reviewed 3 of the 12 treasury trust accounts totaling \$2,226,071, noting the following:

Public Works Fiscal Treasury Trust - The account holds 25 different deposits for a total of \$134,900 from May 9, 1986 through September 4, 2007. The remaining balance of \$497,150 was from current deposits from 2009 through 2014.

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.

2014-003 Improve Internal Controls Over Emergency Procurement

The County follows the State of Hawai'i's emergency procurement policies and should therefore adhere to the guidelines and interpretations of both HRS Section 103D-307 and HAR Chapter 3-122 Subchapter 10.

During our audit of Emergency Procurement Purchase Orders during the fiscal year ended June 30, 2014, we noted the following:

- Noted three instances where Emergency Procurement was used due to lack of timely repair and maintenance of County property.
- Noted one instance where Emergency Procurement was used in excess of what was necessary to remedy the immediate emergency situation.
- Noted two instances where Emergency Procurement purchase orders remained open in excess of what would be considered an urgent need for services.

There does not appear to be a clear understanding of the State of Hawai'i's emergency procurement policies by both those responsible for initiating and approving emergency purchase orders. There also does not appear to be a system of accountability for those responsible for the timely repair and maintenance of County property.

The lack of understanding of emergency procurement policies and procedures has resulted in potential violations of Hawai'i Revised Statutes and Hawaii Administrative Rules as adopted by the County. The lack of accountability for those responsible for timely repair and maintenance of County property could lead to potential violations of the aforementioned emergency procurement policies and procedures.

Recommendation

The County should provide training for those who are responsible for initiating and approving emergency purchase orders, which will allow them to exercise better judgment in properly following emergency procurement policies and procedures. The County should also initiate a system of accountability for those responsible for the timely repair and maintenance of publicly accessed County property in order to avoid the need for the use of emergency procurement.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kaua'i, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2014

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, 2013, dated December 12, 2012.

Recommendations	Status
<p>13-01 IMPROVE INTERNAL CONTROLS OVER PCARD PURCHASES (page 4)</p> <p>The County should review its policies and procedures and strengthen internal controls over the use of the pCard. These policies and procedures could include mandatory training for all personnel handling pCard transactions at the various departments and agencies; 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.</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 2014-001.</p>
<p>13-02 REVIEW TREASURY TRUST ACCOUNTS (page 5)</p> <p>The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up with aging deposits. In addition, the County should review the use of the Planning Treasury Trust to ensure that the transactions recorded in the account are proper and determine who the balance in the account is being held for.</p>	<p>Partially accomplished. The Planning Treasury Trust has been reviewed and reconciled. However, the Public Works Fiscal Treasury Trust still includes older balances that should be reviewed. Refer to current year finding 2014-002.</p>
<p>13-03 RECONCILE AND REVIEW RESIDENTIAL REFUSE COLLECTION ASSESSMENTS (page 6)</p> <p>The County should generate a report throughout the year that accounts for RRCA outstanding balances to allow personnel to monitor balances and reconcile outstanding balances that are recorded in the real property tax assessment system to the general ledger.</p>	<p>Accomplished.</p>

County of Kaua'i, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2014

Recommendations	Status
<p>13-04 REVIEW UNEARNED REVENUES AND GRANT RECEIVABLES (page 7)</p> <p>The County should investigate and determine the proper disposition of balances recorded in both grant funds receivable and unearned revenue in a timely manner to properly account for these grant balances.</p>	<p>Accomplished.</p>

CORRECTIVE ACTION PLAN

Bernard P. Carvalho, Jr.
Mayor

Nadine K. Nakamura
Managing Director



Steven A. Hunt
Director of Finance

Sally A. Motta
Deputy Director of Finance

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

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

December 1, 2014

Blake S. Isobe
N & K CPAs, 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 2014 audit report *Management Advisory Report's* Current Finding and Recommendations. We appreciate the opportunity to comment on the audit report.

Sincerely,

Steven A. Hunt
Director of Finance

Attachment

An Equal Opportunity Employer

2014-001 Improve Internal Controls Over 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:

The Division of Purchasing will identify procurement related problems in the execution of P card program and sponsor continued training initiatives to bring a better level of understanding on the procurement obligations related to the P card use. Over the next fiscal year, initiatives will be planned to work with all department heads, deputy department heads, and departmental fiscal officers to establish an agreed-upon system of internal controls at the departmental levels to ensure an adequate level of accountability for the proper utilization of the P card and adherence to the P card policies and procedures.

The P card system in the County of Kauai is being executed consistently with other P card programs around the state. The key element of the program is that the chief procurement officer has delegated small purchasing authority up to \$1500 to departmental personnel as a means to expedite small purchases in order to acquire goods and services needed to provide services to the public. It is acknowledged that internal controls at the departmental level would be required in order to have a system of accountability in place. The Division of Purchasing will facilitate these discussions with key personnel in all departments in order to achieve the desired outcome.

Procurement violations are conducted as a matter of routine by the Assistant Chief Procurement Officer in order to identify the scope and severity of procurement violations, and to provide additional training and guidance to remediate issues that may be contributing to these violations. This protocol will continue as defined in the Hawaii State Procurement Code and the associated administrative rules.

The Division of Purchasing acknowledges that over the past three audit periods, there have been 14, 13, and six violations respectively. While we have more work to do in

order to improve and strengthen the system, we also acknowledge that with the substantial increase in transactions, there has been a substantial decrease in the amount of violations identified through the audit process. We believe that this validates the countywide development of the pCard policies and procedures and the effectiveness of training sessions that have been developed and provided by the Division of Purchasing. We are thankful to the auditor for identifying these issues which will strengthen our Pcard system and contribute to our continued efforts to maximize the operational effectiveness of the system.

End Date: On-Going

Responding Person: Ernest W. Barreira, Assistant Chief Procurement Officer / Budget Chief
Department of Finance, Purchasing Division
Phone: (808) 241- 4295

2014-002 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:

Public Works will continue to try to resolve the old cash deposits. We will also continue to try to keep all permits active and not get forgotten.

End Date:

On-Going

Responding Person:

James Matsushige, Business Manager
Public Works Department, Fiscal Division
Phone: (808) 241- 4834

2014-003 Improve Internal Controls Over Emergency Procurement

**Auditor's
Recommendation:**

The County should provide training for those who are responsible for initiating and approving emergency purchase orders, which will allow them to exercise better judgment in properly following emergency procurement policies and procedures. The County should also initiate a system of accountability for those responsible for the timely repair and maintenance of publicly accessed County property in order to avoid the need for the use of emergency procurement.

Corrective Action:

The Division of Purchasing acknowledges the findings of the financial auditor with regard to the specific emergency procurement instances noted in the report. During the course of the current fiscal year, the Division of Purchasing will sponsor specific training for all departmental personnel on the required elements of emergency procurement as defined in Hawaii Revised Statutes chapter 103D - 307. Both the Director of Finance and the assistant chief procurement officer will exercise closer oversight and accountability on the use of emergency procurement and ensure that emergency procurement will be in close adherence to the law and addressing only the situations that require immediate attention to protect the safety and well-being of the public. The focus on proper project management for matters procured under the emergency procurement statutes will also be addressed at the departmental level. This will help ensure that these projects are carried out in a timely fashion thereby eliminating any risk of harm.

End Date:

On-Going

Responding Person:

Ernest W. Barreira, Assistant Chief Procurement
Officer/Budget Chief
Department of Finance, Purchasing Division
Phone: (808) 241- 4295