

County of Kauai, Hawaii

Single Audit Reports
For The Year Ended June 30, 2007



A Hawaii Limited Liability Partnership

March 25, 2008

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

We have completed our audit of the basic financial statements of the County of Kauai, Hawaii (the County), as of and for the year ended June 30, 2007. Our report containing our opinion on those basic financial statements is included in the County's Comprehensive Annual Financial Report. We transmit herewith our reports on internal control and compliance with applicable laws and regulations in accordance with the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Objectives and Scope of Examination

The primary objective of our audit was to form an opinion as to whether the above mentioned financial statements present fairly the financial position of the County as of June 30, 2007 and the results of its operations for the year then ended.

Our audit was made in accordance with the specifications as outlined in the Request for Proposals for Professional Financial Auditing Services for Fiscal Years 2004-05, 2005-06, and 2006-07.

The scope of the audit was as follows:

1. Conduct a financial audit of the County to provide a basis to report on the fair presentation of the County's basic financial statements.
2. Provide an "in-relation-to" report on the combining and individual non-major fund financial statements and supporting schedules based on the auditing procedures applied during the audit of the basic financial statements.
3. Provide an "in-relation-to" report on the schedule of expenditures of federal awards based on the auditing procedures applied during the audit of the basic financial statements. The schedule of expenditures of federal awards and related report, as well as the reports on the internal controls and compliance were not included in the Comprehensive Annual Financial Report, but were issued separately.

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U.S. General Accounting Office's *Government Auditing Standards*, the provisions of the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

We have also reviewed and updated the findings and other weaknesses identified in the County's financial statement audit for the fiscal year ended June 30, 2006.

Organization of Report

This Single Audit Report includes the following:

- Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
- Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133
- Schedule of expenditures of federal awards
- Schedule of findings and questioned costs
- Summary schedule of prior audit findings

The basic financial statements and related notes, along with other financial information of the County, as of and for the year ended June 30, 2007, and our opinion as to the fairness of the presentation of those statements are included in a separate report dated March 25, 2008. We have also included our comments on matters relating to the County's internal control and operations in a separate report also dated March 25, 2008.

We would like to take this opportunity to thank the staff of the County for their courteous cooperation and assistance during our audit.

KMH LLP

KMH LLP

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PART I

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial
Statements Performed in Accordance With
*Government Auditing Standards***



A Hawaii Limited Liability Partnership

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Kauai, Hawaii (the County) as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items 07-01 through 07-08, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01 through 07-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 07-09.

We noted certain matters that we reported to management of the County in a separate letter dated March 25, 2008.

This report is intended solely for the information and use of management, the County Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2008

PART II

**Independent Auditor's Report on Compliance
with Requirements Applicable to
Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133,
and on the Schedule of Expenditures of Federal Awards**



A Hawaii Limited Liability Partnership

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

Compliance

We have audited the compliance of the County of Kauai, Hawaii (the County) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in items 07-10 through 07-16 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding reporting that are applicable to the Homeland Security Grant Program, special tests and provisions, allowable costs, eligibility, reporting and cash management that are applicable to its Section 8 Housing Choice Voucher Program and allowable costs/activities allowed, period of availability and program income that are applicable to its Home Investment Partnership Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 07-10 through 07-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 07-10 through 07-16 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 25, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the County Council of Kauai, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2008

PART III

Schedule of Expenditures of Federal Awards

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through State Executive Office on Aging--						
Food Distribution:						
NSIP07 - 2007 FY		E07009	\$ 30,000	\$ 25,627	\$ 25,627	\$ 4,373
USDA, Fiscal year 2006		USDA06	35,888	5,078	23,475	12,413
Total Food Distribution	10.550		65,888	30,705	49,102	16,786
Passed Through State Department of Land and Natural Resources--						
Cooperative Fire Assistance:						
Volunteer Fire Assistance		VFA006	50,000	36,390	36,390	13,610
Volunteer Fire Assistance (F07VFA)		06-DG-11052012-173	50,000	29,383	29,583	20,417
Total Cooperative Fire Assistance	10.664		100,000	65,973	65,973	34,027
TOTAL U.S. DEPARTMENT OF AGRICULTURE			165,888	96,678	115,075	50,813
U.S. DEPARTMENT OF COMMERCE						
Passed Through Office of State Planning--						
Coastal Zone Management Program Administration Grants--						
Coastal Zone Management:						
Fiscal year 2004	11.419	HCZM04	215,075	(20)	209,055	6,020
Fiscal year 2005	11.419	HCZM05	277,762	39,736	277,762	-
Fiscal year 2006	11.419	HCZM06	290,344	116,260	277,858	12,486
Fiscal year 2007	11.419	Z07001	308,951	265,465	265,465	43,486
TOTAL U.S. DEPARTMENT OF COMMERCE			1,092,132	421,441	1,030,140	61,992
U.S. DEPARTMENT OF ENERGY						
Passed Through State Department of Business, Economic Development and Tourism:						
Energy Extension Service:						
Energy Ext Service 2005		EES005	69,825	14,000	69,651	174
Energy Ext Service 2006		EES006	69,825	8,347	62,051	7,774
Energy Ext. Service 2007		D07059	57,269	54,617	54,618	2,651
Energy Ext. Service 2007 Renew En Eff		D07057	10,000	10,000	10,000	-
Energy Ext. Service 2007 EXT Rebuild America 2007		D07056	2,000	2,000	2,000	-
Energy Ext. Recycle Re. 2007		D07055	3,000	3,000	3,000	-
Niihau Photovoltaic System		PHOTO6	150,000	60,990	60,990	89,010
Total Energy Extension Service	81.041		361,919	152,954	262,310	99,609
DBEDT CHP PMRF Feas Study		PMRFFS	80,975	56,683	80,975	-
Rebuild America Training, FY 2001 (REBU01)	81.119	L-00-101	27,882	3,203	26,378	1,504
TOTAL U.S. DEPARTMENT OF ENERGY			470,776	212,840	369,663	101,113
U.S. ENVIRONMENTAL PROTECTION AGENCY						
Direct Programs--						
Surveys, Studies, Investigations and Special Purpose Grants:						
Brownfield Assessment (CERCLA)	66.818	BF-96913101-0	199,999	78,081	196,809	3,190
Pollution Control	66.460	POLLUT (410)	200,000	62,626	200,000	-
Waimea WWTP Backup Effluent	66.606	EPAWAI (410)	483,900	163,183	483,900	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			883,899	303,890	880,709	3,190

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed Through State Executive Office on Aging—						
Special Programs for the Aging - Title III, Part C:						
Congregate Nutrition Services, Fiscal year 2004		CONG04	\$ 243,427	\$ 604	\$ 243,427	\$ -
Congregate Nutrition Services, Fiscal year 2005		CONG05	59,291	57,575	59,291	-
Congregate Nutrition Services, Fiscal year 2006		CONG06	140,389	101,593	140,389	-
Congregate Nutrition Services, Fiscal year 2007		E07002	45,286	(8,726)	(8,726)	54,012
Congregate Nutrition Services - C1 KEO		E07011	113,197	3,084	3,084	110,113
Home Delivered Nutrition Services, Fiscal year 2006		HOME06	146,817	90,434	134,145	12,672
Home Delivered Nutrition Services, Fiscal year 2007		E07008	74,779	16,341	16,341	58,438
Total Title III, Part C	93.045		823,186	260,905	587,951	235,235
Special Programs for the Aging - Title III, Part B--						
Grants for Supportive Services:						
Area Plan, Fiscal year 2006		AREA06	266,533	111,320	266,533	-
Area Plan, Fiscal year 2007		E07001	158,620	142,300	142,301	16,319
I & R 2008		E08001	70,000	43,147	43,147	26,853
Total Title III, Part B	93.044		495,153	296,767	451,981	43,172
Special Programs for the Aging - Title III, Part E						
FCG Training 2007		E05004	4,568	4,568	4,568	-
FCG Info Service 2007		E05005	6,300	6,300	6,300	-
FCG Day Care		E06001	20,000	19,896	19,896	104
Caregiver FY 2006		E06003	48,535	5,041	5,041	43,494
In home respite services		E05001	15,267	15,267	15,267	-
FCG Counseling 2007		E05002	4,982	4,982	4,982	-
FCG Support Group 2007		E05003	6,175	6,175	6,175	-
Caregiver III FY02		CARE02	82,082	276	39,523	42,559
Caregiver III FY04		CARE04	70,957	4,816	70,957	-
Caregiver III FY05		CARE05	(9,726)	(9,726)	(9,726)	-
Caregiver III FY06		CARE06	34,577	17,047	34,577	-
Total Title III, Part E	93.130		283,717	74,642	197,560	86,157
Special Programs for the Aging - Title III, Part D:						
Enhance Fitness 2007		E07006	54,690	14,757	14,757	39,933
Health Promotion, Fiscal year 2004		HP3D04	8,577	2,638	8,577	-
Health Promotion, Fiscal year 2005		HP3D05	7,248	7,176	7,248	-
Health Promotion, Fiscal year 2006		HP3D06	9,579	112	2,100	7,479
Total Title III, Part D	93.043		80,094	24,683	32,682	47,412
Passed through Office of State Attorney General—						
Child Support Enforcement: Title IV, Part D:						
Child Support Enf FY 07		S07001	276,805	184,456	184,456	92,349
Child Support Enf FY 08		S08001	-	757	757	(757)
Child Support Enf FY 06		CHIL06	273,994	1,243	273,994	-
Total Title IV, Part D	93.563		550,799	186,456	459,207	91,592
Passed through National Youth Sports Program Fund—						
Community Services:						
National Youth Sports Program, Fiscal year 2004		NYSP04	51,566	16,831	47,250	4,316
Total Community Services	93.570		51,566	16,831	47,250	4,316
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,284,515	860,284	1,776,631	507,884

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed Through State Department of Business, Economic Development and Tourism--						
Home Investment Partnerships Program, Title II:						
Fiscal year 2000 (HIPA00)		MKC00CH	\$ 963,000	\$ (13,989)	\$ 283,236	\$ 679,764
Fiscal year 2001 (HIPA01)		MKC01CH	963,000	(163)	644,810	318,190
Fiscal year 2002 (HIPA02)		MKC02-03CH	972,400	150,400	638,319	334,081
Fiscal year 2003 (HIPA03)		MKC03NC	1,547,034	1,321,534	1,396,605	150,429
Fiscal year 2004 (HIPA04)		MKC04NC	1,069,380	416,743	420,248	649,132
Fiscal year 2005 (HIPA05)		HI150001	1,006,556	561,220	639,232	367,324
Program Income		HIPAXX	2,084,803	579,818	2,221,863	(137,060)
Total Home Investment Partnerships Program, Title II	14.239		8,606,173	3,015,583	6,244,313	2,361,860
Direct Programs:						
Lower Income Housing Assistance Program--						
Section 8 - Housing Choice Vouchers	14.871	PHA-HI-005	6,813,126	6,813,126	6,813,126	-
Community Development Block Grants--						
Small Cities Program:						
Fiscal year 2001 (CDBG01)		B-01-DH-15-0001	920,999	18,358	920,999	-
Fiscal year 2002 (CDBG02)		B-02-DH-15-0001	924,000	63,445	923,606	394
Fiscal year 2003 (CDBG03)		B-03-DH-15-0001	900,000	171	889,125	10,875
Fiscal year 2004 (CDBG04)		B-04-DH-15-0001	936,201	69,535	931,841	4,360
Fiscal year 2005 (CDBG05)		B-05-DH-15-0001	892,821	373,788	651,496	241,325
Fiscal year 2006 (CDBG06)		B-06-DH-15-0001	806,848	299,147	299,147	507,701
Program Income		CDBGXX	838,598	838,598	838,598	-
Total Small Cities Program	14.219		6,219,467	1,663,042	5,454,812	764,655
Special Projects Grant, EDI-SP	14.246	TECH04	497,050	86,580	456,456	40,594
Total Special Purpose Grants			497,050	86,580	456,456	40,594
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			22,135,816	11,578,310	18,968,707	3,167,109
U.S. DEPARTMENT OF JUSTICE						
Passed through Office of State Attorney General:						
Crime Victims Assistance Grants:						
Victims of Crime, Fiscal year 2005		VOCA04	185,051	851	185,051	-
Victims of Crime, Fiscal Year 2006		A07021	186,841	13,125	13,125	173,716
VOCA VA Plan		O4VA3	209,191	186,878	208,385	806
Total Crime Victims Assistance Grants	16.575		581,083	200,854	406,561	174,522
Byrne Formula Grant Program:						
Statewide Narcotics Task Force, Fiscal year 2005		SNTF05	19,286	76	19,286	-
Statewide Narcotics Task Force, Fiscal year 2006		SNTF06	24,000	3,838	9,491	14,509
Statewide Marijuana Task Force, Fiscal year 2006		MARI06	33,000	28,897	28,639	4,361
US DOJ/DEA DCE/SP Program 2007		P07001	192,000	73,542	73,542	118,458
US DOJ/DEA DCE/SP Program 2005		DCES05	193,043	(229)	193,043	-
High Intensity Drug Traffic, Fiscal year 2004		HIDTA4	70,410	10,942	70,254	156
High Intensity Drug Traffic, Fiscal year 2005		HIDTA5	70,410	12,999	23,258	47,152
Domestic Cannabis Eradication, Fiscal year 2006		DCES06	187,922	131,398	179,018	8,904
Total Byrne Formula Grants	16.579		790,071	261,453	596,531	193,540

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF JUSTICE (continued)						
Edward Byrne Memorial Grants-State and Local Law Enforcement:						
Stop Violence Against Women, fiscal year 2006		SVAW06	\$ 46,811	\$ 19,640	\$ 45,675	\$ 1,136
Stop Violence Against Women, fiscal year 2007		A07005	46,823	26,824	26,824	19,999
Bryne Jag PGM		JAG005	45,370	19,132	38,992	6,378
Bryne Jag PGM, FY05 DVPU05		DVPU05	45,600	31,705	37,468	8,132
Bryne Jag PGM, FY05 PCPU05		PCPU05	104,000	74,381	87,898	16,102
Sart Training, FY 06		SART06	15,804	(1,535)	12,522	3,282
Sane Training, FY 06		SANE06	18,900	4,065	4,065	14,835
Total Stop Violence Against Women Grants	16.588		323,308	174,212	253,444	69,864
Teen Court Hale Opi	16.540	A07004	60,000	31,316	31,316	28,684
Passed through State Office of Health and Human Services:						
Youth Accountability Incentive Block Grant:						
Youth Program, Title V, Fiscal Year 2006	16.523	YPV005	71,636	4,152	71,636	-
Youth Program Title V, Fiscal Year 2007	16.523	A07001	11,706	10,231	10,231	1,475
Total Youth Accountability Incentive Block Grants			83,342	14,383	81,867	1,475
Community Oriented Policing Services-						
Education and prevention:						
COPS Police Activity League		COPPAL	32,982	3,326	21,821	11,161
Total COPS Education and prevention	16.710		32,982	3,326	21,821	11,161
Drug enforcement:						
COPS Community Oriented Police 2002		COPS02	500,000	-	365,861	134,139
COPS in school		COPS03	375,001	-	40,698	334,303
COPS Kapaa High School		COPKHS	20,000	-	12,425	7,575
Crystal Meth Vehicles		HCFKPD	200,000	91,831	200,000	-
Passed through Hawaii Community Foundation:						
HCF, Drug Response Plan Year One/Two		HCFMAY	127,441	60,446	127,440	1
HCF OCA - Youth Activities		HCFOCA	50,000	27,248	49,990	10
HCF, Drug prosecution		A07002	78,500	55,250	55,250	23,250
Total COPS, Drug enforcement	16.711		1,350,942	234,775	851,664	499,278
TOTAL U.S. DEPARTMENT OF JUSTICE			3,221,728	920,319	2,243,204	978,524
U.S. DEPARTMENT OF LABOR						
Passed through State Department of Labor and Industrial Relations:						
Reed Act Agreement Reed-06-K	17.803	D07070	1,275,556	4,717	4,717	1,270,839
Senior Community Service Employment Program FY07	17.235	E07005, SCSEP6	185,589	11,176	76,432	109,157
Total Reed Act & Senior Employment Program			1,461,145	15,893	81,149	1,379,996

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF LABOR (continued)						
Workforce Investment Act:						
Adult Program-Local area funds, Title I, FY 2006		WIAAP6	\$ 197,245	\$ 110,176	\$ 161,838	\$ 35,407
Adult Program Local area funds, Title I, FY 2007		D07050	172,472	164,888	164,888	7,584
Adult Program-Local area funds, Title I, FY 2008		D08050	139,702	30	30	139,672
Total Adult Program	17.258		509,419	275,094	326,756	182,663
Dislocated Workers, FY2006						
Dislocated Workers, FY 2007		WIADW6	78,720	3,181	71,125	7,595
Dislocated Workers, FY2008		D07051	64,001	50,972	50,972	13,029
Dislocated Workers, FY2008		D08051	128,138	10	10	128,128
Total Dislocated Workers	17.260		270,859	54,133	122,107	148,752
Youth Activities, FY 2006						
Youth Activities, FY 2007 (in school)		WIAYP6	176,818	19,082	176,818	-
Youth Activities, FY 2007 (out school)		D07060	49,232	39,537	39,537	9,695
Youth Activities, FY 2007 (out school)		D07061	102,517	96,055	96,055	6,462
Total Youth Activities	17.259		328,567	154,674	312,410	16,157
Administrative, FY 2006						
Administrative, FY 2007		WIA006	61,946	22,439	61,916	30
Administrative, FY 2007		D07049	43,134	21,611	21,611	21,523
Total Administrative	**		105,080	44,050	83,527	21,553
Total Workforce Investment Act			1,213,925	527,951	844,800	369,125
TOTAL U.S. DEPARTMENT OF LABOR			2,675,070	543,844	925,949	1,749,121
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through State Department of Transportation:						
Public Transportation for Nonurbanized Areas--						
Federal Transit Administration, Section 5311:						
FTA BUS HI18x023		FTA023	301,881	173,614	177,341	124,540
FTA BUS HI18x024		FTA024	320,654	242,982	316,655	3,999
FTA, Kauai Baseyard HI180015		FTA015	3,009,999	995	3,010,003	(4)
FTA FEDERAL TRANSIT ADMINISTRATION		FTA039	1,457,667	15,216	15,216	1,442,451
FTA BUS HI18x022		FTA022	535,500	18,816	535,500	-
Total Public Transportation, Section 5311	20.509		5,625,701	451,623	4,054,715	1,570,986
Trans CAP, HI-03-0033	20.500	FTA033	785,808	293,280	785,808	-
Highways Planning and Construction (Federal-Aid Highway Program):						
Bridge Replacement - Off system:						
Omao/Puuopae/Kilauea Bridge (BR0700(32)		OMAO (410)	8,192,051	10,406	674,845	7,517,206
Oloheua Road BR-0700(36)		OLOHEN (410)	3,281,240	3,711	2,767,389	513,851
Statewide Transportation Improvement Program:						
Ahukini to Lydgate bikepath		AHULYD (410)	625,000	93,819	386,513	238,487
Kapaa-Kauai Bikepath		STP048 (410)	13,210,000	4,983,812	5,976,072	7,233,928
Lydgate-Kapaa Bikepath		LYDKAP (410)	1,387,173	661,396	400,111	987,062
ADA Curb Ramps (CMAQ-0700 (52)		CMAQ52 (410)	2,133,563	23,638	686,674	1,446,889
AlaKinoiki Road		ALAKIN (410)	1,845,187	1,814,142	1,863,689	(18,502)
Kuna Bay-Anahola Bikepath (KUNABA -410)		CMAW-0700(56) (410)	390,000	60,516	61,263	328,737
Nawiliwili/Ahukini Bikepath		NAWAHU (410)	500,000	93,116	93,613	406,387
Total Highways Planning and Construction	20.205		31,564,214	7,744,576	12,910,169	18,654,045

County of Kaua'i

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF TRANSPORTATION (continued)						
State and Community Highway Safety:						
Seabelt Enforcement, fiscal year 2007		P07011	\$ 29,820	\$ 27,488	\$ 27,488	\$ 2,332
Seabelt Enforcement, fiscal year 2005		SEAT05	31,537	(152)	31,537	-
Seabelt Enforcement, fiscal year 2006		SEAT06	39,820	16,344	28,270	11,550
KPD Roadblock PGM 2007		P07010	40,000	38,358	38,358	1,642
KPD Roadblock PGM 2006		DUI006	58,145	18,588	43,497	14,648
Speed Enforcement 2006		SPEE06	41,573	26,179	39,587	1,986
Speed Enforcement 2007		P07012	31,010	9,258	9,258	21,752
Traffic Data		DATA06	22,000	12,983	15,987	6,013
Traffic Data 2007 TR07-03 (P07009)		06-K-01	48,820	1,367	1,367	47,453
Traffic Service (TRAF06)		PT 06-01(02-K-01)	23,221	14,571	20,555	2,666
Total State and Community Highway Safety	20.600		365,946	164,984	255,904	110,042
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			38,341,669	8,654,463	18,006,596	20,335,073
CORPORATION FOR NATIONAL SERVICE						
Direct Program--						
Retired Senior Volunteer Program (RSVP):						
Title II, Part A, Older Americans						
Volunteer Program:						
Calendar year, 2006		RSVP06	77,626	49,078	77,626	-
Calendar year, 2007		E07007	77,627	31,810	31,810	45,817
TOTAL CORPORATION FOR NATIONAL SERVICE	94.002		155,253	80,888	109,436	45,817
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)						
Assistance to Fire fighters Grant Program						
AFG - Wellness 2005	97.044	F05001	183,241	16,028	16,028	167,213
Passed Through State Department of Defense:						
Civil Defense - State and Local Emergency--						
Hazard Mitigation grant program --						
FEMA Disaster 1640 Dr Hi	97.036	X07006	960,774	464,590	959,662	1,112
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			1,144,015	480,618	975,690	168,325
U.S. DEPARTMENT OF TREASURY						
Passed Through State Department of Education:						
School Resource Officer Program-Project Outreach						
Gang Resistance Education and Training FY 2007	21.053	P07020	42,499	8,670	8,670	33,829
Gang Resistance Education and Training, FY 2006	21.053	GREAO6	42,499	20,530	30,386	12,113
Criminal Assets Forfeiture		CAFJUS	37,747	8,124	32,660	5,087
TOTAL U.S. DEPARTMENT OF TREASURY			122,745	37,324	71,716	51,029
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed Through State Department of Defense:						
Law Enforcement Terrorism Pgm	97.053	HSGLET	301,437	281,364	281,364	20,073
Citizens Corp PGM	97.053	HSGCCP	25,000	16,612	18,418	6,582
Homeland Security, Part I	97.067	CBRNE3	599,400	110,373	526,970	72,430
Homeland Security, Part II	97.067	SHSGP3	2,250,000	1,555,075	1,893,873	356,127
Homeland Security 2005	97.067	SHSGP5	1,381,742	572,421	572,421	809,321
State Homeland Security	97.004	HSGSTA	1,960,060	513,001	670,040	1,290,020
Homeland Security Grant	97.004	C06100	832,000	10,138	10,138	821,862
Law enforcement Terrorism Prevention Program	97.074	LETPP5	301,471	293,935	293,935	7,536
Hazard Material Emerg Plan	97.020	C07003	15,000	14,800	14,800	200
Wind Design Code Project	97.017	WINDDC	135,000	224	5,050	129,950
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			7,801,110	3,367,944	4,287,010	3,514,100
TOTAL ALL FEDERAL PROGRAMS			\$ 80,494,616	\$ 27,558,842	\$ 49,760,526	\$ 30,734,090

County of Kauai

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Labor		
Workforce Investment Act Youth Activities	17.259	\$ 133,209
Workforce Investment Act Adult Program	17.258	195,746
Workforce Investment Act Dislocated Workers	17.260	60,712
Total U.S. Department of Labor		389,667
U.S. Department of Housing and Urban Development		
Community Development Block Grants: Small Cities Program	14.219	436,781
U.S. Department of Health and Human Services		
Special Programs for the Aging, Title III, Part B Grants for Supportive Services	93.044	105,000
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	177,547
Special Programs for the Aging, Title III, Part D	93.043	2,100
Special Programs for the Aging, Title III, Part E	93.130	57,989
Total U.S. Department of Health and Human Services		342,636
Grand Total		\$ 1,169,084

County of Kauai

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

3. Loans Outstanding

The County had the following loan balances outstanding at June 30, 2007. These loan programs are also included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards.

<u>Cluster/Program Title Outstanding</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Home Investment Partnership Program	14.239	\$ 963,500
Community Development Block Grants: Small Cities Program	14.219	593,669

PART IV

Schedule of Findings and Questioned Costs

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Number

Federal Program

14.871	Department of Housing and Urban Development
14.219	Section 8 Housing Choice Vouchers
	Community Development Block Grant – Small Cities Program
14.239	Home Investment Partnership Program
	Department of Homeland Security
97.067	Homeland Security Grant Program
97.074	Law Enforcement Terrorism Prevention
97.053	Citizen Corps
97.004	State Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs? \$826,765

Auditee qualified as low-risk auditee? ☐ yes ☒ no

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section II – Financial Statement Findings

Finding No.: 07-01

Section 8 Fund Balance Reconciliation

During our audit of the County's compliance with cash management requirements relative to its Housing Choice Voucher Program, we noted the accounting records failed to accurately account for excess funds restricted for housing assistance payments (see finding 07-12). A communication (PIH 2006-3) was received from HUD detailing the appropriate treatment of the excess funds restricted for housing assistance payments. Management reviewed the communication and based on their review, recorded an adjustment to restate the beginning fund balance in the Section 8 Fund for approximately \$367,000 and an adjustment in the amount of \$97,000 to write-off amounts due to HUD for activity prior to January 1, 2005 in the current year. KMH reviewed the facts and circumstances surrounding the HUD communication and determined that management's adjustments were incorrect. Accordingly, we proposed an adjustment in the amount of \$367,000 to reverse management's restatement which management recorded. We also proposed an adjustment to record the write-off of \$97,000 as an adjustment to beginning fund balance, however, management elected not to record the proposed adjustment.

Recommendation

We recommend that management evaluate communications from HUD in a timely manner to determine what impact, if any, the communications may have on the program's accounting records. In situations where the purpose of the communication is not clear or management is unsure of the proper application, we recommend that management consult with HUD prior to recording any adjustments.

Finding No.: 07-02

Preparation of the Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires the total of all federal awards expended to be reported on the Schedule of Expenditures of Federal Awards (SEFA). During our audit, we noted \$837,674 of federal program expenditures that were recorded in the Housing and Community Development Revolving Fund (HCDRF) but were omitted from the SEFA. The expenditures were made from revolved funds which management understood to be funds that were not subject to further federal reporting requirements. Based on our discussions with a representative of the Honolulu HUD Office, it was determined that revolved funds are subject to continued federal requirements and expenditures of revolved funds should be reported on the SEFA. In addition, similar to prior year finding 06-02, we identified approximately \$411,000 of costs that were incurred during fiscal year 2007 but paid and recognized as expenditures in fiscal year 2008. The amounts should have been accrued during fiscal year 2007. Accordingly we proposed an adjustment to record these costs in 2007. Upon identification of the items above, the SEFA was properly adjusted.

Recommendation

We recommend that management verify expenditures reported on the SEFA with the respective program managers. We also recommend that management put procedures in place to ensure that the cut-off of information is appropriate and that the accounting records are complete.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section II – Financial Statement Findings

Finding No.: 07-03

Accounting for Federally Funded Loan Programs

The omission of expenditures from the SEFA, identified at finding 07-02, prompted a change in the accounting for the County's federally funded loan programs. Previously all loan activity was reported in the HCDRF. As a result of finding 07-02, management elected to transfer all federal grant loan activity subject to continuing federal requirements from the HCDRF to the Federal Grants Fund. The transfer required management to post various entries between the HCDRF and Federal Grants Fund. These entries included a restatement of beginning fund balance in the HCDRF. We reviewed management's analysis and the related journal entries recorded and noted the initial analysis performed by management was incorrect resulting in an overstatement to beginning fund balance in the HCDRF of approximately \$4 million. We further noted that management's analysis and the related entries did not reflect the required transfer of accrued interest which amounted to approximately \$407,000. As a result, we proposed adjustments to correct these errors.

Recommendation

We recommend that prior to recording journal entries, management prepare a complete and thorough analysis to support any proposed adjustments.

Finding No.: 07-04

Accounting for Business-Type CIP

During our audit, we noted that portions of the construction costs for capital assets relating to business-type activities recorded in the proprietary funds are financed through governmental activities in various capital projects funds. In prior years, the related portions of capital costs were improperly capitalized under governmental activities.

The Codification of Governmental Accounting and Financial Reporting Standards issued by GASB Section 1400.114 Reporting Capital Assets specifically prohibits the capitalization of costs related to activities in the proprietary funds under governmental activities. As a result, the correction of this error resulted in a prior period restatement of \$2,490,565 and required current year adjustments of \$1,025,742 were recorded to transfer this activity.

Recommendation

We recommend that management comply with GASB.

Finding No.: 07-05

Capitalization of Costs

For one project, we noted that upon completion, \$757,239 of previously capitalized costs were identified by management as repair and maintenance costs and were charged off as current year expenditures. Repair and maintenance costs should be identified and expensed as incurred. As a result, we proposed an adjustment in the amount of \$757,239 to restate the beginning net assets of the Sewer Enterprise Fund.

Recommendation

We recommend that management thoroughly analyze expenses to segregate capital items from repair and maintenance items.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section II – Financial Statement Findings

Finding No.: 07-06

Completeness of Project Records

During our audit we noted that project records improperly excluded \$616,200 of prior year expenses that should have been capitalized. Accordingly, we proposed an adjustment of \$616,200 to restate prior period balances. In addition, similar to prior year finding 06-02, during our search for unrecorded liabilities, we identified \$513,516 of construction costs that were incurred during fiscal year 2007 but paid and recognized as expenditures in fiscal year 2008. The amounts should have been accrued during fiscal year 2007. Accordingly we proposed an adjustment to record these costs in 2007.

Recommendation

We recommend that management revisit its policies and procedures for recognizing, recording and tracking construction costs to ensure proper cut-off.

Finding No.: 07-07

Reconciliation of Project Records

Construction projects are generally financed by several funding sources. To facilitate the tracking and reporting of construction projects, the County implemented a project tracking module to its accounting system. During our audit, we tested 11 construction projects of which 5 were identified as reporting expenditure amounts that did not agree to the general ledger records. We also noted that for projects that are sourced from funds that do not have established project tracking, no reconciliation is performed to agree construction expenditures incurred to the general ledger.

Recommendation

We recommend that management revisit its policies and procedures for recognizing, recording and tracking construction costs to ensure that amounts reported reconcile between the general ledger and project records.

Finding No.: 07-08

Preparation of Government-Wide Financial Statements

As part of the preparation of the government-wide financial statements, reconciliations must be performed to convert the fund financial statements from a modified accrual basis of accounting to a full accrual basis of accounting. During our audit of the reconciliations, we noted discrepancies in certain reconciling items. Failure to properly reconcile amounts could lead to a misstatement.

Recommendation

We recommend that management carefully prepare its reconciliations, including reviewing the relevant supporting documents as necessary.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section II – Financial Statement Findings

Finding No.: 07-09

Grant Management

Similar to prior year finding 06-04, during our audit, similar issues were identified related to the County's grant programs. Of the 18 projects selected in the current year, we identified five exceptions in the following areas:

1. Failure to properly close the grant (one exception)
2. Failure to post expenditures to the correct grant (two exceptions)
3. Failure to file for reimbursement in a timely manner (two exceptions)

The two instances where management failed to file for reimbursement in a timely manner relate to the Department of Transportation Formula Grants for Other than Urbanized Areas grant program, CFDA 20.509. Received through the State of Hawaii, the grant agreements between the County and State require the submission of quarterly reports which also serve as the reimbursement request. During 2007 the County did not file any of the quarterly reports, however the County incurred expenditures eligible for reimbursement. As such the County is non-compliant with reporting requirements for the two grants.

Recommendation

We recommend the County evaluate the results of corrective action taken in the prior year to strengthen its controls over grant management and identify items for follow-up.

County of Kauai

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2007

Section III – Federal Award Findings and Questioned Costs

Finding No.: 07-10

CFDA No.: 97.067, 97.074, 97.053, 97.004

Program: Homeland Security Grant Program

Federal Agency: Department of Homeland Security

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: None

Reporting

The Memorandums of Agreement in place between the County and State require the submission of quarterly financial reports by the fifth day of the month following the ending of each quarter. Based on our audit of program records, we noted that the County failed to submit reports for all four quarters. Based on discussions with program management, reporting requirements were inadvertently overlooked as reporting requirements were not communicated to the new grant staff person.

Recommendation

We recommend that the County revisit each memorandum of agreement for each open grant and work towards the timely submission of all required reports. Further if timely submission can not be attained, we recommend the County obtain a written letter from the State granting a time extension or a wavier of the requirement.

Finding No.: 07-11

CFDA No.: 14.871

Program: Section 8 – Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: None

HUD Income Targeting

Similar to prior year finding 06-06, the County is required to meet certain HUD Income Targeting Requirements with regard to new admissions to its Housing Choice Voucher Program. HUD Income Targeting Requirements requires at least 75% of new admissions to be in the extremely low income range and 25% very low income range. Based on the results of 2007 program admissions, only 64% of new admissions fell into the extremely low income range.

Based on discussions with a representative of the Honolulu HUD Office, the Kauai County Housing Authority should utilize the data and controls to monitor compliance with income targeting requirements. While a one-time violation would not lead to any immediate sanctions, continued violations could jeopardize program funding displaying a divergence from program objectives.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section III – Federal Award Findings and Questioned Costs

Recommendation

We recommend the County utilize the information on income levels of new admissions and establish controls to monitor its compliance with HUD Income Targeting Requirement. If further program expansion efforts are made and non-compliance is anticipated, we recommend the County obtain a wavier from HUD or come to an agreement on plans for program expansion.

Finding No.: 07-12

CFDA No.: 14.871

Program: Section 8 – Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: None

Cash Management

As noted under Finding 07-01, during our audit, we noted that the County failed to maintain an accurate accounting of excess funding received restricted for housing assistance payments. Based on discussions with program management, the County failed to implement in a timely manner, a 2005 communication from HUD regarding the allocation of excess funding received in prior years.

This issue was identified by the County and under analysis during the time of our audit fieldwork. The analysis was completed prior to the end of our audit fieldwork; however it was subject to an audit adjustment.

Recommendation

We recommend the County evaluate in a timely manner, communications from HUD that impact the program's accounting records to ensure timely implementation and seek further guidance from HUD or the County's Department of Finance as needed to ensure proper implementation.

County of Kauai

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2007

Section III – Federal Award Findings and Questioned Costs

Finding No.: 07-13

CFDA No.: 14.871

Program: Section 8 – Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: \$5,137

Eligibility

Similar to prior year finding 06-07, the County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. During our testing, we noted that certain of the County's controls monitor eligibility were ineffective which led to the following:

- 1) For fourteen participants, KMH noted required documents were included in file but not checked off on Document Checklist.
- 2) For two participants, monthly medical allowance per HUD 50058 differed from the third party verification.
- 3) For one participant, HUD 50058 did not include anticipated income for savings assets.
- 4) For one participant, KMH could not locate authorized Third Party Verification.
- 5) For two participants, KMH could not locate rent reasonableness checklist.
- 6) For one participant, participant reports of monthly self-employment income were not notarized as required.
- 7) For one participant, KMH noted EIV verification for social security differed from HUD 50058.
- 8) For two participants, KMH noted average bank balance from the third party bank verification was not used.
- 9) For two participants, KMH was unable to locate any document to support a family member's full-time student status.
- 10) For two participants, KMH was unable to locate copy of social security card.
- 11) For two participants, KMH noted assets on HUD 50058 did not agree to the third party bank verification.
- 12) For four participants, KMH noted incorrect utility allowance was entered into Form 50058.
- 13) For four participants, KMH noted incorrect payment standard was entered into Form 50058.
- 14) For two participants, KMH noted date of birth per copy of birth certificate did not agree to Form 50058.
- 15) For one participant, KMH noted Rent Reasonableness Checklist did not consider range and refrigerator as required per the lease agreement.
- 16) For one participant, KMH noted participant failed to provide a copy of the Hawaii General Excise Tax Return Statement to support self-employment income as required.
- 17) For one participant, KMH noted Child Support/Alimony Certification form was not notarized as required.
- 18) For one participant, KMH noted participant failed to provide a copy of the 2005 Federal Income Tax Return to support self-employment income as required.

Recommendation

We recommend that the County enforce the implementation of its quality control program as described in its prior year corrective action plan. Implementation of its corrective action plan would identify areas requiring additional attention by management and ultimately reduce the number of errors.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section III – Federal Award Findings and Questioned Costs (continued)
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Finding No.: 07-14

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: \$963,500

Allowable Costs/Activities Allowed

During our review of the records for one project, we noted funds were disbursed on an expired promissory note that was not properly executed under the County Charter. It was further noted that the mortgage agreement that serves as the security to the promissory note was also not properly executed.

Under the County Charter all written contracts to which the County is a party shall be approved by the County Attorney as to form and legality. Also prior to execution, contracts involving financial obligations of the County shall also be approved by the Director of Finance as to the availability of funds in the amounts and for the purposes set forth therein. Neither the promissory note nor the mortgage was signed by the County Attorney or Director of Finance.

Funding of the promissory note was made through three disbursements all of which were subsequent to the expiration date of the promissory note, thus it is noted that County's controls over the disbursement process failed to identify the discrepancy and stop the disbursement.

Based on discussions with program management it was noted that the execution of the documents is in line with industry practices which have been followed by the County for several years. It was further noted that note and mortgage are identified in a separate subrecipient agreement that is properly executed. It was also noted that the promissory note was subsequently amended and the amendment was properly executed under the terms of the County Charter thereby ratifying the original promissory note.

Based on our discussion with the County Attorney, it was recognized that the failure to properly execute the note pursuant to the County Charter and the disbursement of funds on the expired note (prior to the amendment) decreases the County's chances of a successful defense on any recourse to the funds disbursed.

Recommendation

We recommend that the County revisit its loan practices to make sure it is in compliance with the County Charter and evaluate, as necessary, any exposure on any open contracts executed in a similar manner. The County should also reiterate its control procedures over the disbursement process with responsible parties to prevent any future errors.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section III – Federal Award Findings and Questioned Costs
--

Finding No.: 07-15

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: \$150,400

Period of Availability

During our review of current year program expenditures we noted that expenditures were charged to a grant beyond the period of availability stated in the grant agreement between the State and County.

Based on discussions with program management in administration of this program, the County usually accumulates several years of grant awards to fund a large project. It was also noted that higher than usual program income has also slowed the County's ability to expend grant funding. Program budgeting in future years include more aggressive program income projections to ensure expenditure of grant funding in full prior to the expiration of the funds.

Although the expenditure was approved and reimbursed by the State, there is a potential risk that the County may have to absorb such costs in the event the expenditure is disallowed by the State.

Recommendation

We recommend program management closely monitor the progress of grant expenditures against the period of availability and re-assign funds as necessary to ensure funds are spent prior to expiration. In the event the County is unable to expend them prior to lapsing, we recommend that the County attempt to obtain a written letter from the State granting a time extension or waiver from the program requirement.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section III – Federal Award Findings and Questioned Costs
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Finding No.: 07-16

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 – June 30, 2007

Questioned Costs: None

Program Income

HUD Common Rule 24 CFR 85 and OMB Circular A-110 require recipients of federal funds to use program income to the extent that it is available to cover expenditures prior to requesting federal cash draws. During our audit, we noted that the County failed to utilize program income on hand prior to requesting additional federal cash draws.

Based on discussions with program management, the requirement to utilize available program income was not clearly communicated to the program accountant.

Recommendation

We recommend program management design and implement procedures relative to its draw process to ensure that program income is utilized prior to requesting additional draws of federal funds.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings

Finding No.: 06-01

Capital Assets Additions Not Recorded

During the year, the County identified approximately \$26 million in capital assets acquired in previous years (1970 through 2005) not recorded on the fixed asset register. As a result of this error, the County's beginning net asset balance was restated in the statement of activities of the County's basic financial statements as of June 30, 2006.

The majority of these assets were acquired through transactions that occur infrequently and include donation, judgment, insurance recovery, and a contract administered by FEMA on behalf of the County. Based on discussion with management, the majority of the omissions were caused by a lack of communication due to the unusual nature in which the assets were procured.

Furthermore, we noted that the County's annual physical inventory count of capital assets failed to identify the missing assets. County inventory procedures include instructions to identify capital assets not included in the department/agency listing for follow-up. Proper adherence to inventory procedures could have identified the missing assets earlier.

Failure to record capital assets limits the County's ability to assess and evaluate its capital asset needs and proper utilization.

Management Response

Audit observations indicate the majority of these assets were acquired through transactions that occur infrequently and include donations, judgments, insurance recoveries, and a contract administered by FEMA on behalf of the County. The following measures are recommended to be implemented by affected County agencies.

1. Donations: All donations qualified to be classified as fixed assets are currently approved and accepted through County Council action. Adherence to the currently established financial policy should be practiced for the recordation requirement of qualified donations by the acquiring agency. Additional measures to review the Council acceptance of the donated asset need to be established by the affected agency and recordation should be done on a timely basis. Appropriate personnel need to be placed on the distribution list for Council action taken. The affected Department/Agency should complete the asset acquisition form and submit it to the Department of Finance for recordation on a timely basis. Additionally, to ensure compliance, upon review of documented final acceptance following appropriate Council action, and a determination of the agency deemed to be the Trustee of the fixed asset is made, the agency should be notified by the Department of Finance (Asset Manager) and designated to provide the documentation necessary for recordation of the fixed asset.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

2. FEMA/Other Govt. agency: The audit identified FEMA managed grant program as with other grant programs managed in behalf of the County by another governmental agency coordinated their financial transactions under the auspices on the Finance Department to facilitate procurement and ensure funding controls. The acquisition of fixed assets and potential County ownership is normally defined in the grant terms and conditions. For this case involving the FEMA managed grant program identified in the audit findings, the applicable Public Assistance Policy and 44 CFR guidelines defined timelines for County ownership. In the event that FEMA does not require use of the asset to address another disaster, a period of time is required to lapse as an additional condition before the asset is passed into County ownership. A recommended solution is to emphasize the importance of recognizing and tracking this unique type of potential asset acquisition by the applicable agency receiving benefit/use of the asset and additionally to establish a County financial policy/procedure to identify the agency deemed to be the Trustee of the asset and designate the County fixed asset manager to require subsequent documentation to place it on the County fixed asset register when the asset passes into County ownership. However, in this unique situation identified by the audit findings, a major portion of the initial grant approval to acquire the asset(s) was deobligated following the appeal process and deemed ineligible for FEMA funding. The funding fallout was addressed by a Bond issuance by the County to address this situation. However, the recommended solution in this situation would again be to emphasize the importance of tracking the potential fixed asset by the applicable agency receiving benefit/use of the asset and requiring the subsequent documentation to place it on the County fixed asset register by the County fixed asset manager.

Finance will revise its year-end procedures to include any agency receiving or initiating donations or dedications to notify the custodial agency responsible for the capital asset to add it into the asset register.

The implementation plan has been adopted as of March 20, 2007.

Status

We inquired with the fixed assets accountant regarding the status of the corrective action plan and were informed that the plan was placed in operation and the Dept. of Finance performed a review of Council Minutes and all potential donations were investigated for proper recognition. Finding no longer applicable.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section IV – Summary Schedule of Prior Audit Findings (continued)

Finding No.: 06-02

Government-Wide Financial Statements – Accrual Accounting

Based on testing performed throughout the audit, we noted several instances where the County failed to properly record transactions in the government-wide financial statements (accrual-basis). In two instances, the County's failure to properly record the accrual adjustments resulted in the restatement of beginning net assets in the statement of activities of the County's basic financial statements as of June 30, 2006. The restatement recorded was to properly reflect approximately \$622,000 in expenses and approximately \$902,000 in revenues in the prior fiscal year. In addition, the County did not properly accrue approximately \$1.5 million in expenses and \$82,000 in revenues in the current fiscal year.

Under Statement No. 34 of the Governmental Accounting Standards Board - *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (GASB 34)* implemented in 2003, the County is responsible for fund financials under the current financial resources – modified accrual basis and on the full accrual basis of accounting for government-wide and enterprise fund statements. After years of working on the modified accrual basis, it is noted that a majority of the fiscal personnel do not possess the level of training to identify and account for transactions under the full accrual basis of accounting.

Inadequate number of trained personnel and formal procedures to identify accrued related transactions at the departmental level increases the potential for misstatements in the respective GASB 34 financial statements. In addition, the lack of personnel was a primary cause for the delays in completing the County's comprehensive annual financial report.

Management Response

The operating reserve recapture of \$621,743 was communicated to the Housing Agency on November 9, 2006 by HUD. HUD apologized for the amount of time that it took to implement the statute for the recapture. The Housing Agency's preliminary financial statements had to be submitted to HUD by August 31, 2006. The final audited financial statements include the recapture of \$621,743 by HUD and will be reviewed by Ken Rainforth (Executive on Housing) or the Section 8 Program Manager prior to the submission deadline of March 31, 2007.

The Housing Agency utilizes loan software, CDM (Community Development Manager) that has always recognized the accrued interest balances for each deferred loan (GAP). Finding #06-02 has identified the need to recognize this accrued interest in the County's financial statements. The correction to the fiscal year 2006 beginning balances has been addressed by recording a journal entry to HCDRF (Housing & Community Development Revolving Fund) increasing accrued interest receivable and deferred revenues by \$902,000 for the cumulative effect of prior years' accrued interest on deferred loans (GAP). Additionally, a journal entry for \$82,000 was recorded to reflect the current year activity related to increases in the accrued interest and related deferred revenue balances. Going forward, the activity related to the accrued interest will be journalized on an annual basis. Ken Rainforth, the Executive on Housing, will be responsible for the implementation of the new procedure.

County of Kauai

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2007

Section IV – Summary Schedule of Prior Audit Findings

Status

Based on the current year findings presented in Section III (07-01, 07-02, 07-03, 07-05 and 07-08), we noted that there continues to be errors related to the application of accrual accounting. Accordingly this finding is still applicable.

Finding No.: 06-03

Risk Management

During our testing of the County's self-insured workers' compensation program, discrepancies were identified in reports used by the County to summarize workers' compensation activity for the projection of reserves by the County's actuary. Discrepancies identified relate to a technical glitch in the systems of the County's claims administrator resulting in the omission of approximately \$6.8 million of claim activity. The omission of this claim activity skewed the results of the actuary's projection of losses, resulting in an understatement of approximately \$2.1 million.

The County obtained an actuarial analysis of its claims to obtain an estimate of its workers compensation losses. Failure to provide the proper information for analysis increases the potential that significant loss estimates may be incorrectly calculated and recorded.

Management Response

The worker's compensation claim reports initially released to Aon were produced by the third party administrator (TPA) shortly after the migration to a new internet-based claim information system. The information within the TPA's system was complete; however, the criteria parameters for report generation differed from the portal database application previously utilized by the TPA. The result was that the reports that were produced did not include all of the closed claims along with the open claims. New reports were generated that include the full claims picture as of June 30, 2006 and the loss analysis was revised.

The County's Finance Department has overall responsibility for Risk Management for the County of Kauai. All requests for information will be made in writing and the parameters of the report will be enumerated along with the due date with a reasonable notice. The County Risk Services Coordinator will review information provided by its third party vendors and report to and request approval from the Director of Finance, or his designee, prior to release of the information to third parties, such as Aon's insurance and risk management service team or its actuarial and loss reserve analysis practice.

The County Finance Department, through its Risk Services Coordinator, will also have direct access to view County of Kauai claims information through the TPA's internet based website and will be trained to allow production of reports for verification of the requested information. On future loss reserve analysis or actuarial reports, Aon's analyst will be reconciling the more recently valued loss information against values and claims count (both open and closed) for the previous period.

The reserve analysis is provided in draft form for review with the County prior to release to third parties such as auditors. This allows an additional opportunity for review by the County to ensure the integrity of the source information before the analysis is finalized.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

Status

Based on the results of the current year audit, finding has been resolved.

Finding No.: 06-04

Grant Management

Based on procedures performed on the County's schedules monitoring grant activity (State, Federal, Construction), out of 18 programs tested, we noted seven programs with exceptions. The following summarizes the exceptions noted:

1. Failure to properly close the grant (three programs)
2. Failure to post expenditures to the correct grant (two programs)
3. Failure to properly reclassify expenditures to the grant (four programs)

The primary reason for the errors noted above was the failure to communicate expenses relating to qualified grant expenditures, especially when the grant administrator is not the fiscal officer of the department/agency. It was also noted that not all grant administrators reconcile their data to the general ledger.

For fiscal year 2006, approximately 32% of the County's projects and operations were funded through grants. Failure to properly track grant activity can impair planning and budgeting decisions due to the inaccuracy of information on available funds.

Management Response

The Finance Department issues the year end closing procedures to all departments annually. The following are stated in the procedures:

1. No reports shall be distributed unless reconciled with Finance/Accounting's monthly detailed budget report or Project report.
2. A continuous review of reimbursement receipts and expenditures shall be made for each grant.
3. Closing form shall be completed upon grant closure.

The accounting systems administrator will reiterate the procedures to the departments and in addition to the above procedures will be requesting a copy the final financial status report that is submitted to the oversight agency. Training will be provided to all fiscal agencies to obtain project reports significant to identify and verify project expenditures and receipts to comply with the above procedures.

Status

As noted at finding 07-09, similar errors were identified during the current year audit, finding is still applicable.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

Finding No.: 06-05

CFDA No.: 97.067, 97.004

Program: State Homeland Security Grant Program

Federal Agency: Department of Homeland Security

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Capital Asset Management

During our testing of controls over equipment and real property management, we noted that the physical inventory of the Kauai Civil Defense Agency capital assets did not account for all items received as of year-end, including items purchased with program funding. As mentioned in finding 06-01, physical inventory observations are also intended to support the completeness of the County's fixed asset register. Failure to identify assets not currently recorded may lead to material omissions.

We further note that the completeness of the capital asset inventory is critical for the Kauai Civil Defense Agency in relation to this particular program as assets purchased relate to equipment used by other agencies (police, fire, etc.).

The failure to recognize and record fixed assets by the County affects the County's ability to properly manage, maintain, and safeguard its capital resources.

Management Response

The County's year-end closing procedures clearly require that all capital assets be reflected in inventory and that these assets be physically identified and accounted for. Each department head is required annually to sign the *Certificate of Custodian* letter stating that all assets enumerated are correct and under the respective department head's control and responsibility. A reminder of the procedures for accounting for capital assets including donated and dedicated assets was issued March 20, 2007 to specifically address the importance of this function.

Status

Based on the results of the current year audit, finding has been resolved.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section IV – Summary Schedule of Prior Audit Findings (continued)

Finding No.: 06-06

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

HUD Income Targeting

Based on our review of new admissions to the Housing Choice Voucher Program from the waitlist, we noted the County was not in compliance with HUD Income Targeting Requirements which requires at least 75% of new admissions to be in the extremely low income range. Based on the results of 2006 program admissions, only 54% of new admissions fell into the extremely low income range.

Based on our understanding, the reason Kauai County Housing Authority (KCHA) did not meet HUD Income Targeting Requirements was because of efforts to improve utilization of housing vouchers in order to maintain the same level of Federal funding. This effort included turning over the waitlist twice and changing KCHA's waitlist preference policy from an income basis to a first-come first-serve basis. After instituting the changes to the preference policy and turning over the entire waitlist, the County currently does not maintain the necessary information or have procedures in place to ensure compliance with HUD Income Targeting Requirements.

Based on discussions with a representative of the Honolulu HUD Office, KCHA should maintain the data and controls to monitor compliance with income targeting requirements. It was further noted that although a one-time violation does not lead to any sanctions, continued violations could jeopardize program funding as it would display a divergence from the program objectives. Given the County's circumstances it is also noted that waivers may be obtained from HUD.

Management Response

HUD requires that 75% of all new admissions to the Section 8 program be families whose incomes are at or below the Extremely Low Income (ELI) limit as defined by HUD (less than 30% of the area's median income). This is extremely difficult to monitor due to several factors, the most prevalent being that a family's income is undeterminable until they are pulled from the waitlist and the Housing Agency verifies their stated income.

One solution would be to pull only ELI families from the waitlist. Unfortunately, history shows that although many of the families claim to be ELI at the time of application, often they are eventually determined to be at the Very Low Income (VLI) level (> 30% < 50% of median income). Secondly, pulling only ELI families would discourage applicants from procuring any type of gainful employment while they are waiting for their application to be pulled, which in the past could be up to three years.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

Our current waiting list shows that 266 applicants out of a total of 407 are claiming to be at the ELI level. Our current percentage (FY2006-2007) shows us at a ELI Admission level of 66%. We have recently pulled 100 people off the waitlist, 62 of which claim to be at or below the ELI level. We hope that some of these families will indeed be at the ELI level and will find suitable housing.

We will continue monitoring this percentage thru June 1, 2007. If we find that it is most probable that we will not achieve the 75% requirement, we will request a written waiver from HUD.

Status

As noted at finding 07-11 the County failed to reach HUD income targeting requirements. Accordingly finding is still applicable.

Finding No.: 06-07

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: \$9,938

Eligibility

Similar to prior year finding 05-01, the County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. During our testing, we noted that certain of the County's controls to monitor eligibility were ineffective which led to the following:

1. For three participants, forms required to substantiate dependent allowance were not included in the file.
2. For one participant, outdated data was utilized to calculate self-employment income.
3. For seven participants, annual income was incorrectly calculated.
4. For ten participants, one or more required documents to verify self-employment income were missing.
5. For one participant, the name of the household member per reflected on the Disability Certificate did not agree to the Family Report.
6. For one participant, the disability allowance was applied without the doctor's acknowledgment on the Disability Certificate form.
7. For two participants, commissions and/or overtime wages were incorrectly excluded from participants' annual income.
8. For one participant, no documentation was on file to support a dependent allowance for an adult member of the household.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

9. For two participants, utility allowance was incorrectly calculated.
10. For one participant, income was incorrectly entered into HAPPY system.
11. For one participant, the Child Support/Alimony Certification form required to support head of household status and household income was not in the file.
12. For one participant, the qualifying medical expenses were not deducted from participant's annual income.
13. For two participants, there were no indications that the Housing Quality Standards were met.
14. For one participant, the bank account balance was incorrectly entered into the HAPPY system.
15. For one participant, the required identification documents were not included in the file.
16. For four participants, forms required to verify assets were not included in the file.

Management Response

The County is finalizing a new Quality Control Plan which will supercede the quality controls stated in the old Administrative Plan. It incorporates some of the suggestions listed in the prior year corrective action plan along with other quality control measures. Most importantly, internal quality control audits have begun again this fiscal year. In addition, management has attended the Nan McKay Quality Control and Audit Tools seminar earlier this year. Included in this seminar was a software program that can be used as an audit checklist tool. We have incorporated the use of this software into our quality control process.

Status

As noted at finding 07-13 similar instances of non-compliance were identified during the current year audit. Accordingly, the finding is still applicable.

Finding No.: 06-08

CFDA No.: 20.205

Program: Highway Planning and Construction

Federal Agency: Department of Transportation

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Davis-Bacon Act and Sampling Requirements

During our review of the County's Federal Highway projects, it was noted that records for one project were not complete and up to date. This project was missing required records for compliance with Davis-Bacon and Sampling requirements. Exceptions noted are isolated to one particular project due to the unique model of project management.

Per discussion with County engineers it was noted that controls over file maintenance for this particular project were neglected to address staffing shortages and heavy workloads. Mitigating controls over monitoring the job were deemed sufficient given the circumstances of the project. Mitigating controls in place include a County building inspector on-site daily to monitor project progress. Documented in the building inspector's reports were observations for corroboration against project records received from the contractor to support the Davis-Bacon and sampling requirements.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

Despite the existence of mitigating controls, records to support sampling and Davis-Bacon requirements must be maintained to comply with federal regulations. It was noted that by the end of audit fieldwork, all files related to this project were properly filed and up to date.

Failure by the County to maintain records could jeopardize funding for future projects.

Management Response

Audit observations indicate the mitigating controls currently being implemented by the project inspector as indicated by the inspection reports reflecting corroboration with the contractor's project records. However, to ensure compliance with the Davis-Bacon sampling requirements, the following measures have been implemented by the Public Works Construction Engineering section:

1. Training for all field personnel and project managers will be implemented to ensure the understanding of Davis-Bacon compliance requirements and the required documentation to provide sampling availability during future financial audits.
2. Submittal of project records (payroll affidavits, etc.) will be required and tested for Davis -Bacon compliance on a timely basis by the project manager.
3. Cursory checks for documentation submittal will be done during payment requests from the contractor to ensure compliance for documentation submittal for Davis-Bacon compliance.

The implementation plan of this corrective action is currently in place as recommended by the audit.

Status

We inquired with program management regarding the status of the corrective action plan and were informed that the missing information was obtained and organized subsequent to notification of audit finding and when manpower was available to address the issue. KMH notes that this is consistent with our review of project records during fieldwork. Finding no longer applicable.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings

Finding No.: 06-09

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

HQS Inspections

Pursuant to Kauai County Housing Agency (KCHA) policies and procedures, all failed HQS inspections noted during the year are to be filed in a separate binder for review by program management. Based on our review of the folder and discussions with program management, no failed inspections were reported. However, during our eligibility testing we noted two out of 96 participant files included a notice of failed HQS inspection. It is further noted that these instances were not communicated to program management. In both cases failure to file the failed HQS inspections were an oversight by the housing inspectors. Based on our discussion with the County's Housing Inspectors, these were the only two instances of failed inspections and in both instances, the inspectors properly performed follow up visits to ensure the deficiencies were corrected.

Unreported failed HQS inspections impair management's ability to monitor program activity and may compromise the safety of participants.

Management Response

A new monthly report by the HQS inspector will be required showing management the amount of inspections completed during the month, the amount of failed inspections, corrective actions required by the Landlord or tenant and follow-up inspection dates. In addition, the HQS inspector will be required to submit copies of any failed inspection reports to management upon completion of the report. Management will ensure that timely and accurate follow-up is achieved by the HQS inspector.

Status

Based on the results of the current year audit, finding has been resolved.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings

Finding No.: 06-10

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Housing Assistance Payment Register

In obtaining an understanding of controls over the Housing Assistance Payment (HAP) Register, it was noted that certain controls to ensure the accuracy of amounts paid to landlords and ultimately billed to HUD, were not in place. Based on the Kauai County Housing Agency's policies and procedures, controls over the HAP Register include:

1. Vouch disbursements for 3% of participants each month to the HAP contract to ensure the disbursement amount and payee are correct.
2. For a sample of participants, vouch HAP reported to HUD to the HAP contract and HAP disbursement register.

During the year it was noted that these control procedures were not performed. Procedures performed were limited to reconciliations for monthly disbursements in total to the HAP Register and did not include a review of details.

Performance of these controls is critical in maintaining the integrity of the HAP Register and HAP disbursements. Any discrepancies in the HAP register and/or HAP disbursements would be considered a questioned cost for the program.

Management Response

On March 8, 2007 a new Administrative Plan was put into place that removed the HAP Register Quality Control audit as it was an outdated control that was used mainly before the implementation of our housing specific software (HAPPY). A new Quality Control plan is currently being finalized.

Status

Based on the results of the current year audit, the finding has been resolved.

County of Kauai

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section IV – Summary Schedule of Prior Audit Findings (continued)

Finding No.: 06-11

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Reporting

In obtaining an understanding of controls over program reporting, we noted that there were no controls in place to monitor the County's reporting submissions. It was noted that during the year, HUD changed report submission procedures moving to a strict electronic/paperless process. In prior years, report submissions included a paper submission with upper-management sign-off facilitating a review process. As no paper submission was required, reports were submitted upon completion and not subject to any review.

It is noted that reports capture key program statistics. Failure to monitor program reporting compromises the County's ability to identify early, performance deficiencies. Failure to review program reporting could potentially compromise the accuracy and completeness of the reported information.

Management Response

Effective immediately, Ken Rainforth (Executive on Housing) or the Section 8 Program Manager will review and sign off on program reports prior to submission to HUD. Accounting will attach a form for the Executive on Housing or Section 8 Program Manager to sign approving the submission to HUD.

Status

Based on the results of the current year audit, the finding has been resolved.