

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

April 17, 2015

**Committee
Report No.** _____

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on March 30, 2015, makes reference to County Communication 15-85, from the Council Chair, transmitting the matter of the Single Audit Report.

By correspondence dated March 19, 2015, the County Auditor transmitted a report, entitled "COUNTY OF MAUI, STATE OF HAWAII: SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2014," and the required communications letter, submitted by the County's independent auditor, N&K CPAs, Inc. ("External Auditor").

Your Committee notes the Single Audit Report ("Report") resulted from the consolidated audit process required by the Federal government as a condition of Federal grants of funds to the County. The Report consists of the following parts: (1) a report on internal control over financial reporting; (2) a report on compliance for each major program, a report on internal control over compliance, and a report on the schedule of expenditures of Federal awards; (3) a schedule of findings and questioned costs; (4) a summary schedule of prior audit findings; and (5) a corrective action plan.

Your Committee further notes this is the External Auditor's first year as the County's independent auditor.

The External Auditor provided your Committee an overview of the Report. The External Auditor issued an "unqualified opinion" on the County's compliance for each major Federal program. An unqualified opinion reflects the External Auditor's judgment that the County complied, in all material respects, with the compliance requirements described in the Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on

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each of the County's major Federal programs for the fiscal year ended June 30, 2014.

The External Auditor explained a material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The External Auditor informed your Committee, in its review of internal control over financial reporting, the Report identified a material weakness relating to the requirement for the agency fund to be reviewed on an ongoing basis.

In addition, also in its review of internal control over financial reporting, the Report identified ten significant deficiencies, respectively relating to the following: (1) proper approval of timesheets by employee and supervisor; (2) proper approval of historical edits to an employee's time record; (3) timely reconciliations of Federal and State grant programs; (4) adequate internal controls over miscellaneous cash receipts; (5) proper accounting for construction work in progress; (6) timely preparation of the Comprehensive Annual Financial Report; (7) access security of various software programs; (8) documented software backup and restore policies and procedures; (9) consistency in following the change management policies and procedures of the iasWorld software program for real property tax; and (10) effective information technology governance.

The External Auditor further informed your Committee, in its review of internal control over compliance, the Report identified two significant deficiencies relating to: (1) completeness and accuracy of the County's Schedule of Expenditures of Federal Awards; and (2) the lack of a centralized position to monitor Federal program compliance.

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Your Committee expressed concern with the findings, especially the repeat findings from the prior year's audit, such as those relating to internal controls over miscellaneous cash receipts and a centralized position to monitor Federal program compliance.

Your Committee notes the Report includes a corrective action plan that includes the External Auditor's recommendations and actions to be taken by the Department of Finance and Department of Management to address the material weakness and significant deficiencies.

Your Committee voted 8-0 to recommend filing of the communication. Committee Chair Hokama, Vice-Chair White, and members Baisa, Carroll, Cochran, Couch, Crivello, and Victorino voted "aye". Committee member Guzman was excused.

Your Budget and Finance Committee RECOMMENDS that County Communication 15-85 be FILED.

This report is submitted in accordance with Rule 8 of the Rules of the Council.



RIKI HOKAMA, Chair