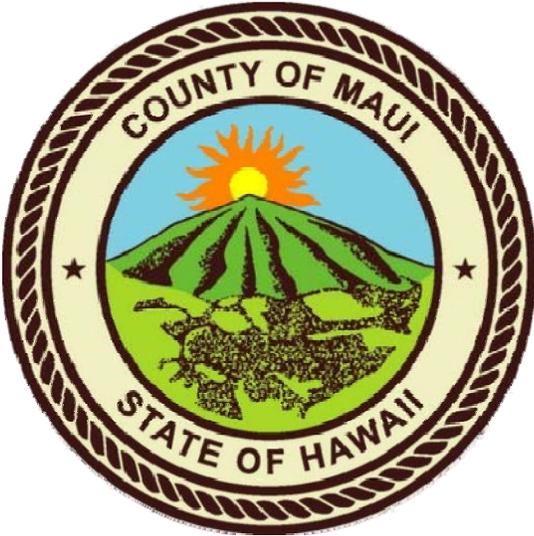


**MANAGEMENT ADVISORY
REPORT**

County of Maui, Hawai'i



**For the Fiscal Year Ended
June 30, 2015**

COUNTY OF MAUI

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To the Council Chair,
and Members of the Council
County of Maui
Wailuku, Maui, Hawai'i

In planning and performing our audit of the financial statements of the County of Maui, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our findings and recommendations regarding these matters. We previously communicated to you about the County's internal control in our report dated January 5, 2016. This letter does not affect our report dated January 5, 2016, on the financial statements of the County.

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

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

N&K CPAs, Inc.

Honolulu, Hawai'i
February 11, 2016

County of Maui, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015

2015-001 Improve Internal Controls Over pCard Purchases

Condition: Approved employees are provided a pCard which is used for County authorized purchases. Purchases must be listed on a monthly pCard transaction log with supporting receipts or other documentation. Both the cardholder and a Department or Division Head must sign and approve the monthly transaction log. During our current year audit, we noted the following:

- We noted three (3) instances where a pCard transaction log was signed by the pCard cardholder, but the individual with authority to approve the transaction log did not match the authorized approver in the signature log maintained by the Purchasing Department.

Criteria: Under the County of Maui's "Purchasing Card Program Policy and Procedures", the responsibility of the cardholder is to prepare and sign the monthly transaction log. The Department or Division Head must establish processes within the Department or Division to support the pCard program and to approve monthly transaction logs.

Cause: The Purchasing Department keeps a log of authorized signors for each department of the County, which would ordinarily be the Department or Division Head. However, as the Department or Division Head's are provided the directive that they may be able to establish processes within their own Department for the pCard program, they may be able to delegate an authorized signor that may sign off on pCard logs with their authority.

Effect: The Department or Division Head should notify the Purchasing Department of any changes in the authorized approver to ensure the signature log is accurate and up to date. The lack of adequate internal controls over pCard purchases could result in misuse of the pCard for non-approved purchases in violation of the policies and procedures in place.

Recommendation

Adequate internal controls should be maintained to ensure that pCard transactions are properly approved. Evidence of submission and review of the pCard transaction log should be documented through signatures of both the employee making the purchase and an appropriate documented approver.

2015-002 Improve Monitoring over Worker's Compensation Claims

Condition: The County's Risk Management Department uses an outside vendor to calculate and process worker's compensation claims. During our current year audit, we noted that the County switched vendors. During this transition in early 2015, all County manual files held by the previous vendor were scanned into electronic files into the new vendor's online system. The scanned files were not properly named and therefore the following documents were difficult to retrieve:

- WC-1 Employer's Report of Industrial Injury
- WC-2 Physician's Report
- WC-3 Carrier's Case Report

In addition, some electronic claim files were incomplete and documents were obtained from the Risk Management Office rather than the vendor's scanned files.

Criteria: As part of an entity's framework of internal control, monitoring activities should be performed which involves assessing the design and operations of controls on a timely basis, capturing and reporting identified control deficiencies, and taking actions as necessary. Effective monitoring ensures that internal controls are modified as changes in conditions occur through ongoing activities and/or separate evaluations. The Risk Management Department should have monitored the change in vendors in order to verify that the claim files were transferred completely and accurately.

Cause: The County did not have a monitoring process over worker's compensation claims throughout the change in vendors.

Effect: Documentation that should be maintained in claimant files was not easily located. The County's worker's compensation files are not organized and appear incomplete.

Recommendation

When using a third-party vendor to support County functions, the County's Risk Management Department should assign an individual with appropriate oversight to manage the relationship. This includes maintaining frequent contact with key vendor personnel, following up on unusual items, resolving issues in a timely manner, and reporting any issues to the County.

CORRECTIVE ACTION PLAN

**County of Maui, Hawaii
Management Advisory Report
Current Findings and Recommendations - Corrective Action Plan
Fiscal Year Ended June 30, 2015**

2015-001 Improve Internal Controls Over pCard Purchases

Recommendation

Adequate internal controls should be maintained to ensure that pCard transactions are properly approved. Evidence of submission and review of pCard transaction should be documented through signatures of both the employee making the purchase and an appropriate documented approver.

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation. As noted in the finding, the “Purchasing Card Program Policy and Procedures” allows latitude in who the departments authorize to sign off as a separate approver in addition to the cardholder. The existing procedures have never tied the department signature on the monthly pcard log to our signature log. The signature log was originally set up and has been maintained to keep track of signature authorizations for purchase orders and larger procurements.

The Purchasing Division will utilize the existing purchase order signature log structure. However, there may be situations where this structure won't be effective for the departments. There may be cases when the pCard logs need to go directly to the Purchasing Division and not route it through the departmental administration due to timing and location constraints of the approving agency. Additionally, there may be some department that provides authorization to the supervisor closest to the cardholder for efficient monitoring and approving of the purchases instead of the division manager listed on the purchasing order signature log. In those situations, the Purchasing Division may need to augment the existing purchasing order signature log, or establish a separate signature log for pCard related signatures.

End Date: Ongoing

Responding Person(s): Greg King, Central Purchasing Agent
Department of Finance
Phone No. (808) 270-7488

2015-002 Improve Monitoring over Worker's Compensation Claims

Recommendation

When using a third-party vendor to support County functions, the County's Risk Management Department should assign an individual with appropriate oversight to manage the relationship. This includes maintaining frequent contact with key vendor personnel, following up on unusual items, resolving issues in a timely manner, and reporting any issues to the County.

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation. The audit request was made in the middle of the County's transition from the old vendor to the new vendor and the records being sought were temporarily in limbo during that time. The new vendor's implementation plan included assignment of a team of specialists to the COM dedicated solely to transitioning the account and all claims records, following a strict schedule. During that time, progress was monitored via weekly phone calls with the team and the Risk Management Officer was kept apprised of all issues, including the issues they were having with the data feed (the records were unindexed, i.e., not properly named), and how they were systematically addressing those issues.

In order to meet the response deadline, the County's Risk Management Division decided that rather than have the new third party administrator (TPA) continue to sift thru volumes of unindexed e-files, the most expeditious way to obtain the WC1s, 2s and 3s was to reach out to the old vendor and to the Department of Labor (DOL). The WC1s, 2s and 3s are State Department of Labor's forms. The DOL and TPAs are each required to maintain those records.

End Date: Ongoing

Responding Person(s): Lydia Toda, Risk Management Officer
Department of the Corporation Counsel
Phone No. (808) 270-7897