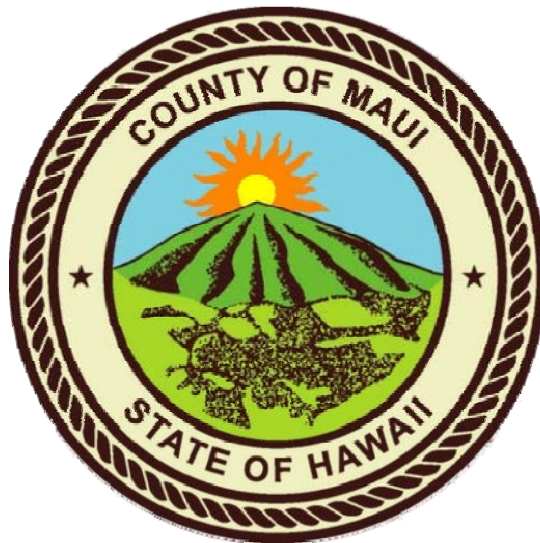


# **COUNTY OF MAUI**

**STATE OF HAWAII**



## **SINGLE AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

January 27, 2017

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

We have completed our financial audit of the basic financial statements and other supplementary information of the County of Maui, Hawai'i (the County), as of and for the fiscal year ended June 30, 2016. Our report containing our opinions on those basic financial statements is included in the County's *Comprehensive Annual Financial Report*. We submit herein our reports on the County's internal control over financial reporting and compliance, the County's compliance with requirements that could have a direct and material effect on each of its major federal programs and internal control over compliance, and our report on the schedule of expenditures of federal awards.

## **OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form opinions on the fairness of the presentation of the County's basic financial statements as of and for the fiscal year ended June 30, 2016, and to comply with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the County's financial statements.
2. To report on internal control over financial reporting and compliance with 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 in accordance with *Government Auditing Standards*.
3. To report on internal control over compliance related to major federal programs and an opinion on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.

## SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the County for the fiscal year ended June 30, 2016.

## ORGANIZATION OF THE REPORT

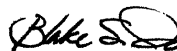
This report is presented in five parts as follows:

- Part I - Our report on internal control over financial reporting and on compliance and other matters.
- Part II - Our report on compliance for each major federal program; report on internal control over compliance; and report on the schedule of expenditures of federal awards required by the Uniform Guidance.
- Part III - The schedule of findings and questioned costs.
- Part IV - The corrective action plan.
- Part V - The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the staff of the County.

Sincerely,

N&K, CPAs, INC.



Blake Isobe  
Principal

COUNTY OF MAUI, HAWAII

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**PART I**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, Hawai'i (the County) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 13, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2016-001 through 2016-010 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, we noted other matters involving internal controls and its operation that we have reported to management of the County, in a separate letter dated December 13, 2016.

### **The County's Response to Findings**

The County's response to the findings identified in our audit is described in Part IV, Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawai'i  
December 13, 2016

**PART II**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on Compliance for Each Major Federal Program**

We have audited the County of Maui's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the fiscal year ended June 30, 2016. 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.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2016.

### **Report on Internal Control over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-011 and 2016-012, that we consider to be significant deficiencies.

The County's response to the internal control over compliance findings identified in our audit is described in Part IV, Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated December 13, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

N&K CPAs, Inc.

Honolulu, Hawai'i  
January 27, 2017

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>				
Retired Senior Volunteer Program			\$ 54,866	\$ --
Retired Senior Volunteer Program			11,855	--
Total Retired and Senior Volunteer Program	94.002		<u>66,721</u>	<u>--</u>
<b>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			<u>66,721</u>	<u>--</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Pass-through State - Supplemental Nutrition Assistance Program:				
Food Stamp Program Prosecutions	10.551	COOPERATIVE	<u>283</u>	<u>--</u>
Pass-through State - Summer Food Service Program for Children:				
Play and Learn Sessions (PALS)	10.559	15157HHI3N1099	<u>73,996</u>	<u>--</u>
Pass-through State - Cooperative Forestry Assistance:				
Volunteer Fire Assistance FY15		14-DG-11052012-122	18,750	--
Olowalu Fire Brk Comp Wui		15-DG-11052012-133	<u>18,850</u>	<u>--</u>
Total Cooperative Forestry Assistance	10.664		<u>37,600</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>111,879</u>	<u>--</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>				
Pass-through State - Sea Grant Support:				
UH Sea Grant College Program	11.417	NA09OAR417/MA130012	<u>2,356</u>	<u>--</u>
Pass-through State - Coastal Zone Management Administration Awards:				
Coastal Zone Management Program		NA13NOS4190055	206,777	--
Coastal Zone Management FY15		B-2015-OP-2	159,974	--
Coastal Zone Management FY16		NA15NOS4190105	<u>194,616</u>	<u>--</u>
Total Coastal Zone Management Administration Awards	11.419		<u>561,367</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>			<u>563,723</u>	<u>--</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Pass-through State - Safe and Drug-Free Schools and Communities State Grants:				
D.A.R.E. FY10 MOA DO413#5		MOA#04-13(5)	(479)	--
D.A.R.E. Program 02 #18475		MOA-02-017	(1,339)	--
Safe & Drug Free Schools #2 DHS		DHS01-OYS-9136	252	--
Safe/Drug Free Schools #3 DHS		DHS01-OYS-9136	<u>(4,291)</u>	<u>--</u>
Total Safe and Drug-Free Schools and Communities State Grants	84.186		<u>(5,857)</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>(5,857)</u>	<u>--</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Pass-through State - Special Programs for the Aging Title III, Part B:				
Grants for Supportive Services and Senior Centers:				
Aging Title III DHHS FY11		MA201103	(27,223)	--
Aging Title III DHHS FY12		MA201203	64	--
Aging Title III Programs		MA201303	1,148	--
Aging Title III Programs		MA201403	(11,468)	(27,658)

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)</b>				
Aging Title III Programs		MA201503	\$ 97,538	\$ 96,052
Aging Title III Programs		MA2016N03	<u>260,265</u>	<u>251,178</u>
Total Special Programs for the Aging Title III, Part B Grants for Supportive Services Senior Centers	93.044		<u>320,324</u>	<u>319,572</u>
Pass-through State - Special Programs for the Aging Title IV and Title II Discretionary Projects				
Hawaii Community Living		MA.CLP.2010.11.N	1,301	--
Aging/Disability Resource Center		MA-ADRCHD-2010-N	10,844	--
Aging/Disability Resource Center		MA-ADRCHD-2010-N	<u>4,472</u>	<u>--</u>
Total Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048		<u>16,617</u>	<u>--</u>
Affordable Care Act (ACA) - Consumer Assistance Program Grants				
Care Transitions Program	93.519		<u>1,229</u>	<u>--</u>
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)				
Complete Streets Training	93.757		<u>10,000</u>	<u>--</u>
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations				
Hospital Discharge Planning Grant			(12,145)	--
Hospital Discharge Planning Grant			<u>(9,981)</u>	<u>--</u>
Total Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		<u>(22,126)</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>326,044</u>	<u>319,572</u>
<b>EXECUTIVE OFFICE OF THE PRESIDENT</b>				
High Intensity Drug Trafficking Areas Program:				
High Intensity Drug Trafficking Areas			131,091	--
High Intensity Drug Trafficking Areas			<u>152,327</u>	<u>--</u>
Total High Intensity Drug Trafficking Areas Program	95.001		<u>283,418</u>	<u>--</u>
<b>TOTAL EXECUTIVE OFFICE OF THE PRESIDENT</b>			<u>283,418</u>	<u>--</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
Drug Enforcement Administration (DEA):				
Marijuana Eradication 2003-51			323	--
Marijuana Eradication			9,055	--
Domestic Cannabis Enforcement			833	--
Domestic Cannabis Enforcement			88,362	--
Domestic Cannabis Enforcement			3,883	--
Asset Forfeitures Program			60,945	--
Federal Justice Police Forfeitures			<u>(470)</u>	<u>--</u>
Total Drug Enforcement Administration	16.000		<u>162,931</u>	<u>--</u>

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF JUSTICE (Continued)</b>				
Pass-through State - Juvenile Accountability Block Grants:				
Juvenile Accountability Incentive Block Grant		DHS01-OYS-9222	\$ (659)	\$ --
Juvenile Accountability Incentive Block Grant		DHS02-OYS-1160	7,483	--
Juvenile Accountability Incentive Block Grant		DHS02-OYS-1160	580	--
Juvenile Accountability Incentive Block Grant		DHS03-OYS-1473	6,678	--
Juvenile Accountability Incentive Block Grant		DHS03-OYS-1473	2,227	--
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263	285	--
Juvenile Accountability Incentive Block Grant		DHS-12-OYS	70,771	--
Juvenile Accountability Incentive Block Grant		DHS-05-OYS-2153	4,956	--
Total Juvenile Accountability Block Grants	16.523		<u>92,321</u>	<u>--</u>
Juvenile Justice and Delinquency Prevention Allocation to States				
Positive Outreach Intervention	16.540		<u>10,648</u>	<u>--</u>
Crime Laboratory Improvement Combined				
Analytical Equip & Info Management System	16.564		<u>(4,814)</u>	<u>--</u>
Pass-through State - Crime Victim Assistance:				
Special Needs Advocacy Program		12-VA-01	16,961	--
Special Needs Advocacy Program		13-VA-01	307,532	--
Total Crime Victim Assistance	16.575		<u>324,493</u>	<u>--</u>
Edward Byrne Memorial Formula Grant Program:				
Clandestine Lab Response TM00DB18			(276)	--
Statewide Marijuana Eradication			(830)	--
Statewide Narcotics Task Force			(6,500)	--
Statewide Marijuana Eradication Task Force			23,893	--
Statewide Narcotics Task Force			510	--
Total Edward Byrne Memorial Formula Grants	16.579		<u>16,797</u>	<u>--</u>
Pass-through State - Violence Against Women Formula Grants:				
VAWA Domestic Violence Outreach		11-WF-06	24,574	--
Violence Against Women Act		12-WF-12	10,750	--
Domestic Violence Investigation		13-WF-02	11,871	--
Domestic Violence Strangulation		13-WF-06	18,896	--
Sex Assault		14-WF-06	504	--
Domestic Violence Victimless		02-WF-17	20,359	--
Total Violence Against Women Formula Grants	16.588		<u>86,954</u>	<u>--</u>
Pass-through State - Local Law Enforcement Block Grants Program:				
LLE Block Grant	16.592	LLEBG2001-LB-BX-1458	<u>(132)</u>	<u>--</u>
Public Safety Partnership and Community Policing Grants:				
Bulletproof Vest Grant			13,085	--
Pass-through State - Public Safety Partnership and Community Policing Grants:				
Cops Technology Grant		2000CKWX0010	463	--
Cops in School Award		2001-SHWX-0411	38,462	--
Total Public Safety Partnership and Community Policing Grants	16.710		<u>52,010</u>	<u>--</u>
Pass-through State - Gang Resistance Education and Training:				
G.R.E.A.T.	16.737	2004-JV-FX-0133	<u>110</u>	<u>--</u>

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF JUSTICE (Continued)</b>				
Edward Byrne Memorial Justice Assistance Grant Program:				
Statewide Marijuana Eradication			\$ 42,070	\$ --
E. Byrne/Epic Awareness			89,513	--
Criminal Justice Information System			24,738	--
Hawaii Narcotics Task Force			14,120	--
E. Byrne Memorial JAG			9,572	--
E. Byrne/Pros of Drug Crimes			140,075	--
Hawaii Narcotics Task Force			22,848	--
Hawaii Narcotics Task Force			5,233	--
Statewide Marijuana Eradication			11,264	--
Total Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>359,433</u>	<u>--</u>
Edward Byrne Memorial Competitive Grant Program:				
Hawaii Integrated Justice Program	16.751		27,840	--
Alcohol, Tobacco, and Firearms: Training Assistance				
G.R.E.A.T.	16.012		(304)	--
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>1,128,287</u>	<u>--</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
Pass-through State - Capitalization Grants for Drinking Water State Revolving Funds:				
Omaopio #2 Middle Tank		DW247-0005LOG#12-062	16,636	--
Waikamoi Flume Repair/Replacement		DW215-0003LOG#13-174	271,447	--
Wakiu Well Replacement Development Project		DW217-0005LOG#13-044	983,620	--
Paia-Kuau Water System Improvements Project		DW213-0014LOG#14-162	373,973	--
Piihola WTP Org Carb Reduction		DW247-0004LOG#14-148	87,850	--
Maui Meadows Boost Pump 18 IMP		DW212-0011LOG#14-178	244,978	--
Kula 200 #1 Tank Replacement		DW215-0010LOG#15-157	615,908	--
Wellhead Protection Program		ASO 12-117[10F2]	511,168	--
Total Capitalization Grants for Drinking Water State Revolving Funds	66.468		<u>3,105,580</u>	<u>--</u>
<b>TOTAL ENVIRONMENTAL PROTECTION AGENCY</b>			<u>3,105,580</u>	<u>--</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
Pass-through State - Highway Planning and Construction:				
Bridge Inspection Program		BR-NBIS(44)	(2,750)	--
FHWA Projects State Reviews		FHWA CENG	66,865	--
Bridge Inspection Program		BR-NBIS(057)	12,960	--
FHWA Various Projects County		FHWA CENG	64,939	--
Kahoolopoo Bridge Replacement		BR0900-078	53,739	--
Haliimaile Road Improvements		STP-A371(002)	440	--
Kamalii Elementary School Safe Routes		SRS-1500(60)	678	--
Princess Nahienaena Safe Route		SRS-1500(59)	1,000	--
Wakea Avenue/Wells St Pavement Rehabilitation		STP-0900(082)	94,780	--
Wakea Avenue at Hina Traffic		STP-0900(082)	182,031	--
Baldwin Avenue Resurfacing		STP-0390(001)	211,571	--
Kihei Bikeway - Piilani North		STP-3115(2)	(15,241)	--

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF TRANSPORTATION (Continued)</b>				
Hansen Road Pavement Reconstruction		STP-3600(001)	\$ 2,076,657	\$ --
Bridge Inspection Program		BR-NBIS(062)	234,290	--
Kokomo Road Pavement Reconstruction		STP-0366(001)	1,321,483	--
Wailea Alanui/Ike Drive Pavement		STP-0900(084)	4,807,682	--
Old Haleakala Highway Pavement Rehabilitation		STP-0900(084)	205,963	--
Kihei Bikeway Phase 2		STP-3115(003)	2,431,820	--
Total Highway Planning and Construction	20.205		11,748,907	--
Pass-through State - Federal Transit Capital Investment Grants:				
FTA 5309 FFY 2010 Bus & Facilities		HI-04-0004	(14,150)	--
FTA 5309 Formula Funds Program		HI-04-0010	116,208	--
Total Federal Transit Capital Investment Grants	20.500		102,058	--
Pass-through State - Formula Grants for Rural Areas:				
FTA Rural Transit Assistance FFY12		HI-18-X028	2,164	--
FTA SEC 5311 Non-Urbanized Area		HI-18-X030	500,125	--
FTA Rural Transit Assistance - RTAP		HI-18-X030	3,074	--
Rural Transit Assistance Program 06		FTA 5311 RTAP	263	--
FTA SEC 5311 FFY 2013 Grant		HI-18-X031	500,000	--
Total Formula Grants for Rural Areas	20.509		1,005,626	--
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
FTA Planning Program 5305(e)	20.515		36,389	--
Highway Safety Cluster				
Pass-through State - State and Community Highway Safety:				
Maui Child Passenger Safety		OP01-05(03-M-01)	541	--
MPD Roadblock Program AL02-02		AL02-02(01-M-03)	(322)	--
Maui Safe Community Speed SC02-06(03)		SC02-06(03-M-01)	1,177	--
Keiki Injury Protection		OP02-05(03-M-01)	(2,383)	--
Maui Seatbelt Enforcement OP02-05		OP02-05(01-M-03)	(11,870)	--
Maui Safe Community Speed		SC03-06(03-M-01)	3,526	--
Maui Seatbelt Program		OP03-05(01-M-03)	32,203	--
MPD Child Restraint Project		OP14-05(03-M-01)	(85)	--
MPD Traffic Services		PT15-01(03-M-01)	3,207	--
FFY15 MPD Seat Belt Program		OP15-05(01-M-03)	12,772	--
FFY15 Speed Enforcement		SC15-06(01-M-03)	19,030	--
FFY15 MPD Traffic Data Records		TR15-03(05-M-01)	18,700	--
Distracted Driving Enforcement		DD15-10(03-M-01)	2,049	--
MPD Roadblock Program		AL15-02(01-M-03)	122,512	--
MPD Child Restraint Project		OP15-05(03-M-01)	8,174	--
Highway Safety Grant		AL15-02(05-M-01)	6,067	--
MPD Traffic Services		PT16-01(03-M-01)	40,279	--
MPD Traffic Data Records		TR16-03(05-M-01)	209,737	--
MPD Speed Enforcement		SC16-06(01-M-03)	76,959	--
MPD Roadblock Program		AL16-02(01-M-03)	206,644	--
Distracted Driving Enforcement		DD16-10(03-M-01)	43,867	--

The accompanying notes are an integral part of this schedule.



**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF TRANSPORTATION (Continued)</b>				
MPD Child Restraint Program		OP16-06(03-M-01)	\$ 13,348	\$ --
Highway Safety/Impaired Driving		AL16-02(05-M-01)	7,630	--
Highway Safety/Traffic Records		TR16-03(10-M-01)	4,508	--
MPD Child Restraint Program FY09		OP09-05(03-M-01)	(95)	--
Total State and Community Highway Safety	20.600		<u>818,175</u>	<u>--</u>
Pass-through State - National Priority Safety Programs:				
MPD Seat Belt Program	20.616	OP16-05(01-M-03)	<u>25,872</u>	<u>--</u>
Total Highway Safety Cluster			<u>844,047</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>13,737,027</u>	<u>--</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Pass-through State - Emergency Preparedness Demonstration Program				
Interoperable Emergency Communications Grant Program	97.001	2008-IO-T8-0013	<u>6,957</u>	<u>--</u>
Pass-through State - Emergency Management Institute Training Assistance:				
FEMA Fire Training Funds	97.026	11-106-036	<u>3,082</u>	<u>--</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters):				
Storms 12/4-7/07	97.036		<u>172,041</u>	<u>--</u>
Emergency Management Performance Grants			69,292	--
Emergency Management Performance Grants			86,500	--
Emergency Management Performance Grants			<u>100,000</u>	<u>--</u>
Total Emergency Management Performance Grants	97.042		<u>255,792</u>	<u>--</u>
Homeland Security Grant Program:				
FFY10 State Homeland Security Program			520	--
FFY12 Community Outreach / Citizens Corp Program			863	--
FFY12 State Homeland Security Grant			176	--
FFY13 State Homeland Security Grant			192,755	--
FFY13 SHSG Community & Citizen Prep			5,681	--
State Homeland Security Grant			245,950	--
Citizens Corporation Program			24,112	--
State Homeland Security			<u>134,814</u>	<u>--</u>
Total Homeland Security Grant Program	97.067		<u>604,871</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>1,042,743</u>	<u>--</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Community Development Block Grants / Small Cities Program:				
The Maui Farm Rehabilitation			21,404	21,404
Women Helping Women Domestic Violence			7,738	7,738
Lanai Community Health Center Infrastructure			313,872	313,872
Khako Renewal Project PH-1			81,101	81,101
Maui Food Bank Rehabilitation			<u>41,034</u>	<u>41,034</u>
Total Community Development Block Grants / Small Cities Program	14.219		<u>465,149</u>	<u>465,149</u>

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)</b>				
Community Development Block Grants / State's Program and				
Non-Entitlement Grants in Hawaii:				
LCHC Infrastructure 13-4			\$ 738	\$ 738
Molokai Tanker Reprg			25,320	--
LCHC Infrastructure 13-4			370,818	370,818
Maui Food Bank Rehabilitation			8,966	8,966
The Maui Farm Rehabilitation			30,293	30,293
CDBG Program Admin FY14			23,431	--
The Maui Farm Rehabilitation			125,725	125,725
Maui Food Bank Rehabilitation			400,085	400,085
Molokai Tanker			675,000	--
CDBG Program Admin FY15			19,645	--
CDBG Program Admin FY16			293,776	--
Molokai Tanker - Reprg			8,180	--
Total Community Development Block Grants / State's				
Program and Non-Entitlement Grants in Hawaii	14.228		<u>1,981,977</u>	<u>936,625</u>
Pass-through State - Home Investment Partnerships Program:				
Home 1st Time Homebuyers Project		PROJ INCME	21,161	--
Home FFY10 Administration		HOME FFY106/30/10	8,103	--
Home FFY11 Administration		HOME FFY10	818	--
Home FFY14 Kulamalu Reprg		HOME FFY14	(21,161)	--
Home FFY14 Administration		M-2014-MAUI ADMIN	44,531	--
Home FFY14 Kulamalu AH Project		M-2014-MAUI KULAMALU	318,803	--
Home FFY04 Administration		HOME FFY04	7,296	--
Home FFY08 Administration		HOME FFY08	(689)	--
Total Home Investment Partnership Program	14.239		<u>378,862</u>	<u>--</u>
Section 8 Housing Choice Vouchers:				
Section 8 Housing Voucher FY2015			(7,629)	--
Section 8 Housing Admin FY2015			835	--
Section 8 Housing Voucher FY2016			15,909,362	--
Section 8 Housing Admin FY2016			1,279,918	--
Section 8 Family Self-Sufficient			18,547	--
Total Section 8 Housing Choice Vouchers	14.871		<u>17,201,033</u>	<u>--</u>
Family Self-Sufficiency Program:				
FSS Coordinator Grant	14.896		28,957	--
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>20,055,978</u>	<u>1,401,774</u>
<b>U.S. DEPARTMENT OF LABOR</b>				
Pass-through State - Workforce Investment Act:				
Workforce Investment Act PY11-Admin		WIA BULLTN #03-11	(2,255)	--
Workforce Investment Act Administrative PY2012		BULLETIN #03-12	7,805	--
Workforce Investment Act Admin		WIA-13-LAC-M	(236)	--
Workforce Investment Act Admin		WIA-14-LAC-M	37,719	--
WIOA Admin PY2015		WIOA-15-LAC-M	55,876	--
Total Workforce Investment Act	17.000		<u>98,909</u>	<u>--</u>

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Fiscal Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF LABOR (Continued)</b>				
WIA Cluster				
Pass-through State - WIA Adult Program:				
Workforce Investment Act - Adult Program - PY 2012		BULLETIN #03-12	\$ 1,172	\$ --
Workforce Investment Act Adult		WIA-13-AP-M	(460)	--
Workforce Investment Act Adult		WIA-14-AP-M	96,518	--
WIOA Adult & Dislocated Worker		WIOA-15-A&DWP-M	23,796	--
Total WIA Adult Program	17.258		<u>121,026</u>	<u>--</u>
Pass-through State - WIA Youth Activities:				
WIA Youth Program - PY2012		BULLETIN #03-12	334	--
Workforce Investment Act Youth		WIA-13-AP-M	17,909	--
Workforce Investment Act Youth		WIA-14-YP-M	123,853	--
Workforce Innovation Opportunity		WIOA-15-YPM	22,722	--
Total WIA Youth Activities	17.259		<u>164,818</u>	<u>--</u>
Pass-through State - WIA Dislocated Workers:				
Workforce Investment PY11 Dislocated Worker		WIA BULLTN #03-11	(3,052)	--
Workforce Investment Act DWP		WIA-13-DWP-M	(1,183)	--
Workforce Investment Act DWP		WIA-14-DWP-M	41,109	--
Total WIA Dislocated Workers	17.260		<u>36,874</u>	<u>--</u>
Pass-through State - WIA/WIOA Dislocated Worker Formula Grants				
WIA Dislocated Worker PY2012	17.278	BULLETIN #03-12	4,014	--
Total WIA Cluster			<u>326,732</u>	<u>--</u>
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors				
ARRA - State Energy Sctr Training Grant	17.275		<u>3,222</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<u>428,863</u>	<u>--</u>
<b>U.S. DEPARTMENT OF ENERGY</b>				
Energy Efficiency and Conservation Block Grant Program (EECBG)				
Energy Efficiency/Conservation Block Grant	81.128		<u>34,892</u>	<u>--</u>
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>			<u>34,892</u>	<u>--</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 40,879,298</u>	<u>\$ 1,721,346</u>

The accompanying notes are an integral part of this schedule.

**County of Maui**  
**State of Hawai'i**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2016**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the County under programs of the federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County of Maui, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the County of Maui.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in the Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 3 - INDIRECT COST RATE**

The County of Maui has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**PART III**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2016**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Noncompliance material to financial statements noted?

yes  no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes  no

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

14.219

Community Development Block

Grants/Small Cities Program

14.228

Community Development Block

Grants/State's Program and Non-

Entitlement Grants in Hawaii

14.871

Section 8 Housing Choice Vouchers

66.468

Capitalization Grants for Drinking

Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,226,379

Auditee qualified as a low-risk auditee?

yes  no

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Ref.**

**No.**      **Internal Control Findings**

**2016-001**    **Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency**

**Criteria:** Under the County of Maui's 'Payroll Policies and Procedures Manual', an 'Application for Leave form' must be submitted and signed by the employee in advance for all types of scheduled and anticipated leaves. For all types of unscheduled, unanticipated, or emergency-type leaves, the form must be submitted by the employee immediately upon return of leave. In both cases, forms must be approved and signed by both the employee and authorized approver.

**Condition:** Employees are required to fill out an 'Application for Leave (DF-2) form' for the County of Maui, 'Application for Leave (DF-1) form' for the Department of Water Supply (DWS), or use eTime's 'Time Off Request (TOR)' whenever the employee takes sick or vacation leave. Forms or requests must be signed or approved by the employee and an authorized approver. During our current year audit, we noted the following:

**County of Maui:**

- There were three (3) samples totaling six (6) instances where an 'Application for Leave (DF-2) form' was not signed by the employee taking leave and/or authorized signer.
- There were five (5) samples totaling twenty-eight (28) instances where an 'Application for Leave (DF-2) form' could not be located for the leave taken by an employee.

**DWS:**

- There was one (1) sample totaling one (1) instance where an 'Application for Leave (DF-1) form' was not signed by an authorized signer.

**Cause:** The guidance stated in the 'Payroll Policies and Procedures Manual' was not consistently applied by the County and the DWS.

**Effect:** The lack of adequate internal controls over vacation and sick leave records could result in an over or understatement of liabilities of the County of Maui and the DWS.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-001 included in the Summary Schedule of Prior Audit Findings.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No. Internal Control Findings**

**2016-001 Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency (Continued)**

**Recommendation**

Adequate internal controls should be maintained to ensure that vacation and sick leave records are accurately documented, calculated, and recorded in the County's general ledger. Evidence of the submission and review of the 'Application for Leave (DF-2) form' for the County of Maui, or 'Application for Leave (DF-1) form' for the Department of Water Supply (DWS), should be documented through signatures of both the employee taking leave and an appropriate approver.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.



**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**      **Internal Control Findings**

**2016-002    Accounting for Construction in Progress - Significant Deficiency**

**Criteria:** Generally accepted accounting principles require that assets be transferred from construction in progress to capital assets when they are placed in service or are available to be placed in service. In addition, the DWS' accounting policy for normal maintenance and repairs is to expense these amounts as incurred.

**Condition:** The Department of Water Supply (DWS) prepared construction in progress schedules to calculate the valid roll-forward balance of on-going projects and determine projects that were completed, placed into service, and capitalized as infrastructure. We noted that projects were only properly accounted for when fiscal staff tracked down the respective project engineer for the contract. This resulted in multiple instances where a project was not capitalized properly or timely and old projects that should have been expensed were part of the roll-forward balance from prior years. The following were the conditions noted during our review of the construction in progress and capital asset schedules:

- The DWS had a total of \$27 million in capital asset additions in the current year. A review of the additions of the DWS showed a total of \$14,879,018 of capital asset additions that had dates-in-service from prior years that should have been capitalized as capital assets in prior years.

**Cause:** The DWS' projects are maintained and accumulated in the DWS' accounting system and reconciled in a spreadsheet. However, the process to transfer the projects to either expense the normal maintenance and repairs or to transfer the project to capital assets is a manual process completed periodically.

**Effect:** Construction in progress was overstated, while capital assets, accumulated depreciation, and depreciation expense were understated.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-002 included in the Summary Schedule of Prior Audit Findings.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-002    Accounting for Construction in Progress - Significant Deficiency (Continued)**

**Recommendation**

The DWS should establish formal procedures to ensure that construction in progress and projects placed in service are communicated timely by project engineers to the fiscal staff in order to properly capitalize and depreciate those assets in the appropriate accounting period. The DWS should also establish procedures to maintain and reconcile the construction in progress schedule throughout the year. These procedures will also assist the DWS in completing the schedules required to timely close and prepare the County's comprehensive financial report.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**            **Internal Control Findings**

**2016-003**    **Internal Controls Over Automated Payroll Processing System - Significant Deficiency**

**Criteria:** A control environment should be continuously monitored to ensure the completeness and accuracy of the County's payroll processing system. Employee time records, whether manual timesheets or automated time records, should be approved by the employee and their supervisor and properly support the payroll expenditures reflected in the automated pay register used to record expenditures into the County's general ledger.

**Condition:** The Department of Finance has completed a conversion to a more automated payroll processing system. Included in that conversion was a move toward a fully automated employee time recording system. This conversion also required a change from a more manual, centralized time recording and monitoring system at the Payroll Section to a more decentralized system, with payroll responsibilities disbursed out to individual departments.

Individual departments have either switched to an automated time recording system or have maintained a manual time keeping system for all or some employees based on its operations. This practice has continued to produce inconsistencies between departments which resulted in the following conditions noted during our review of 40 payroll files:

- 3 instances (out of 40 samples) where a manual time sheet did not have an approval by the supervisor/department head.

The County has a 'Payroll Policies and Procedures Manual' that indicates the roles and responsibilities of the department/agencies and employees, required forms to be used and procedures to be followed with regard to manual timesheets and automated timesheets. There are certain departments/agencies that will not be able to fully convert to the automated employee time recording system based on logistics and possible bargaining unit restrictions. However, it is still the Department of Finance's goal to convert more departments to the automated payroll processing system by providing continuous training and follow up sessions with each department and its 'Super-Users'.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No. Internal Control Findings**

**2016-003 Internal Controls Over Automated Payroll Processing System - Significant Deficiency (Continued)**

**Cause:** The change from a centralized to a decentralized system for capturing employee time has resulted in the implementation of a new internal control environment that requires continuous monitoring.

**Effect:** The lack of sufficient controls to ensure the completeness and accuracy of the payroll records could lead to incorrect payments to County employees and inaccurate reporting of payroll costs in the County's financial statements.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-003 included in the Summary Schedule of Prior Audit Findings.

**Recommendation**

The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-004    Internal Controls Over Procurement Process - Significant Deficiency**

**Criteria:** Under Hawai'i Revised Statutes section 103D-303.5, at least fifteen days prior to the submission of bids for construction or design-build projects with a total estimated contract value of \$500,000 or more, and at least fifteen days prior to submission of proposals for construction for design-build projects with a total estimated contract value of \$100,000 or more, the head of a purchasing agency shall hold a pre-bid conference and shall invite all potential interested bidders, offerors, subcontractors, and union representatives to attend.

**Condition:** The County of Maui's Code provides policies and procedures for the procurement of contracts. Expenditures of public money shall be made in accordance with the competitive bidding requirements and other applicable sections of the Hawai'i Revised Statutes chapter 103 as applicable, and as required by law. During our current year audit, we noted the following:

- There were four (4) instances where a 'Pre-Bid' conference was not held prior to the procurement of a contract with contract values exceeding \$500,000, aggregating approximately \$3,000,000.

**Cause:** The guidance stated in the chapter 3.12 'Purchasing Procedures' of the County of Maui Code was not consistently applied by the County of Maui.

**Effect:** The lack of adequate internal controls over the procurement process may result in violations of the County of Maui Code that could have an adverse effect on future procurements of contracts.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-005 included in the Summary Schedule of Prior Audit Findings.

**Recommendation**

Adequate internal controls should be maintained to ensure that all policies established and stated by the County of Maui Code are consistently followed and adhered to.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-005    Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency**

**Criteria:**    Proper internal controls over miscellaneous cash receipts received directly from the public dictate that adequate segregation of duties exists to ensure that an employee receiving cash is not the same employee that records the receipt transaction into the accounting records and reconciles the cash deposited into the bank. Evidence of this segregation of accounting duties and the appropriate level of supervisory review should be reflected on the daily cash receipt summary report in the form of sign offs by personnel involved.

**Condition:** During our audit, we noted that the internal controls over miscellaneous cash receipts collected by the various divisions and departments of the County could be improved. There was a lack of adequate segregation of duties over cash receipts, particularly at the Building Permits Section, between employees responsible for receiving the cash from the public and recording the cash transaction into the daily cash summary report and reconciling this summary report to the daily bank deposit.

**Cause:**        Policies and procedures to enhance the segregation of duties over cash receipts have not been maintained.

**Effect:**        The lack of adequate internal controls over miscellaneous cash receipts could result in a loss of revenues to the County.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-006 included in the Summary Schedule of Prior Audit Findings.

**Recommendation**

Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**      **Internal Control Findings**

**2016-006**    **Timely Reconciliation of Federal and State Grant Programs - Significant Deficiency**

**Criteria:**    Accrual balances presented in the Grant Fund balance sheet should reflect the amount of unreimbursed grant expenditures (grant receivables). Reconciliations of these balances should be performed on a timely basis.

**Condition:** During our audit, we noted that accrual balances in the Grant Fund were reconciled only upon inquiry with responsible personnel. A lack of frequent reconciliation resulted in delays in providing responses and substantiating support for these balances. The Department of Finance continues to research, reconcile and dispose of unreconciled balances; however, unrelieved balances within the Grant Fund still exist as of June 30, 2016.

**Cause:**      There does not appear to be a uniform reconciliation process between the Department of Finance personnel and grant management personnel in the other County departments to ensure the periodic and timely reconciliation of grant receivables.

**Effect:**      The lack of timely reconciliations performed on the Grant Fund accrual balances could lead to misstatements in the County's financial statements.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-007 included In the Summary Schedule of Prior Audit Findings.

**Recommendation**

The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year receivables remain and continue to carry forward. The County should implement policies and procedures to complete monthly or quarterly reconciliations and monitoring of federal and state grants.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**      **Internal Control Findings**

**2016-007    Logical Access & Access Security - Significant Deficiency**

**Criteria:**    A control process exists and is followed to periodically review and confirm access rights.

Procedures exist and are followed to authenticate all users of the system (both internal and external) to support the existence of transactions.

An information security policy exists and has been approved by an appropriate level of management.

A framework of security standards has been developed that supports the objectives of the security policy.

**Condition:** During our audit, we noted that the County had several deficiencies related to logical access and access security including:

- User access reviews for iasWorld (IAS) are infrequent.
- Permissions assigned to Oracle Utilities Customer Care and Billing System (CC&B) security groups were not reviewed.
- Outside vendor access into IAS is not monitored.
- The County does not have a formal password policy established.
- There is weak password security for the domain, IAS, IFAS and CC&B.
- The County did not have any formally documented security administration policies and procedures.

**Cause:**      The County has not formally documented all of the Logical Access & Access Security controls nor effectively designed all of these controls.

**Effect:**      Unauthorized access to these systems could result in the destruction of data, unauthorized transactions being made, transactions being inaccurately recorded, or internal controls being circumvented.



**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-007   Logical Access & Access Security - Significant Deficiency (Continued)**

**Identification as a Repeat Finding, if applicable:**

See finding 2015-008 included in the Summary Schedule of Prior Audit Findings.

**Recommendation**

We recommend that the County:

1. Establish a control process to review and confirm access rights periodically. There should be at least a semiannual review of user access.
2. Monitor vendor access into IAS.
3. Develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration.
4. Develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-008    Backup & Recovery - Significant Deficiency**

**Criteria:**    Policies and procedures exist for data backup and recovery.

                  The restoration of backup media is periodically tested.

**Condition:** During our audit, we noted that the County:

- Did not have any formally documented backup and restore policies; and
- Is using some backup software that is no longer supported by the manufacturer.

**Cause:**        The County has not formally documented the backup and restore policies and procedures.

**Effect:**        Data recorded, processed and reported may not remain complete, accurate and valid throughout the update and storage process. There may be an inability to correct or recover from data loss, corruption, or data integrity concerns.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-009 included in the Summary Schedule of Prior Audit Findings.

**Recommendation**

We recommend that the County develop a formal backup and restore policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**      **Internal Control Findings**

**2016-009    Information Technology (IT) Governance - Significant Deficiency**

**Criteria:** The organization maintains an appropriate strategic technology plan including capacity planning and availability requirements to meet the needs of the business units and to adequately support financial reporting.

Effective IT governance helps ensure that IT supports business goals, optimizes business investment in IT, and appropriately manages IT-related risks and opportunities.

Risk management practices enable management to limit exposures to control failures.

**Condition:** During our audit, we noted that the County had several deficiencies related to IT governance including:

- The IT governance function needs to be formalized including a process for review of IT plans and priorities and significant IT related projects and investments.
- An IT Risk Assessment needs to be completed.

**Cause:** The County has not formally documented IT governance policies and procedures.

**Effect:** Lack of business monitoring and strategic planning may cause the organization to not be responsive to changes that may affect continuity and quality of service.

Lack of risk management practices will limit management's ability to reduce exposures and control failures.

**Identification as a Repeat Finding, if applicable:**

See finding 2015-010 included in the Summary Schedule of Prior Audit Findings.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-009    Information Technology (IT) Governance - Significant Deficiency (Continued)**

**Recommendation**

We recommend that the County hold formal steering committee meetings and complete an IT Risk Assessment.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui**  
**State of Hawai'i**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-010    Prior Period Adjustment - Significant Deficiency**

**Criteria:** Internal controls over financial reporting should be in place to ensure the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States (GAAP).

**Condition:** During our audit, we noted that the County recorded prior period adjustments due to \$12,047,491 in employer paid, employee contributions made after the measurement date for the net pension liability, which were not included in the deferred outflow of resources as of June 30, 2015. The adjustment resulted in an increase in beginning net position of \$11.4 million for governmental activities and \$0.7 million for business-type activities reported in the Comprehensive Annual Financial Report (CAFR) of the County at July 1, 2015. The effect for the fiscal year ended June 30, 2015 was an increase to the change in net position of \$11,374,600 for governmental activities and \$672,891 for business-type activities.

**Cause:** Accounts related to the net pension liability were not properly reconciled at year end.

**Effect:** A material misstatement of the County's CAFR in the prior year that was not prevented or detected by the County's internal control system.

**Identification as a Repeat Finding, if applicable:**

Not applicable.

**Recommendation**

Management should identify significant nonroutine accounting transactions and new accounting pronouncements and ensure that a process is established in which management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and timely review of the transactions being posted.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b><u>Ref. No.</u></b>	<b>Internal Control over Compliance Findings</b>	<b><u>Questioned Costs</u></b>
<b>2016-011</b>	<p><b>Review of Subrecipient Single Audits - Significant Deficiency</b></p> <p><b>Federal agency:</b> Department of Housing and Urban Development  <b>CFDA No:</b> 14.228/14.219  <b>Program:</b> Community Development Block Grants (CDBG) - State's Program and Non-Entitlement Grants in Hawaii/Small Cities Program</p> <p><b>Criteria:</b> The U.S. Office of Management and Budget (OMB) issued comprehensive grant reform rules under Title 2 U.S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance) in December 2013. These rules were effective for new federal awards and changes to funding increments issued after December 26, 2014.</p> <p>The Uniform Guidance now requires written policies in order to comply with certain requirements. A compliance area for which each entity must maintain written policies includes subrecipient monitoring.</p> <p>Subrecipient monitoring and management requirements for pass-through entities at 2 CFR §200.331 require that the County verify that every subrecipient is audited as required by the Uniform Guidance when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded \$750,000.</p> <p><b>Condition:</b> The CDBG grants are awarded to the County to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. The primary way that the County achieves these objectives is by providing sub-awards to various non-profit organizations (subrecipients) to fund qualifying projects that fulfill the objectives of the CDBG program.</p>	

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. No.</b>	<b>Internal Control over Compliance Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
<b>2016-011</b>	<b>Review of Subrecipient Single Audits - Significant Deficiency (Continued)</b>	
<b>Condition:</b>	During our testing of the subrecipient monitoring compliance requirement for the audit period ended June 30, 2016, we noted that the County did not have a system in place to track and monitor subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year to ensure that audits were completed and submitted in accordance with the Uniform Guidance as required.	
<b>Cause:</b>	The County relied on the subrecipients to submit audits and only reviewed and followed up with subrecipients who submitted Single Audits reports of their own accord.	
<b>Effect:</b>	The County cannot ensure that its subrecipients are performing Single Audits when required under the Uniform Guidance and are in compliance with applicable federal requirements.	\$ <u>    --</u>
<b>Context:</b>	The County provided CDBG funds to four (4) subrecipients during the audit period ended June 30, 2016. All subrecipients were tested to determine if the County followed subrecipient monitoring compliance requirements by verifying if these subrecipients were required to have an audit accordance with the Uniform Guidance. We noted that no verification was performed for these subrecipients.	

**Identification as a Repeat Finding, if applicable:**

Not applicable.

**Recommendation**

We recommend the County create and document a process to comply with the subrecipient monitoring compliance requirement of the Uniform Guidance to annually verify that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year complete and submit a Single Audit report.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	<u>Internal Control over Compliance Findings (Continued)</u>	<u>Questioned Costs</u>
<b>2016-012</b>	<p><b>Completeness of Federal Expenditures Reported - Significant Deficiency</b></p> <p><b>Federal agency:</b> Environmental Protection Agency  <b>CFDA No:</b> 66.468  <b>Program:</b> Capitalization Grants for Drinking Water State Revolving Funds</p> <p><b>Criteria:</b> The Uniform Guidance requires federal expenditures to be recorded properly and timely to ensure accuracy and completeness of the expenditure amounts reported on the Schedule of Expenditures of Federal Awards (SEFA).</p> <p><b>Condition:</b> The Department of Water Supply (DWS) reported and paid a total of \$3,105,580 of federal awards for the Capitalization Grants for Drinking Water State Revolving Funds program for the fiscal year ended June 30, 2016. One of the programs funded by this grant expended a total of \$511,168 related to the Wellhead Protection Program in fiscal year 2016. The Wellhead Protection Program is managed by the Planning Division of the DWS. During our testing of this program, we noted the following condition:</p> <ul style="list-style-type: none"> <li>• Approximately \$439,900 of federal expenditures related to the Wellhead Protection Program was incurred during the fiscal year ended June 30, 2015, and should have been accrued and reflected in the prior fiscal year's SEFA.</li> </ul> <p><b>Cause:</b> The DWS relied on the Planning Division to timely submit invoices when received by the vendors performing services for the Wellhead Protection Program. The planner in charge of the Wellhead Protection Program was unaware of the financial reporting process and did not transmit invoices timely to the accounting department for extended periods of time, which resulted in expenditures being reported and paid in subsequent periods.</p> <p><b>Effect:</b> Federal expenditures related to the Wellhead Protection Program were understated on the SEFA by approximately \$439,900 in the prior fiscal year.</p>	<p>\$ <u>          --</u></p>



**County of Maui  
State of Hawai'i  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Ref.  
No.**

**Internal Control over Compliance Findings (Continued)**

**2016-012                      Completeness of Federal Expenditures Reported - Significant Deficiency (Continued)**

**Context:**                      The DWS expended a total of \$3,105,580 of federal awards for the Capitalization Grants for Drinking Water State Revolving Funds for eight (8) projects during the audit period ended June 30, 2016. We tested the six (6) largest projects with total expenditures of \$3,002,502 during the fiscal year. It was determined that approximately \$439,900 of federal expenditures for one of those projects (Wellhead Protection Program) was incurred during the fiscal year ended June 30, 2015, and should have been accrued and reflected in the prior fiscal year's SEFA.

**Identification as a Repeat Finding, if applicable:**

Not applicable.

**Recommendation**

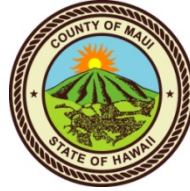
The DWS should ensure that proper accounting procedures are being adhered to by all personnel involved in the financial reporting process to ensure expenditures are reported in the proper period.

**Views of Responsible Officials and Planned Corrective Action**

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**PART IV**  
**CORRECTIVE ACTION PLAN**

**ALAN M. ARAKAWA**  
Mayor



**DANILO F. AGSALOG**  
Director

**MARK R. WALKER**  
DEPUTY DIRECTOR

COUNTY OF MAUI  
**DEPARTMENT OF FINANCE**  
200 S. HIGH STREET  
WAILUKU, MAUI, HAWAII 96793

January 27, 2017

Mr. Blake S. Isobe  
N&K CPAs Inc.  
1001 Bishop Street, Suite 1700  
Honolulu, Hawai'i 96813

**SUBJECT: SINGLE AUDIT FINDINGS - CORRECTIVE ACTION PLAN FOR  
THE FISCAL YEAR ENDED JUNE 30, 2016**

Dear Mr. Isobe:

The County of Maui appreciates that the Comprehensive Annual Financial Report audits often identify opportunities for improving operations and governance. Attached is our Corrective Action Plan in response to the Single Audit Findings for the fiscal year ended June 30, 2016. It is our goal that every audit have a positive result and that our response to findings and recommendations allow us to take positive action and to improve our operations.

Thank you for the opportunity to respond to your recommendations toward improving operations and governance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Danilo F. Agsalog", is written over a light blue rectangular background.

**DANILO F. AGSALOG**  
Director of Finance

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.  
No. Internal Control Findings**

**2016-001 Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency**

**Recommendation**

Adequate internal controls should be maintained to ensure that vacation and sick leave records are accurately documented, calculated, and recorded in the County of Maui's general ledger. Evidence of the submission and review of the 'Application for Leave (DF-2) form' for the County of Maui, or 'Application for Leave (DF-1) form' for the Department of Water Supply (DWS), should be documented through signatures of both the employee taking leave and an appropriate approver.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the recommendation.

In June 2014, the County's Department of Finance established a policy manual outlining standard payroll procedures and internal controls in its effort to address the audit finding for the fiscal year ended June 30, 2013. This policy is applicable to all County departments including the Department of Water Supply. The Department of Finance has been continuing its effort to train and periodically remind the departments' ADP e-Time users regarding the payroll process and procedures by conducting a SuperUser Meeting on a quarterly basis. On March 7, 2015, a memo from the Finance Director was sent out to all County employees reminding them of the County's Payroll Policies and Procedures relating to the submission, review, and approval of timesheets. Additionally, the Department of Finance conducted an internal audit in May 2016 to test if all County departments' (except for the agencies under the legislative branch) are following the internal controls over submission, review, and approval of employee time cards. The result of the internal review was discussed during the SuperUser Meeting scheduled in December 2016.

The effectiveness of internal controls over submission, review, and approval of employee timecards relies heavily on the departments' management to ensure that all of their employees follow the policies and procedures and their administrative, authorized, and/or appropriate staff are monitoring the accuracy of these payroll processes. The Department of Finance will continue to conduct its quarterly SuperUser Meeting, communicate the importance of these key payroll policies to the new and existing employees, and complete an internal payroll audit at least once a year.

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings (Continued)**

**2016-001**    **Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency**

***End Date:*** Ongoing

***Responding Person(s):*** Ortaine Acidera, Acting Assistant Accounting System Administrator  
Department of Finance  
Phone No. (808) 270-7497

Danielle Navarro, Payroll Manager  
Department of Finance  
Phone No. (808) 270-7499

Holly Ho, Fiscal Officer  
Department of Water Supply  
Phone No. (808) 270-7303

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-002    Accounting for Construction in Progress - Significant Deficiency**

**Recommendation**

The DWS should establish formal procedures to ensure that construction work in progress and projects placed in service are communicated timely by project engineers to the fiscal staff in order to properly capitalize and depreciate those assets in the appropriate accounting period. The DWS should also establish procedures to maintain and reconcile the construction in progress schedule throughout the year. These procedures will also assist the DWS in completing the schedules required to timely close and prepare the County's comprehensive financial report.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with this finding. Management believes that it has implemented and monitored policies and procedures and has performed periodic reviews of the construction in progress schedule. The maintenance and reconciliation of the construction in progress schedule throughout the year takes an enormous amount of effort and the Department of Water Supply was short staffed. Construction work in progress and projects placed in service are now communicated to the appropriate fiscal office staff in a timely manner.

***End Date:*** Procedures have been in place

***Responding Person(s):*** Holly Ho, Fiscal Officer  
Department of Water Supply  
Phone No. (808) 270-7303

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**      **Internal Control Findings**

**2016-003   Internal Controls Over Automated Payroll Processing System - Significant Deficiency**

**Recommendation**

The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the recommendation. Similar to the response to audit finding no. 2016-001 above, in an effort to establish a more uniform system of internal controls over the submission, review, and approval of employee time records, the County's Department of Finance has established a policy manual outlining standard payroll procedures and internal controls in June 2014. The Department of Finance has been continuing its effort to train and periodically remind the departments' ADP e-Time users regarding the payroll process and procedures by conducting a SuperUser Meeting on a quarterly basis. On March 7, 2015, a memo from the Finance Director was sent out to all County employees reminding them of the County's Payroll Policies and Procedures relating to the submission, review, and approval of timesheets. Additionally, the Department of Finance conducted an internal review in May 2016 to determine if all County departments' (except for the agencies under the legislative branch) are following the policies over submission, review, and approval of employee time cards. The result of the review will be discussed in detail in the next scheduled SuperUser Meeting.

The compliance of the policies and procedures on submission, review, and approval of employee timecards relies heavily on the departments' management. The Department of Finance will continue to conduct its quarterly SuperUser Meeting, communicate the importance of these key payroll policies to the new and existing employees, and complete an internal payroll review at least once a year.

***End Date:*** Ongoing

***Responding Person(s):*** Ortaine Acidera, Acting Assistant Accounting System Administrator  
Department of Finance  
Phone No. (808) 270-7497

Danielle Navarro, Payroll Manager  
Department of Finance  
Phone No. (808) 270-7499

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-004   Internal Controls Over Procurement Process - Significant Deficiency**

**Recommendation**

Adequate internal controls should be maintained to ensure that all policies established and stated by the County of Maui Code are consistently followed and adhered to.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. The Purchasing Division did conduct training within our division to try and correct this deficiency from the previous year. As a result, Purchasing is working on a memo to improve several processes in the construction area which will be issued in the short term. It will include a requirement that all project managers and consultants preparing specifications be aware that if the estimated cost of a project is over \$500,000 there must be a pre-bid meeting. Although it is in the law, management disagrees that this finding is significant. A project dollar threshold is not entirely indicative of the complexity or risk of a contract and whether a pre-bid meeting is needed. It is our opinion that the need for a pre-bid meeting should be made on a case by case basis. However, unless the law is changed, we will take the finding seriously and make every effort to comply with the law.

***End Date:***                      Ongoing

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



**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-005    Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency**

**Recommendation**

Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. The Treasury Division will be reviewing the Cash Handling Policies and Procedures to ensure that it provides adequate internal control measures safeguarding the County's cash assets. The Treasury Division has initially engaged the Internal Control Analyst under the Department of Finance to conduct internal audit to personnel handling cash in January/February 2017 timeframe; this will also provide an opportunity for the Department of Finance to obtain an understanding on the current processes and procedures undertaken by the various departments handling cash. In addition, a Cash Overages and Shortages Policies and Procedures Manual is currently being drafted, of which will require all personnel handling cash to sign a certification that they received and understand the policies and procedures. The County of Maui is also working on the implementation of a countywide cashiering system, iNovah software; currently there are seven departments/agencies that have implemented the iNovah system since 2012. The Treasury Division has also piloted that iCapture Electronic Deposit Program in February 2016, to further simplify the receipt process for check deposits. The management has yet to determine the full implementation of the iCapture Electronic Deposit Program.

***End Date:***                            Ongoing

***Responding Person(s):*** May-Anne Alibin, Treasurer  
Department of Finance  
Phone No. (808) 270-7467

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-006**    **Timely Reconciliation of Federal and State Grant Programs - Significant Deficiency**

**Recommendation**

The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year receivables remain and continue to carry forward. The County should implement policies and procedures to complete monthly or quarterly reconciliations and monitoring of federal and state grants.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. A Grants Specialist was hired into the Office of the Mayor's Budget office on January 1, 2016. The Grants Specialist has been working diligently to resolve old grant balances and has been working with respective grant personnel in various departments to assist with the reconciliation process. Beginning in fiscal year 2017, the departments are required to submit a quarterly update of all outstanding grants in an effort to better monitor the balance, status and activities of all grants. The Grants Specialist and Finance personnel will continue to work with the respective grant managers to close old grants, resolve prior year grants receivables and perform necessary reconciliations.

***End Date:***                            Ongoing

***Responding Person(s):*** Marci Sato, Senior Budget Specialist  
Office of the Mayor  
Phone No. (808) 270-7215

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.  
No.            Internal Control Findings**

**2016-007   Logical Access & Access Security - Significant Deficiency**

**Recommendation**

We recommend that the County:

1. Establish a control process to review and confirm access rights periodically. There should be at least a semiannual review of user access.
2. Monitor vendor access into IAS.
3. Develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration.
4. Develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding.

1. Once a year, the Real Property Assessment Division (RPAD) administrator signs an official user profile list. It is on our operational schedule in January. Security user profiles are reviewed frequently. Every time an employee leaves RPAD, joins RPAD, has a change in duties, is promoted or demoted, security profiles are reviewed and updated. When updating one user, it is common to scan all profiles for possible corrections.
2. Outside vendor access into IAS is closely monitored. Offsite access to iasWorld is monitored by ITSD through BOMGAR as of September 1, 2016. Offsite outside vendors are only given security when it is necessary. First they complete their assignments in iasWorld test. When their work has been approved in test, RPAD allows them to update production. Offsite vendor access is very infrequent. If data was compromised, there is a backup and recovery program.
3. Password policies and procedures have been recently implemented, September 2016.
4. An information security policy is being developed and will be implemented as soon as the policy is completed and approved by the appropriate level of management.

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings (Continued)**

**2016-007    Logical Access & Access Security - Significant Deficiency**

***End Date:***                            September 30, 2016 and ongoing

***Responding Person(s):*** Jacob Verkerke, Chief Technology Officer  
Department of Management  
Phone No. (808) 270-7842

Marcy Martin, Property Technical Officer  
Department of Finance  
Phone No. (808) 463-3155

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-008    Backup & Recovery - Significant Deficiency**

**Recommendation**

We recommend that the County develop a formal backup and restore policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. The Backup Policy was published on July 1, 2016.

***End Date:***                            July 1, 2016 and ongoing

***Responding Person(s):*** Jacob Verkerke, Chief Technology Officer  
Department of Management  
Phone No. (808) 270-7842

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-009    Information Technology (IT) Governance - Significant Deficiency**

**Recommendation**

We recommend that the County hold formal steering committee meetings and complete IT Risk Assessment.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. The IT Governance function is currently being implemented. A cyber security assessment is being performed annually since FY2015.

***End Date:***                    Ongoing

***Responding Person(s):*** Jacob Verkerke, Chief Technology Officer  
Department of Management  
Phone No. (808) 270-7842

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**            **Internal Control Findings**

**2016-010    Prior Period Adjustment - Significant Deficiency**

**Recommendation**

Management should identify significant nonroutine accounting transactions and new accounting pronouncements and ensure that a process is established in which management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and timely review of the transactions being posted.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. The prior period adjustment was required due to the new Governmental Accounting Standards Board (GASB) Statement No. 68 - Accounting and Financial Reporting for Pensions.

The County of Maui strives for financial reports that are both transparent and accurate. The County of Maui believes that it had dedicated extensive time and resources towards the understanding and preparation of GASB Statement No. 68 reporting requirements. The journal entries relating to GASB Statement No. 68 is highly complex and thus, the County of Maui works collaboratively with the external auditors to ensure that the County of Maui meets the reporting requirements for accounting standard changes.

The County will work on documenting procedures related to the implementation of this new standard and will strive to get outside professional training and assistance to ensure this standard is correctly reflected in all future Financial Statements.

The County appreciates the efforts, assistance and recommendations of the external auditors. The County is committed to ongoing quality improvement and will strive to provide adequate staff training, seek professional technical guidance to ensure accurate and timing preparation, review and reporting of the Financial Statements.

***End Date:***                            June 30, 2016 and ongoing

***Responding Person(s):*** Steve Tesoro, Accounting System Administrator  
Department of Finance  
Phone No. (808) 270-7503

Ortaine Acidera, Acting Assistant Accounting System Administrator  
Department of Finance  
Phone No. (808) 270-7497

**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**      **Internal Control over Compliance Findings**

**2016-011    Review of Subrecipient Single Audits - Significant Deficiency**

**Federal agency:**    Department of Housing and Urban Development  
**CFDA No:**            14.228/14.219  
**Program:**            Community Development Block Grants (CDBG) - State's Program  
                                 and Non-Entitlement Grants in Hawaii/Small Cities Program

**Recommendation:**

We recommend the County create and document a process to comply with the subrecipient monitoring compliance requirement of the Uniform Guidance to annually verify that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year complete and submit a Single Audit report.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with the finding. CDBG will include the audit recommendation into the CDBG Program Operations Manual to ensure subrecipient's compliance with the requirement of the Uniform Guidance.

***End Date:***                    Ongoing

***Responding Person(s):*** Joe Pontanilla, CDBG Director  
                                 Office of the Mayor  
                                 Phone No. (808) 270-7213



**County of Maui  
State of Hawai'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2016**

**Ref.**  
**No.**      **Internal Control over Compliance Findings**

**2016-012    Completeness of Federal Expenditures Reported - Significant Deficiency**

**Federal agency:**    Environmental Protection Agency  
**CFDA No:**            66.468  
**Program:**            Capitalization Grants for Drinking Water State Revolving Funds

**Recommendation:**

The DWS should ensure that proper accounting procedures are being adhered to by all personnel involved in the financial reporting process to ensure expenditures are reported in the proper period.

***Views of Responsible Officials and Planned Corrective Action***

Management concurs with this finding. The DWS has discussed proper accounting procedures with all personnel involved in the financial reporting process to ensure expenditures are reported in the proper period. Management has also reassigned Wellhead Protection Program financial reporting responsibilities to higher level staff.

***End Date:*** Ongoing

***Responding Person(s):*** Holly Ho, Fiscal Officer  
Department of Water Supply  
Phone No. (808) 270-7303

**PART V**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**County of Maui  
State of Hawai'i  
STATUS REPORT  
Fiscal Year Ended June 30, 2016**

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2015, dated February 12, 2016.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Recommendations</u>	<u>Status</u>
<p><b>2015-001 Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency</b></p> <p>Adequate internal controls should be maintained to ensure that vacation and sick leave records are accurately documented, calculated, and recorded in the County of Maui's general ledger. Evidence of the submission and review of the 'Application for Leave (DF-2) form' for the County of Maui, or 'Application for Leave (DF-1) form' for the Department of Water Supply (DWS), should be documented through signatures of both the employee taking leave and an appropriate approver.</p>	<p>Not accomplished. Refer to finding 2016-001.</p>
<p><b>2015-002 Accounting for Construction in Progress - Significant Deficiency</b></p> <p>The County and the DWS should establish formal procedures to ensure that construction work in progress and projects placed in service are communicated timely by project engineers to the fiscal staff in order to properly capitalize and depreciate those assets in the appropriate accounting period. The County should also establish procedures to maintain and reconcile the construction in progress schedule throughout the year. These procedures will also assist the County in completing the schedules required to timely close and prepare the County's comprehensive financial report.</p>	<p>Partially accomplished. Refer to finding 2016-002.</p>
<p><b>2015-003 Internal Controls Over Automated Payroll Processing System - Significant Deficiency</b></p> <p>The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.</p>	<p>Not accomplished. Refer to finding 2016-003.</p>

**County of Maui  
State of Hawai'i  
STATUS REPORT (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

<u>Recommendations</u>	<u>Status</u>
<p><b>2015-004 Internal Controls Over pCard Purchases - Significant Deficiency</b></p> <p>Adequate internal controls should be maintained to ensure that pCard transactions are properly documented, reviewed, and 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 approver.</p>	Accomplished.
<p><b>2015-005 Internal Controls Over Procurement Process</b></p> <p>Adequate internal controls should be maintained to ensure that all policies established and stated by the County of Maui Code are consistently followed and adhered to.</p>	Not accomplished. Refer to finding 2016-004.
<p><b>2015-006 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency</b></p> <p>Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.</p>	Not accomplished. Refer to finding 2016-005.
<p><b>2015-007 Timely Reconciliation of Federal and State Grant Programs - Significant Deficiency</b></p> <p>The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year receivables remain and continue to carry forward as there is no specific federal program compliance officer and compliance responsibilities are being handled at the departmental level. The County should implement policies and procedures to complete monthly or quarterly reconciliations and monitoring of federal and state grants.</p>	Partially accomplished. Refer to finding 2016-006.

**County of Maui  
State of Hawai'i  
STATUS REPORT (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

<u>Recommendations</u>	<u>Status</u>
<p><b>2015-008 Logical Access &amp; Access Security - Significant Deficiency</b></p> <p>We recommend that the County establish a control process in place to review and confirm access rights periodically with at least a semiannual review of user access. The review should include a report which includes a list of users and the security role assignments, department and accounts should be generated. These reports should be forwarded to the respective departments for review, with each department head noting any discrepancies. These updated lists should be sent to Finance for approval, and all changes should be documented by completion of a Network Access Security Form. The County should also monitor vendor access into IAS, develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration. Lastly, the County should develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.</p>	<p>Partially accomplished. Refer to finding 2016-007.</p>
<p><b>2015-009 Backup &amp; Recovery - Significant Deficiency</b></p> <p>We recommend that the County develop a formal backup and restore policy, have the policy approved by the appropriate level of management and communicate the policy to employees. Additionally, the County should perform formal system restoration testing.</p>	<p>Partially accomplished. Refer to finding 2016-008.</p>
<p><b>2015-010 Information Technology (IT) Governance - Significant Deficiency</b></p> <p>We recommend that the County hold formal steering committee meetings and complete an IT Risk Assessment and fraud related assessment.</p>	<p>Partially accomplished. Refer to finding 2016-009.</p>

**County of Maui  
State of Hawai'i  
STATUS REPORT (Continued)  
Fiscal Year Ended June 30, 2016**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

<u>Recommendations</u>	<u>Status</u>
<p><b>2015-011 Centralized Position to Monitor Federal Program Compliance - Significant Deficiency</b></p> <p>The County should establish a centralized position charged with overseeing the County's compliance with federal award program requirements. That centralized position would coordinate with the departmental program managers to ensure that the County is complying with federal program requirements.</p>	<p>Accomplished.</p>
<p><b>2015-012 Completeness and Accuracy of the Financial Data Schedule - Material Weakness</b></p> <p>The DHHC should hire, train, and maintain knowledgeable personnel in the Section 8 HCV Program to comply with the Uniform Financial Reporting Standards (24 CFR section 5.801) requirement of the program and timely reconcile financial reports to the general ledger accounting system on a consistent basis.</p> <p>Controls over financial reporting ensure that timely and accurate reconciliations are consistently performed and supporting documentation is maintained.</p>	<p>Accomplished.</p>