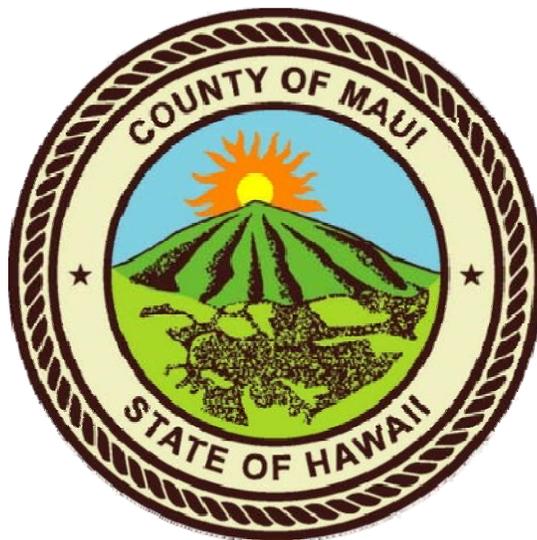


MANAGEMENT ADVISORY REPORT

County of Maui, Hawai'i



**For the Fiscal Year Ended
June 30, 2016**

COUNTY OF MAUI

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

In planning and performing our audit of the financial statements of the County of Maui, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our findings and recommendations regarding these matters. We previously communicated to you about the County's internal control in our report dated December 13, 2016. This letter does not affect our report dated December 13, 2016, on the financial statements of the County.

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

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

N&K CPAs, Inc.

Honolulu, Hawai'i
December 13, 2016

County of Maui, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016

2016-001 Improve Internal Controls Over pCard Purchases

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

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

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

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

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

Recommendation

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

Views of Responsible Officials and Planned Correction Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 7.

County of Maui, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016

2016-002 Improve Monitoring over Worker's Compensation Claims

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

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

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

In addition, some electronic claim files were incomplete and documents were obtained from the Risk Management Office rather than the vendor's scanned files. During the 2016 audit, we continued to have difficulty in locating and obtaining these forms associated with older claims.

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

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

Recommendation

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

Views of Responsible Officials and Planned Correction Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 8.

CORRECTIVE ACTION PLAN

**County of Maui, Hawaii
Management Advisory Report
Current Findings and Recommendations - Corrective Action Plan
Fiscal Year Ended June 30, 2016**

2016-001 Improve Internal Controls Over pCard Purchases

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding, however the Purchasing Division began a new and separate signature log system dedicated specifically for pCard transactions prior to the end of fiscal year 2016. In our opinion, this new and separate signature log should be noted in the current finding. After working with all the departments, the new log system is complete. In addition, based on preliminary recommendations from the County Auditor, the Purchasing Division has taken other steps to improve the pCard program including:

1. Archiving old data so it can be reviewed at any time.
2. Reviewing and cutting monthly expenditure limits for pCards wherever possible.
3. Insuring that all of our cardholder agreements are up to date.

The Purchasing Division is continuing to work on improving the pCard program, and our current focus is on developing an annual web based refresher training program. In the future we will be working on other preliminary and final audit recommendations from the County Auditor.

End Date: Ongoing

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

**County of Maui, Hawaii
Management Advisory Report
Current Findings and Recommendations - Corrective Action Plan
Fiscal Year Ended June 30, 2016**

2016-002 Improve Monitoring over Worker's Compensation Claims

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation. The TPA relationship is managed by the County's Risk Management Officer (RMO), who was involved in and oversaw the transition of TPAs beginning in March 2015. With the transition complete, RMO remains involved in the current TPA's day-to-day activities, responding to inquiries from claims adjusters, and working closely with TPA's WC team leader and account executive to address procedural or other matters requiring decision. Matters that cannot be resolved at the RMO level are escalated to the deputy corporation counsel assigned to workers compensation or the department head. From a document maintenance standpoint, the current TPA continues its effort to itemize batches of unindexed documents received in the transition period, and to update claims files in its client portal, viaOne. Meanwhile, WC documents are also being stored by Risk Management Division personnel in Legal Files, a department-wide database/filing system that was implemented in or around November 2014.

End Date: Ongoing

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

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Maui, 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 management advisory report for the fiscal year ended June 30, 2015, dated February 11, 2016.

<u>Recommendations</u>	<u>Status</u>
<p>2015-001 IMPROVE INTERNAL CONTROLS OVER PCARD PURCHASES (page 4)</p> <p>Adequate internal controls should be maintained to ensure that pCard transactions are properly approved. Evidence of submission and review of the pCard transaction log should be documented through signatures of both the employee making the purchase and an appropriate documented approver.</p>	<p>Not accomplished. Refer to current year finding 2016-001.</p>
<p>2015-002 IMPROVE MONITORING OVER WORKER'S COMPENSATION CLAIMS (page 5)</p> <p>When using a third-party vendor to support County functions, the County's Risk Management Department should assign an individual with appropriate oversight to manage the relationship. This includes maintaining frequent contact with key vendor personnel, following up on unusual items, resolving issues in a timely manner, and reporting any issues to the County.</p>	<p>Not accomplished. Refer to current year finding 2016-002.</p>