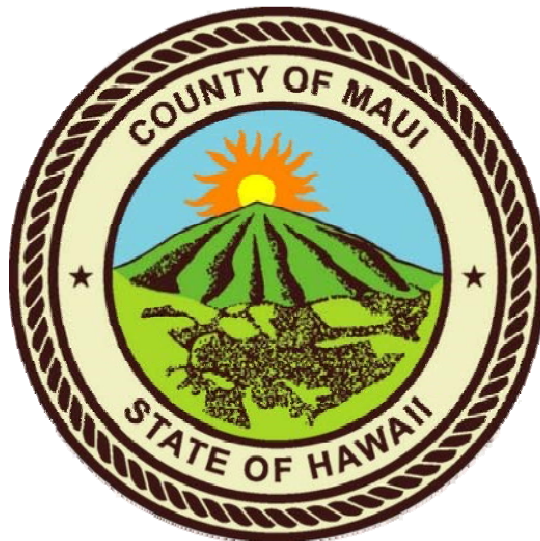


COUNTY OF MAUI

STATE OF HAWAII



SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

January 25, 2018

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, 2017. 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, 2017, 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 federal 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, 2017.

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.

Handwritten signature in black ink that reads "N&K CPAs, INC." in a stylized, cursive font.

Dwayne S. Takeno
Principal

COUNTY OF MAUI, HAWAII

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PART I

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the 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, 2017, 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, 2017.

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 2017-001 through 2017-005 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, 2017.

The County's Response to Findings

The County's response to the findings identified in our audit are 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, 2017

PART II

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

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

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, 2017. 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, 2017.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2017, 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, 2017, 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 25, 2018

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PROGRAMS				
Retired Senior Volunteer Program			\$ (1,730)	\$ --
Retired Senior Volunteer Program			57,495	--
Retired Senior Volunteer Program			<u>14,975</u>	<u>--</u>
Total Retired and Senior Volunteer Program	94.002		<u>70,740</u>	<u>--</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PROGRAMS			<u>70,740</u>	<u>--</u>
DEPARTMENT OF AGRICULTURE PROGRAMS				
Pass-through State - Summer Food Service Program for Children:				
Play and Learn Sessions (PALS)	10.559	15157HIH3N1099	<u>75,216</u>	<u>--</u>
Pass-through State - Cooperative Forestry Assistance:				
Volunteer Fire Assistance DLNR10		09-DG-11052012-2557/09-	180	--
Volunteer Fire Assistance DLNR11		10-DG-11052012-082	1,432	--
Olowalu Fire Brk Comp Wui		15-DG-11052012-133	<u>1,973</u>	<u>--</u>
Total Cooperative Forestry Assistance	10.664		<u>3,585</u>	<u>--</u>
TOTAL DEPARTMENT OF AGRICULTURE PROGRAMS			<u>78,801</u>	<u>--</u>
DEPARTMENT OF COMMERCE PROGRAMS				
Pass-through State - Coastal Zone Management Administration Awards:				
Coastal Zone Management FY16		NA15NOS4190105	144,332	--
Coastal Zone Management FY17		NA16NOS4190093	<u>218,498</u>	<u>--</u>
Total Coastal Zone Management Administration Awards	11.419		<u>362,830</u>	<u>--</u>
TOTAL DEPARTMENT OF COMMERCE PROGRAMS			<u>362,830</u>	<u>--</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS				
Pass-through State - Special Programs for the Aging Title III, Part B:				
Grants for Supportive Services and Senior Centers:				
Aging Title III DHHS FY12		MA201203	486	--
Aging Title III Programs		MA201303	659	--
Aging Title III Programs		MA201503	10,388	--
Aging Title III Programs		MA2016N03	221,272	--
Aging Title III Programs		MA2016N03	<u>253,860</u>	<u>--</u>
Total Special Programs for the Aging Title III, Part B, Grants for Supportive Services Senior Centers	93.044		<u>486,665</u>	<u>--</u>
Pass-through State - Special Programs for the Aging Title IV and Title II Discretionary Projects:				
Aging/Disability Resource Center	93.048	MA-ADRCHD-2010-N	<u>630</u>	<u>--</u>
Pass-through State - Substance Abuse and Mental Health Services Projects of Regional and National Significance:				
Strategic Prevention Framework	93.243	2016D-PFSHTH	<u>48,827</u>	<u>27,388</u>
Affordable Care Act (ACA) - Consumer Assistance Program Grants:				
Care Transitions Program	93.519		<u>\$ 5,838</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, 2017

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS (Continued)				
Pass-through State - Childcare and Development Block Grant:				
Childcare Development	93.575	DHS02-BESSD1184	\$ (48,273)	\$ --
Pass-through State - ARRA Communities Putting Prevention to Work:				
Chronic Disease Self-Management Program:				
Healthy Aging Partnership		MA-ARRA-CDSMP-10-N	511	--
Healthy Aging Partnership		MA-ARRA-CDSMP-10-N	2,260	--
Total Healthy Aging Partnership	93.725		2,771	--
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS			496,458	27,388
EXECUTIVE OFFICE OF THE PRESIDENT PROGRAMS				
High Intensity Drug Trafficking Areas Program:				
High Intensity Drug Trafficking Areas			30,869	--
High Intensity Drug Trafficking Areas			112,520	--
Total High Intensity Drug Trafficking Areas Program	95.001		143,389	--
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT PROGRAMS			143,389	--
DEPARTMENT OF JUSTICE PROGRAMS				
Drug Enforcement Administration (DEA):				
Drug Enforcement Agency			62,945	--
Marijuana Eradication			5,932	--
Asset Forfeitures Program			38,844	--
Federal Justice Police Forfeitures			238,867	--
Total Drug Enforcement Administration	16.000		346,588	--
Juvenile Justice and Delinquency Prevention Allocation to States:				
Positive Outreach Intervention			74,615	--
Positive Outreach Intervention			1,218	--
Total Juvenile Justice and Delinquency Prevention	16.540		75,833	--
Pass-through State - Crime Victim Assistance:				
Special Needs Advocacy Program		13-VA-01	3,208	--
Special Needs Advocacy Program		14-VA-01	303,583	69,884
Special Needs Advocacy Program Supplemental		15-VA-01	78,768	33,149
Total Crime Victim Assistance	16.575		385,559	103,033
Pass-through State - Violence Against Women Formula Grants:				
Violence Against Women Act		12-WF-12	8,884	--
Domestic Violence Strangulation		13-WF-06	29,507	--
Sex Assault		14-WF-06	30,484	--
Domestic Violence Investigation		14-WF-02	53,382	--
Total Violence Against Women Formula Grants	16.588		122,257	--
Edward Byrne Memorial Justice Assistance Grant Program:				
E. Byrne Memorial JAG			78,309	--
Hawaii Narcotics Task Force			24,984	--
Statewide Marijuana Eradication			\$ 34,378	\$ --

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, 2017

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF JUSTICE PROGRAMS (Continued)				
Body Worn Camera Implementation Project			\$ 101,982	\$ --
Hawaii Narcotics Task Force			8,939	--
Statewide Marijuana Eradication			1,080	--
Total Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>249,672</u>	<u>--</u>
Paul Coverdell Forensic Sciences Improvement Grant Program:				
Hawaii Integrated Justice IS Program	16.742		7,410	--
Other Federal Awards:				
Marijuana Eradication DEA 2002	16.999		1,035	--
TOTAL DEPARTMENT OF JUSTICE PROGRAMS			<u>1,188,354</u>	<u>103,033</u>
ENVIRONMENTAL PROTECTION AGENCY PROGRAMS				
Pass-through State - Water Pollution Control Program:				
Lah Watershed Eis USDA NRCS	66.419	6592517780	(8,156)	--
Pass-through State - Capitalization Grants for Drinking Water State Revolving Funds:				
Wailuku Well Development Project		DW212-0009LOG#14-191	102,843	--
Phase 6 Booster Pump Upgrades		DW215-0009	746,780	--
Iao Water Treatment Facility Replacement		DW212-0015	4,143,659	--
Total Capitalization Grants for Drinking Water State Revolving Funds	66.468		<u>4,993,282</u>	<u>--</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY PROGRAMS			<u>4,985,126</u>	<u>--</u>
DEPARTMENT OF TRANSPORTATION PROGRAMS				
Pass-through State - Highway Planning and Construction:				
FHWA Projects State Reviews		FHWA CENG	69,908	--
FHWA Various Projects County		FHWA CENG	137,146	--
Waiohoku Bridge Replacement		STP0900(68)	(476)	--
Lahaina Watershed Project Diversification		STP-0900(077)	153	--
Makani Road Resurfacing /Haleakala		STP-3630(1)	(4,988)	--
Lono Avenue Pavement Rehabilitation Phase 2		STO-3950(007)	120,071	--
Pukalani Street Pavement		STP-3620(001)	(1,639)	--
Baldwin Avenue Resurfacing		STP-0390(001)	239,626	--
Papa Avenue Pavement Rehabilitation		STP-3910(001)	512,881	--
Hansen Road Pavement Reconstruction		STP-3600(001)	122,692	--
Bridge Inspection Program		BR-NBIS(062)	119,030	--
Lono Avenue Pavement Rehabilitation Phase 2		STP-3950(008)	129,329	--
Kokomo Road Pavement Reconstruction		STP-0366(001)	223,497	--
Wailea Alanui/Ike Drive Pavement		STP-0900(084)	378,736	--
Old Haleakala Hwy Pavement Rehabilitation		STP-0900(084)	4,320,584	--
Kihei Bikeway Phase 2		STP-3115(003)	366,505	--
Kuikahi Drive Pavement Rehabilitation		STP-3210(001)-24	133,326	--
Baldwin Avenue Pavement Rehabilitation Phase 2		STP-0390(002)24	1,190,413	--
Total Highway Planning and Construction	20.205		<u>8,056,794</u>	<u>--</u>
Pass-through Bus and Bus Facilities Formula Program:				
FTA SEC 5339 Bus / Bus Fac Form	20.526	HI-34-0001HI-2016-002-00	\$ 70,528	\$ --

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, 2017

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF TRANSPORTATION PROGRAMS (Continued)				
Pass-through UMTA Technical Studies:				
FTA SEC 5305 Metropolitan Transit	20.505	49 USC SEC5305(D)	\$ 143,542	\$ --
Pass-through State - Formula Grants for Rural Areas:				
FTA Rural Transit Assistance FFY12		HI-18-X028	(868)	--
FTA SEC 5311 Non-Urbanized Area		HI-18-X030	95,718	--
FTA SEC 5311 Non-Urbanized		HI-18-X032	522,101	--
Total Formula Grants for Rural Areas	20.509		616,951	--
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
FTA Planning Program 5305(e)	20.515	HI-80-0019	(1,543)	--
Highway Safety Cluster				
Pass-through State - State and Community Highway Safety:				
MFD Equipment Purchase EMO1-04		EM01-04(02-M-01)	163	--
MFD Equipment Purchase CPS Program		EM03-04(02-M-01)	(77)	--
Highway Safety Grant		AL15-02(05-M-01)	574	--
MPD Traffic Data Records		TR16-03(05-M-01)	7,607	--
MPD Speed Enforcement		SC16-06(01-M-03)	35,005	--
MPD Roadblock Program		AL16-02(01-M-03)	147,776	--
Distracted Driving Enforcement		DD16-10(03-M-01)	2,740	--
MPD Child Restraint Program		OP16-05(03-M-01)	10,324	--
Highway Safety/Impaired Driving		AL16-02(05-M-01)	6,197	--
Highway Safety/Traffic Records		TR16-03(10-M-01)	5,938	--
MPD Traffic Services		PT17-01(03-M-01)	34,269	--
MPD Traffic Data Records		TR17-03(05-M-01)	18,353	--
MPD Speed Enforcement		SC17-06(01-M-03)	92,626	--
Distracted Driving Enforcement		DD17-10(03-M-01)	21,601	--
MPD Seatbelt Program		OP17-05(01-M-03)	31,914	--
Total State and Community Highway Safety	20.600		415,010	--
Pass-through State - National Priority Safety Programs:				
MPD Seat Belt Program		OP16-05(01-M-03)	11,457	--
MPD Roadblock Program		AL17-02(01-M-03)	169,038	--
MPD Child Restraint Program		OP17-05(03-M-01)	15,585	--
DPA 2017 Traffic Records		TR17-03(10-M-01)	227	--
Maui Prosecutors Office		AL17-02(05-M-01)	6,923	--
Total National Priority Safety Programs	20.616		203,230	--
Total Highway Safety Cluster			618,240	--
Pass-through State - Interagency Hazardous Materials Public Sector				
Training and Planning Grants:				
Hazardous materials (HMEP) Grant 11	20.703	HM HMP-0164-10-01-00	(2,832)	--
TOTAL DEPARTMENT OF TRANSPORTATION PROGRAMS			\$ 9,501,680	\$ --

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, 2017

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL EMERGENCY MANAGEMENT AGENCY PROGRAMS				
Project Impact - Building Disaster Resistant Communities	83.551		\$ (13,279)	\$ --
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY PROGRAMS			<u>(13,279)</u>	<u>--</u>
DEPARTMENT OF HOMELAND SECURITY PROGRAMS				
Pass-through State - Emergency Management Institute Training Assistance:				
FEMA Fire Training Funds	97.026	11-106-036	3,746	--
Disaster Grants - Public Assistance (Presidentially Declared Disasters):				
2016 Hawaii Severe Storms	97.036		2,576,839	--
Emergency Management Performance Grants	97.042		99,981	--
Assistance to Firefighters Grant:				
Wellness/Fitness Fire Account Grant			(3,000)	--
Fire Safety HSE			3,452	--
Fire Inoperability Grant			96	--
Total Assistance to Firefighters Grant	97.044		548	--
Homeland Security Grant Program:				
State Homeland Security			274,644	--
State Homeland Security			492,442	--
State Homeland Security			19,308	--
Total Homeland Security Grant Program	97.067		786,394	--
TOTAL DEPARTMENT OF HOMELAND SECURITY PROGRAMS			<u>3,467,508</u>	<u>--</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS				
Community Development Block Grants / Small Cities Program:				
lao House Rehabilitation			5,222	5,222
Women Helping Women Domestic Violence			128,226	128,226
Women Helping Women Emergency Shelter Rehabilitation			72,431	72,431
Khako Renewal Project PH-1			88,403	88,403
Total Community Development Block Grants / Small Cities Program	14.219		294,282	294,282
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii:				
lao House Rehabilitation			1,707	1,707
CDBG Program Admin FY14			5	--
lao House Rehabilitation			17,500	17,500
lao House Rehabilitation			21,800	21,800
Ho'olehua Pumper			898,448	--
lao House Rehabilitation			47,959	47,959
Women Helping Women Emergency Shelter Rehabilitation			85,469	85,469
CDBG Program Admin FY16			17,390	--
MEO Molokai Shuttle Service Bus B			130,936	130,936
MEO Molokai Shuttle Service Bus A			118,579	118,579
CDBG Program Admin FY17			326,697	--
Total Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228		<u>\$ 1,666,490</u>	<u>\$ 423,950</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, 2017**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS (Continued)				
Pass-through State - Home Investment Partnerships Program:				
Home FFY14 Kulamalu Reprg		HOME FFY14	\$ 21,161	\$ --
Home FFY14 Administration		M-2014-MAUI ADMIN	45,452	--
Home FFY14 Kulamalu AH Project		M-2014-MAUI KULAMALU	1,920,093	--
Total Home Investment Partnership Program	14.239		<u>1,986,706</u>	<u>--</u>
Section 8 Housing Choice Vouchers:				
Section 8 Housing Voucher FY2016			176,703	--
Section 8 Housing Admin FY2016			157	--
Section 8 Housing Voucher FY2017			18,094,383	--
Section 8 Housing Admin FY2017			1,366,150	--
Section 8 Family Self-Sufficient			5,753	--
Section 8 Housing Assistance Payments (HAP)			6,670	--
Total Section 8 Housing Choice Vouchers	14.871		<u>19,649,816</u>	<u>--</u>
Family Self-Sufficiency Program:				
FSS Coordinator Grant	14.896		<u>15,664</u>	<u>--</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS			<u>23,612,958</u>	<u>718,232</u>
DEPARTMENT OF THE INTERIOR PROGRAMS				
Pass-through State - Historic Preservation Fund Grants-In-Aid:				
Certified Local Government Program	15.904	P13AF00183	<u>8,677</u>	<u>--</u>
TOTAL DEPARTMENT OF THE INTERIOR PROGRAMS			<u>8,677</u>	<u>--</u>
DEPARTMENT OF LABOR PROGRAMS				
Pass-through State - Workforce Investment Act:				
WIOA Admin PY2015		WIOA-15-LAC-M	4,446	--
WIOA Admin PY2016		WIOA-16-LAC-M6/30/2018	43,059	--
Total Workforce Investment Act	17.000		<u>47,505</u>	<u>--</u>
WIOA Cluster				
Pass-through State - WIOA Adult Program:				
Workforce Investment Act Adult		WIA-13-AP-M	1,300	--
Workforce Investment Act Adult		WIA-14-AP-M	8	--
WIOA Adult & Dislocated Worker		WIOA-15-A&DWP-M	311,141	--
Total WIOA Adult Program	17.258		<u>312,449</u>	<u>--</u>
Pass-through State - WIOA Youth Activities:				
Workforce Innovation Opportunity		WIOA-15-YPM	159,025	--
Total WIOA Youth Activities	17.259		<u>159,025</u>	<u>--</u>
Total WIOA Cluster			<u>471,474</u>	<u>--</u>
Pass-through State - WIA Dislocated Workers:				
Workforce Investment Act DWP		WIA-14-DWP-M	(6,755)	--
Total WIA Dislocated Workers	17.260		<u>(6,755)</u>	<u>--</u>
TOTAL DEPARTMENT OF LABOR PROGRAMS			<u>512,224</u>	<u>--</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 44,415,466</u>	<u>\$ 848,653</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, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activities of the County under programs of the federal government for the fiscal year ended June 30, 2017. 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, it is not intended to, and does not present the financial position, changes in financial position, or cash flows of the County.

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 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, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor 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

14.228

Community Development Block Grants/State's Program and Non Entitlement Grants in Hawaii

14.239

HOME Investment Partnerships Program

14.871

Section 8 Housing Choice Vouchers

66.468

Capitalization Grants for Drinking Water State Revolving Funds

97.036

Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

\$1,332,464

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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.

No. **Internal Control Findings**

2017-001 **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 was one (1) sample totaling four (4) instances where an 'Application for Leave (DF-2) form' could not be located for the leave taken by the employee.

DWS:

- There was one (1) sample totaling one (1) instance where an 'Application for Leave (DF-1) form' could not be located for the leave taken by the employee.

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 2016-001 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, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. Internal Control Findings

2017-001 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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2017-002 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:

- One instance (out of 40 samples) where an electronic 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'.

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.

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. Internal Control Findings

2017-002 Internal Controls Over Automated Payroll Processing System - Significant Deficiency (Continued)

Identification as a Repeat Finding, if applicable:

See finding 2016-003 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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2017-003 Internal Controls Over Procurement Process - Significant Deficiency

Criteria: Under Hawai'i Revised Statutes section 103D-306, a contract may be awarded for goods, services, or construction without competition when the head of a purchasing agency determines in writing that there is only one source for the required good, service, or construction, the determination is reviewed and approved by the chief procurement officer, the written determination is posted in the manner described in rules adopted by the policy board, and no objection is outstanding. The written determination, any objection, and a written summary of the disposition of any objection shall be included in the contract file.

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 103D as applicable, and as required by law. During our current year audit, we noted the following:

- There was one (1) instance where a sole source contract was awarded to a vendor for services that did not meet the above criteria for sole source procurement due to the nature of the services being provided. Instead, the contract should have been awarded following the competitive sealed bidding or competitive sealed proposal procurement method under HRS 103D-302 or 103D-303, respectively.

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 2016-004 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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2017-004 **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.

Effective May 15, 2017, the Department of Services Administration (DSA) formally documented and approved the DSA Internal Guidelines on Cash Handling Procedures. During our audit for the period May 15, 2017 through June 30, 2017, we noted that there were three out of five instances in which the verifier signatures were still missing.

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

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 2016-005 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, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2017-005 CC&B Logical Access & Access Security - Significant Deficiency

Criteria: Security policies and procedures exist defining controls to ensure the integrity of data and resources of the system.

Condition: In October 2016, the Department of Water Supply (DWS) completed a conversion to its own Oracle Utilities Customer Care and Billing System (CC&B) that had previously been hosted and operated by the City and County of Honolulu - Board of Water Supply. During our audit, we noted that security administration policies and procedures related to CC&B were not formally documented upon implementation of the new system. This resulted in several deficiencies related to internal controls over CC&B, including a lack of adequate segregation of duties in assigning and modifying user access, infrequent review over user access, and weak password security.

Cause: The DWS has not formally documented security administration policies and procedures, 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.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation

We recommend the DWS develop an information security policy to establish control processes over access to CC&B, have the policy approved by the appropriate level of management and communicated to employees.

Views of Responsible Officials and Planned Corrective Action

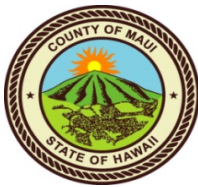
The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

PART IV
CORRECTIVE ACTION PLAN

ALAN M. ARAKAWA
Mayor



MARK R. WALKER
Director

MARCI M. SATO
Deputy Director

DEPARTMENT OF FINANCE

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

January 25, 2018

Mr. Dwayne S. Takeno
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, 2017**

Dear Mr. Takeno:

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, 2017. 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 black ink, appearing to read "Mark R. Walker".

Mark R. Walker
Director of Finance

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

**Ref.
No. Internal Control Findings**

2017-001 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 continues to conduct annual internal audits 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 findings are discussed during the SuperUser Meetings in an effort to continually train departments on payroll policies.

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. Additionally, a new payroll/hris system implementation is underway with an expectation that the system be used in a live environment at the end of calendar year 2018. This new system is expected to reduce the exceptions noted during the audit.

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

Ref.
No. **Internal Control Findings**

2017-001 **Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency (Continued)**

End Date: Ongoing

Responding Person(s): 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, 2017**

Ref.
No. **Internal Control Findings**

2017-002 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. 2017-001 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 continues to conduct annual internal audits 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 findings are discussed in detail during the SuperUser Meetings in an effort to continue department training in regards to the payroll policies.

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. Additionally, a new payroll/hris system implementation is underway with an expectation that the system be used in a live environment at the end of calendar year 2018. This new system is expected to reduce the exceptions found.

End Date: Ongoing

Responding Person(s): 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, 2017**

Ref.
No. **Internal Control Findings**

2017-003 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

The Purchasing Division of the Finance Department generally agrees with the Auditors on this finding. This procurement was prepared correctly, signed, posted, and processed in accordance to the provisions of 103D-306 (Sole Source Procurement) and the corresponding sections of the Hawaii Administrative Rules (3-122) that apply to sole source procurements. Both the department head and the Chief Procurement Officer signed off on this sole source request. Technically, there is no violation of the procurement process.

Although the paperwork submitted by the Department attested that this was a sole source, (as the only agency with trained and certified staff to administer a Substance Abuse Prevention Skills Training curriculum and to provide training to prevention providers), the Department agreed when questioned by the Auditors after the fact that they were not absolutely sure that this was a sole source.

The position of the Purchasing Division with respect to Sole Source Procurement is to try and justify the sole source with our own research whenever possible. However, there is also judgment related to the determination of whether or a not a good or service is unique. In this case, the Purchasing Division relied on the Department. The Central Purchasing Agent was on vacation when this sole source was approved, and the specific circumstances of what transpired are unknown. The Purchasing Agent was agreeable with the Auditors that this procurement should probably have been put out to bid, and that it should be written up as a finding, if for no other reason than to serve as a learning experience for Purchasing Division subordinates.

This finding is part of the Corrective Plan, and will serve as a training mechanism and a reminder of the due diligence that is required by the Purchasing Division with respect to reviewing sole source procurements above and beyond the legal requirements. Additional steps will include the non-approval of future sole sources when the Central Purchasing Agent is on vacation, until the Central Purchasing Agent is comfortable that the research and due diligence performed by the division is sufficient. The Purchasing Division is not in the position to comment on corrective action that might be required of the Department with respect to false or misleading statements in their sole source document.

Note: The finding references chapter 3.12 of the County code, and HRS Chapter 103D. The relevant law with respect to this finding is all contained in State Procurement Code Chapter 103D and corresponding administrative rules.

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

**Ref.
No.**

Internal Control Findings

**2017-003 Internal Controls Over Procurement Process - Significant Deficiency
(Continued)**

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, 2017**

Ref.
No. **Internal Control Findings**

2017-004 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

Corrective actions and procedures were put in place May 2017 by the Development Services Administration, however some anomalies were noticed during the audit. Additional procedures are currently being implemented to address and prevent the noticed issues. Procedures include having the person responsible for balancing and reconciling funds at the end of each day sign the balance sheet prior to scanning. Additionally, the DSA shall conduct an internal audit of cash handling procedures a minimum of twice a year and shall record the date and result of each audit.

End Date: Ongoing

Responding Person(s): May-Anne Alibin, Treasurer
Department of Finance
Phone No. (808) 270-7464

Lance Nakamura, Assistant Administrator
Development Services Administration
Department of Public Works

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2017**

Ref.
No. **Internal Control Findings**

2017-005 CC&B Logical Access & Access Security - Significant Deficiency

Recommendation

We recommend the DWS should develop an information security policy to establish control processes over access to CC&B, have the policy approved by the appropriate level of management and communicated to employees.

Views of Responsible Officials and Planned Corrective Action

The Department of Water concurs with the finding and will work with the County IT Department to establish processes over CC&B. We are currently looking to outsource the hosting and support services for the system.

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, 2017**

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, 2016, dated January 27, 2017.

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Recommendations</u>	<u>Status</u>
<p>2016-001 Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency</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'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 2017-001.</p>
<p>2016-002 Accounting for Construction in Progress - Significant Deficiency</p> <p>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.</p>	<p>Accomplished.</p>
<p>2016-003 Internal Controls Over Automated Payroll Processing System - Significant Deficiency</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 2017-002.</p>

**County of Maui
State of Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2016-004 Internal Controls Over Procurement Process</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>	<p>Partially accomplished. Refer to finding 2017-003.</p>
<p>2016-005 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency</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>	<p>Partially accomplished. Refer to finding 2017-004.</p>
<p>2016-006 Timely Reconciliation of Federal and State Grant Programs - Significant Deficiency</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. The County should implement policies and procedures to complete monthly or quarterly reconciliations and monitoring of federal and state grants.</p>	<p>Accomplished.</p>
<p>2016-007 Logical Access & Access Security - Significant Deficiency</p> <p>We recommend that the County establish a control process to review and confirm access rights periodically. There should be at least a semiannual review of user access. Monitor vendor access into IAS.</p> <p>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>Accomplished.</p>

**County of Maui
State of Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2016-008 Backup & Recovery - Significant Deficiency</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.</p>	Accomplished.
<p>2016-009 Information Technology (IT) Governance - Significant Deficiency</p> <p>We recommend that the County hold formal steering committee meetings and complete an IT Risk Assessment.</p>	Accomplished.
<p>2016-010 Prior Period Adjustment - Significant Deficiency</p> <p>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.</p>	Accomplished.
<p>2016-011 Review of Subrecipient Single Audits - Significant Deficiency</p> <p>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.</p>	Accomplished.
<p>2016-012 Completeness of Federal Expenditures Reported - Significant Deficiency</p> <p>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.</p>	Accomplished.