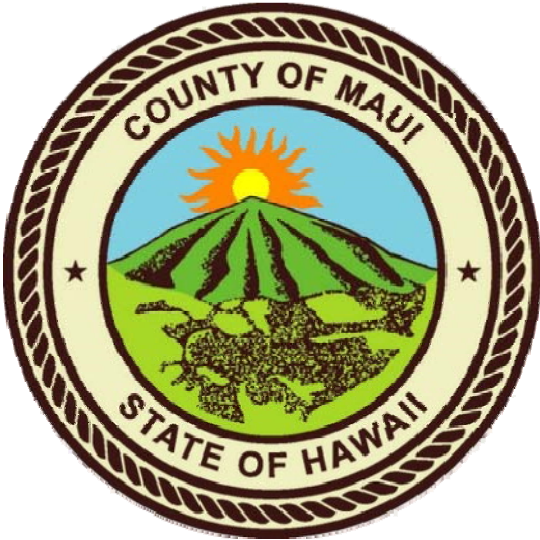


**MANAGEMENT ADVISORY
REPORT**

County of Maui, Hawai'i



**For the Fiscal Year Ended
June 30, 2017**

COUNTY OF MAUI

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To the Council Chair,
and Members of the Council
County of Maui
Wailuku, 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, 2017, 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 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.

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, 2017. This letter does not affect our report dated December 13, 2017, 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, 2017

County of Maui, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2017

2017-001 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 2017 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 6.

CORRECTIVE ACTION PLAN

County of Maui, Hawai'i
Management Advisory Report
Current Findings and Recommendations - Corrective Action Plan
Fiscal Year Ended June 30, 2017

2017-001 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 County's Risk Management Officer (RMO) has reached out to Sedgwick requesting a corrective action plan and timeline to address how the batches of records (originally received in boxes as loose paper from the former TPA) will be separated and indexed within Sedgwick's risk management information system's case files. Once the plan is received and agreed upon, RMO will work with TPA's client services manager, Kurt Sibayan, to see the effort through to completion.

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, 2017

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, 2016, dated December 13, 2016.

<u>Recommendations</u>	<u>Status</u>
<p>2016-001 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>Accomplished.</p>
<p>2016-002 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 2017-001.</p>