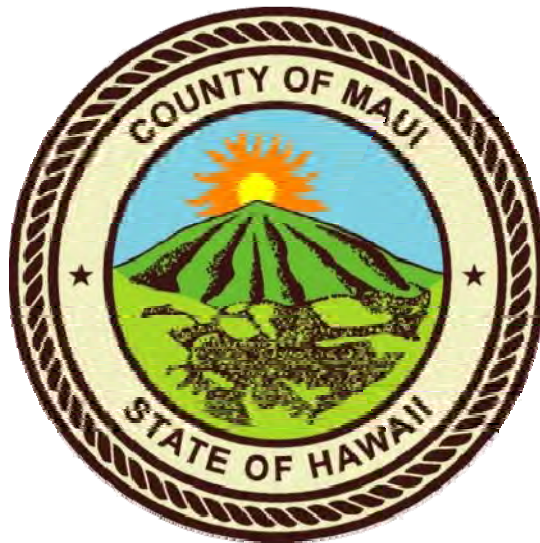


COUNTY OF MAUI

STATE OF HAWAII



SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

March 12, 2015

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 of the County of Maui, Hawai'i (the County), as of and for the fiscal year ended June 30, 2014. 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 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, 2014, and to comply with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 opinions on the fairness of the presentation of the County's financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the County is entitled have been collected and accounted for in accordance with the laws, rules and regulations, administrative directives, policies and procedures of the County, the State of Hawai'i and the federal government (where applicable).
3. To determine whether the County has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To determine whether the County has complied with the laws and regulations that may have a material effect on the financial statements and on its major federal financial assistance programs.

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 OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the County for the fiscal year ended June 30, 2014.

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 with requirements that could have a direct and material effect on each major program and on internal control over compliance, and report on the schedule of expenditures of federal awards.
- Part III - The schedule of findings and questioned costs.
- Part IV - The summary schedule of prior audit findings.
- Part V - The corrective action plan.

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, HAWAI'I

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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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 22, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-007 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-006 and 2014-008 through 2014-011 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*.

The County's Response to Findings

The County's response to the findings identified in our audit is described in Part V, Corrective Action Plan of this report. 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
January 22, 2015

PART II

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

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 Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2014. 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

The County's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 year ended June 30, 2014.

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 OMB Circular A-133, 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 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 described in the accompanying schedule of findings and questioned costs as items 2014-012 and 2014-013 that we consider to be significant deficiencies.

The County's response to the internal controls over compliance findings identified in our audit is described in Part V, Corrective Action Plan of this report. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated January 22, 2015, 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 OMB Circular A-133 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
March 12, 2015

County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Retired Senior Volunteer Program		12SRPHI0024/1/13	\$ 54,361
Retired Senior Volunteer Program		12SRPHI0024/1/14	<u>19,017</u>
Total Retired Senior Volunteer Program	94.002		<u>73,378</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>73,378</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through State:			
Supplemental Nutrition Assistance Program:			
Food Stamp Program Prosecutions	10.551	COOPERATIVE	<u>1,421</u>
Summer Food Service Program for Children:			
Play & Learn Sessions (PALS)	10.559	13137HIHI3N1099	<u>64,865</u>
Pass-through State - Cooperative Forestry Assistance:			
Volunteer Fire Assistance FY13		12-DG-11052012-156	45,578
Volunteer Fire Assistance FY14		13-DG-11052012-1027/1/1	<u>42,899</u>
Total Cooperative Forestry Assistance	10.664		<u>88,477</u>
Community Facilities Loans and Grants:			
Mitchell Pauole Center USDA Grant	10.766	610060996000618	<u>50,005</u>
Community Facilities Loans and Grants:			
ARRA Kihei Police Station	10.780	IFB 10-11/P-6	<u>5,350,384</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>5,555,152</u>
U.S. DEPARTMENT OF COMMERCE			
Pass-through State - Sea Grant Support:			
UH Sea Grant College Program	11.417	NA09OAR417/MA130012	<u>65,375</u>
Pass-through State - Coastal Zone Management Administration Awards:			
Coastal Zone Management FY2010		NA09NOS4190120	151
Coastal Zone Management Program		NA12NOS4190097	33,433
Coastal Zone Management Program		NA13NOS4190055	<u>124,748</u>
Total Coastal Zone Management Administration Awards	11.419		<u>158,332</u>
Congressionally Identified Awards and Projects:			
EPA Maalaea Offshore Study	11.469	NA09NOS4690248	<u>31</u>
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>223,738</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through State - Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services:			
Aging Title III DHHS 01/02		MA200203	(55)
Aging Title III DHHS FY12		MA201203	11,091
Aging Title III Programs		MA201303	201,576
Aging Title III Programs		MA201403	<u>296,596</u>
Total Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.044		<u>509,208</u>
Special Programs for the Aging Title IV and II Discretionary Projects:			
Aging/Disability Resource Center		MA-ADRD-2010-N	1
Hawaii Community Living		MA.COP32010.11.N	<u>37</u>
Total Special Programs for the Aging Title IV and II Discretionary Projects	93.048		<u>38</u>

**County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Pass-through State - Substance Abuse and Mental Health Services Projects of Regional and National Significance:			
Hawaii Strategic Framework PH11	93.243	ASO#10-191	\$ <u>114</u>
Affordable Care Act (ACA) - Consumer Assistance Program Grants:			
Care Transitions Program	93.519	CT-0912-0024	<u>32,164</u>
Pass-through State - Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations:			
Hospital Discharge Planning Grant		MA-ADRCND-2010-N	102
Hospital Discharge Planning Grant		MA-ADRCND-2010-N	9,564
Hospital Discharge Planning Grant		MA-ADRCND-2010-N	<u>24,280</u>
Total Center for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		<u>33,946</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>575,470</u>
EXECUTIVE OFFICE OF THE PRESIDENT			
High Intensity Drug Trafficking Areas Program:			
High Intensity Drug Trafficking Areas 2011		G11HI0003A	19,593
High Intensity Drug Trafficking Areas		G12HI0003A	105,213
High Intensity Drug Trafficking Areas		G13HI0003A	<u>9,616</u>
Total High Intensity Drug Trafficking Areas Program	95.001		<u>134,422</u>
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT			<u>134,422</u>
U.S. DEPARTMENT OF JUSTICE			
Drug Enforcement Administration (DEA):			
Domestic Cannabis Enforcement		2013-71	96,809
Domestic Cannabis Enforcement		2014-68	13,184
Federal Justice Police Forfeitures		HI0050000	<u>(10,928)</u>
Total Drug Enforcement Administration	16.000		<u>99,065</u>
Pass-through State - Juvenile Accountability Block Grants:			
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263 SUP#2	46,074
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263 SUP#3	<u>11,230</u>
Total Juvenile Accountability Block Grants	16.523		<u>57,304</u>
Pass-through State - Crime Victim Assistance:			
Special Needs Advocacy Program FY13		10-VA-01	112,632
Special Needs Advocacy Program FY14		VOCA FFY11	<u>202,683</u>
Total Crime Victim Assistance	16.575		<u>315,315</u>
Pass-through State - Edward Byrne Memorial Formula Grant Program:			
Edward Byrne Memorial Formula Grant Program		2009-DJ-BX-0290	11,526
Clandestine Lab Response		02-DB-10	<u>2,360</u>
Total Edward Byrne Memorial Formula Grant Program	16.579		<u>13,886</u>
Pass-through State - Violence Against Women Formula Grants:			
VAWA Violent Crimes Against Women		09-WF-05	5,894
Maui Sexual Assault Response		09-WF-12	37,526
Domestic Violence Investigation		11-WF-04	36,665

**County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE (Continued)			
VAWA Sexual Assault Examination		10-WF-03	\$ 43,606
VAWA Domestic Violence Outreach		11-WF-06	3,201
Violence Against Women Act		12-WF-12	12,553
Domestic Violence Investigation		12-WF-09	<u>32,142</u>
Total Violence Against Women Formula Grants	16.588		<u>171,587</u>
Pass-through State - Project Safe Neighborhoods:			
Choices Mentorship Program	16.609	11-GP-01	<u>43,179</u>
Pass-through State - Public Safety Partnership and Community Policing Grants:			
Cops Hiring Program	16.710	2010UMWX0091	<u>577,322</u>
Edward Byrne Memorial Justice Assistance Grant Program:			
Justice Assistance Grant Program		2010-DJ-BX-0448	17,483
E. Byrne Memorial Justice Assistance Grant FY13		2012-DJ-BX-1026	48,717
Statewide Marijuana Eradication Task Force		10-DJ-18	16,954
Hawaii Narcotics Task Force		10-DJ-17	29,655
Statewide Marijuana Eradication		12-DJ-07	321
Criminal Justice Information System		11-DJ-08	<u>17,473</u>
Total Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>130,603</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>1,408,261</u>
ENVIRONMENTAL PROTECTION AGENCY			
Pass-through State - Capitalization Grants for Clean Water State Revolving Funds:			
Central Maui Operating and Maintenance Facility		C150052-33	500,000
Lahaina No. 3 Force Main Replacement		C150054-28	4,028,291
Countywide Pump Station Renovations		C150054-34	1,555,337
West Maui Recycled Water		C150054-23	<u>2,402,178</u>
Total Capitalization Grants for Clean Water State Revolving Funds	66.458		<u>8,485,806</u>
Pass-through State - Capitalization Grants for Drinking Water State Revolving Funds:			
Omaopio #2 Middle Tank		#247-0005LOG#12-062	222,393
Kamole WTP Highlift Pumps		#213-0008LOG#12-069	80,299
Hana Source Improvements - Wakiu Well		#217-0005LOG#13-044	92,518
Waikamoi Flume Replacements		#247-0005LOG#12-062	4,436,372
Wailuku Well Development Project		#212-0009LOG#14-191	144,546
Paia-Kuau Water System Improvements Project		#213-0014LOG#14-162	43,834
Piipiholo WTP Org Carb Reduction		#247-0004LOG#14-148	3,030,924
Waikamoi Flume Repair/Replacement		#215-0003LOG#13-174	3,632
Napili Well "A" Tank		#214-0003LOG#09-121	<u>120,222</u>
Total Capitalization Grants for Drinking Water State Revolving Funds	66.468		<u>8,174,740</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>16,660,546</u>

County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through State - Highway Planning and Construction:			
FHWA Projects State Reviews		FHA CENG	\$ 28,099
Bridge Inspection Program		BR-NBIS(057)	140,750
Kam/Hina Avenue Traffic Signal		STP-3940(1)	26,168
Waiohonu Bridge Replacement		STP-0900(68)	284,518
Lahaina Watershed Project Diversity		STP-0900(077)	1,215,875
Kahoolopoo Bridge Replacement		BR0900-078	950,618
Kahekili Highway Pavement/Rehabilitation		STP-3405(3)	325,784
Makani Road Resurfacing/Haleakala		STP-3630(1)	97,776
Lono Avenue Pavement Rehabilitation		STO-3950(007)	160,062
Pukalani Street Pavement		STP-3620(001)	67,963
Haliimaile Road Improvement Phase 2		STP-A371(002)ORD#3957	910,392
Kamehameha Avenue Pavement Rehabilitation		STP-0900(079)	2,204,928
Kamehameha Traffic Signal at Kane		STP-3940(002)	325,951
Lahaina Watershed Project Div Phase 3A		STP-0900(083)	461,991
Princess Nahienaena Safe Route		SRS-1500(59)	78,277
Wakea Avenue Pavement Rehabilitation		STP-3920(006)	2,214,779
South Kihei Road Pavement Rehabilitation		STP-3100(013)	123,010
Kihei Bikeway Piilani North		STP-3115(2)	355
Papa Avenue Pavement Rehabilitation		STP-3910(001)	138,613
Market Street Improvement Mokuhaio		STP-3405(1)	153,533
Curb Ramps at Various Locations		#0090(69)	44,164
Total Highway Planning and Construction	20.205		<u>9,953,606</u>
Pass-through State - Federal Transit Capital Investment Grants:			
FTA 5309 FFY 2010 Bus & Facilities		HI-04-0004	925,000
FTA 5309 Bus & Bus Facilities Sgr		FTA-2011-017-SGR	2,334,542
FTA 5309 Formula Funds Program		HI-04-0010	26,249
FTA 5309 Livability Program FY13		STP 8.0935	683,037
FTA 5309 Bus Program HI030039 FY06		HI-03-0039	18,709
Total Federal Transit Capital Investment Grants	20.500		<u>3,987,537</u>
Pass-through State - Formula Grants for Rural Areas:			
Federal Transit Adm#5311 FFY2009		HI-18-X027	288
Federal Transit Adm#5311 FFY2012		HI-18-X023HI-18-X024	259,718
FTA Sec 5311 Non-Urbanized For		HI-18-X029	1,389,395
Rural Transit Assistance Program 04		FTA 5311 RTAPORD#3167	7,759
Rural Transit Assistance Program 06		FTA 5311 RTAP	4,712
Federal Transit Adm 5311		HI-18-X025	217,286
FTA Rural Transit Assistance Program 07		HI-18-X025	4,654
FTA Rural Transit Assistance		HI-18-X026	1,087
FTA Rural Transit Assistance Program FFY08		HI-18-X020	2,866
Total State Formula Grants for Rural Areas	20.509		<u>1,887,765</u>

County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
Pass-through State - New Freedom Program:			
FTA Sec 5317 New Freedom Program	20.521	HI-18-X030	\$ <u>28,490</u>
Pass-through State - State and Community Highway Safety:			
FFY12 MPD Roadblock Program		AL12-02(01-M-03)	33
MPD Traffic Services FY2012		PT12-01(03-M-01)	(97)
FFY13 MPD Traffic Data		TR13-03(06-M-01)	847
FFY13 MPD Distracted Driving		DD13-10(03-M-01)	40,006
FFY13 MPD Roadblock Program		AL13-02(01-M-03)	96,299
FFY13 MPD Speed Program		SC13-06(01-M-03)	41,651
Keiki Injury Protection		OP03-05(03-M-01)	1,247
MPD Reconstruction		PT03-02(03-M-01)	2,020
MPD Child Restraint Project		OP13-05(03-M-01)	7,810
FFY13 MPD Seatbelt Program		OP13-05(01-M-03)	20,875
MPD Traffic Services		PT14-01(03-M-01)	20,853
Distracted Driving Enforcement		DD14-10(03-M-01)	19,265
FFY14 MDP Seat Belt Program		OP14-15(01-M-03)	37,122
FFY14 Speed Enforcement		SC14-06(01-M-03)	64,374
FFY14 MPD Traffic Data Records		TR14-03(05-M-01)	83,777
MPD Child Restraint Project		OP14-05(03-M-01)	17,591
MPD Roadblock Program		AL14-02(01-M-03)	109,687
NHTSA MFD Pneumatic Struts		EM14-04(03-M-01)	24,998
Prosecutors Highway Safety Training		AL14-02(17-M-01)	<u>1,141</u>
Total State and Community Highway Safety	20.600		<u>589,499</u>
Pass-through State - Interagency Hazardous Materials Public Sector Training and Planning Grants:			
Hazardous Materials Emergency Preparedness Grant	20.703	HM HMP-0042-09-01-00	<u>(1,112)</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>16,445,785</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through State - Emergency Management Institute Training Assistance:			
FEMA Fire Training Funds	97.026	11-106-036	<u>(128)</u>
Pass-through State - Port Security Grant Program:			
FFY09 Port Security Grant Program	97.056	2009-PU-T9-K0356/1/09	<u>156,800</u>
Homeland Security Grant Program:			
FFY09 Law Enforcement Terrorism Prevention		FY09-SS-T9-0006	9,690
FFY09 State Homeland Security Program		FY09-SS-T9-0006	(9,232)
FFY10 State Homeland Security Program		2010-SS-T0-0006	77,098
FFY11 State Homeland Security Program		2011-SS-00129	124,533
FFY12 Community Outreach / Citizens Corp Program		EMW-2012-SS-00009EXT	11,456
FFY12 State Homeland Security Grant		EMW-2012-SS-00009EXT	21,569
FFY13 State Homeland Security Program		EMW-2013-SS-00003	158,752
FFY07 State Homeland Security Program		2008-GE-T8-0022	<u>(1,725)</u>
Total Homeland Security Grant Program	97.067		<u>392,141</u>

County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY (Continued)			
Training Resource and Data Exchange:			
FFY10 Citizens Corp Program		2010-SS-T0-0006	\$ 3,745
FFY11 Statewide Outreach / Citizens Corp Program		2011-SS-00129	<u>14,557</u>
Total Training Resource and Data Exchange	97.097		<u>18,302</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>567,115</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii:			
Construction - Hale Maunaloa		B09DH150003	12,451
Construction - Hale Maunaloa		B10DH150003	28,100
MPD Emergency Response Vehicle Hana		B-11-DH-15-0003	19,601
Construction of Hale Maunaloa		B-11-DH-15-0003	203,172
CDBG Program Admin FY2013		B-11-DH-15-0003	10,549
ADA Wheelchair Ramp FY2003		B-02-DH-15-0003	32,126
Lanai Comm Land Acquisition		B-11-DH-15-0003	383,890
Easter Seals Maui Phase II		B-11-DH-15-0003	184,646
CDBG Program Admin FY2014		B-13-DH-15-0003	266,897
Emergency Generator Project		B-07-DH-15-0003	8,735
Lanai Comm Health Center Pre-Development		08-4PY07	24,775
Lanai Comm Health Center Pre-Development Rprg		08-4PY08	<u>4,456</u>
Total Community Development Block Grants	14.228		<u>1,179,398</u>
Pass-through State - Home Investment Partnerships Program:			
Home FFY09 Administration		HOME FFY09	1,811
Home 1st Time Homebuyers Project		PROJ INCME	20,000
Home FFY10 Kahawai Apartment		HOME FFY10CMTMNT	117,352
Home FFY10 Administration		HOME FFY10CMTMNT	7,854
Home FFY09 Kahawai Apartment		HOME FFY09	328,231
Home FFY07 Kahawai Apartment		HOME FFY07	730,000
Home FFY08 CHDO MMSSH1 Construction		HOME FFY08	8,490
Home FFY08 CHDO MMSSH1 Construction		HOME FFY08	71,466
Home FFY06 Kahawai Apartment		HOME FFY06	17,338
Home FFY 2009-2 CHDO MMSSH1 Construction		HOME FFY09	59,570
Home FFY11 Administration		HOME FFY10	35,622
Home FFY07 Administration		HOME FFY07	1,527
Home FFY08 Administration		HOME FFY08	<u>395</u>
Total Home Investment Partnership Program	14.239		<u>1,399,656</u>
Pass-through State - Community Development Block Grants / Brownfields Economic Development Initiative:			
West Maui Com / Resource Center	14.246	B-98-HI-0117	<u>100</u>
Section 8 Housing Choice Vouchers:			
Section 8 Housing Voucher FY2013		HI004	(2,669)
Section 8 Housing Admin Program FY2013		HI004	1,235
Section 8 Housing Voucher FY2014		HI004	14,995,542
Section 8 Housing Admin FY2014		HI004	1,161,164
Section 8 Family Self-Sufficient		HI004	<u>13,076</u>
Total Section 8 Housing Choice Vouchers	14.871		<u>16,168,348</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>\$ 18,747,502</u>

**County of Maui
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Pass-through State - Workforce Investment Act:			
WIA Administrative PY2012		BULLETIN #03-12	\$ 37,887
Workforce Investment Act Admin		WIA-13-LAC-M	35,745
ARRA09 Workforce Investment Act - Admin		WIA-08-ARRA-LAC-M	<u>49</u>
Total Workforce Investment Act	17.000		<u>73,681</u>
Pass-through State - WIA Adult Program:			
Workforce Investment Act PY11 - Adult		WIA BULLETIN #03-11	10,018
WIA Adult Program - PY2012		BULLETIN #03-12	196,306
Workforce Investment Act - Adult		WIA-13-AP-M6/30/2015	<u>30,997</u>
Total WIA Adult Program	17.258		<u>237,321</u>
Pass-through State - WIA Youth Activities:			
Workforce Investment Act PY11 - Youth		WIA BULLETIN #03-11	7,304
WIA Youth Program - PY2012		BULLETIN #03-12	300,074
Workforce Investment Act - Youth		WIA-13-AP-M6/30/2015	<u>51,295</u>
Total WIA Youth Activities	17.259		<u>358,673</u>
Pass-through State - WIA Dislocated Workers:			
Workforce Investment PY11 Dislocated Worker		WIA BULLETIN #03-11	(41,074)
Workforce Investment Act DWP		WIA-13-DWP-M6/30/2015	<u>96,000</u>
Total WIA Dislocated Workers	17.260		<u>54,926</u>
Pass-through State - WIA Dislocated Worker Formula Grants:			
WIA Dislocated Worker PY2012	17.278	BULLETIN #03-12	<u>190,045</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>914,646</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>61,306,015</u>

County of Maui
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance of the County of Maui, State of Hawaii (the County). The reporting entity of the County is defined in Note 1 to the County's basic financial statements. All federal financial assistance that passed through other government agencies is included in the schedule. A program or award may extend over grant periods differing from the County's fiscal year.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's financial statements.

NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the County's financial statements. Actual expenditures related to the major programs have been reconciled to the accounting records underlying the County's financial statements.

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The amounts reported in the accompanying schedule of expenditures of federal awards have been reconciled to the amounts reported in the related financial reports of the respective programs. Reconciling items may arise from differences in the basis of accounting.

County of Maui
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014

NOTE 5 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the County provided federal awards to subrecipients as follows:

Federal Grantor/Program/Grant	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Health and Human Services		
Aging Title III Programs	93.044	\$ <u>445,872</u>
Total U.S. Department of Health and Human Services		<u>445,872</u>
U.S. Department of Housing and Urban Development		
Community Development Block Grants	14.228	<u>881,091</u>
Total U.S. Department of Housing and Urban Development		<u>881,091</u>
Total Provided to Subrecipients		\$ <u><u>1,326,963</u></u>

NOTE 6 - OUTSTANDING LOAN BALANCES

The State Revolving Fund Loans are for the construction of necessary water treatment works and for wastewater reclamation projects, as well as solid waste projects. As of June 30, 2014, the outstanding principal amounted to \$64,360,744 that bears interest at 0.50 percent to 2.60 percent. The loans require semi-annual principal and interest payments and loan fees through fiscal year 2034. The County has 33 projects funded with these loans.

County of Maui
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014

NOTE 6 - OUTSTANDING LOAN BALANCES (Continued)

State Revolving Fund Loans outstanding as of June 30, 2014 are as follows:

Year	Description	Loan Number	Final Maturity	Outstanding Balance June 30, 2014
1997	Lahaina Pump Station No. 3	C150054-07	2016	\$ 336,854
1997	Kihei Wastewater Reclamation Phase IIB	C150077-06	2016	1,152,006
1998	Kihei Reuse Core Distribution System	C150077-09	2018	712,791
2004	Lahaina Pump Station Nos. 5 and 6	C150054-12	2026	2,092,387
2004	Kahului Pump Station Modification	C150052-30	2026	1,681,594
2006	Lahaina Pump Station No. 4	C150054-09	2027	1,178,359
2008	Wailuku/Kahului Wastewater Pump Station	C150052-19	2028	7,275,008
2009	Wailuku/Kahului Wastewater Reclamation	C150052-32	2029	1,504,098
2009	Lahaina Wastewater Pump Station No. 1	C150054-06	2029	5,373,311
2009	Central Maui Landfill Gas Collection	NPS0052-39	2029	2,640,806
2009	Islandwide EPA Consent Decree	C150052-31	2029	6,403,317
2009	Molokai Integrated Solid Waste Facility	NPS0041-07	2029	2,562,853
2010	Front Street Sewer Line Rehabilitation	C150054-11	2029	365,613
2010	Hyatt/Kaanapali Force Main Replacements	C150054-25	2030	1,436,514
2010	Countywide Pump Station Renovations	C150052-28	2029	663,476
2011	Kihei No. 2 Force Main Replacement	C150077-20	2032	923,008
2013	Alamaha Force Main Replacement	C150052-40	2033	1,072,058
2013	West Maui Recycled Water	C150054-23	2033	391,679
2012	Wailuku/Kahului Force Main Replacements	C150052-35	2034	2,839,713
2012	Countywide Pump Station Renovations	C150054-34	2034	1,555,337
2010	Central Maui Operating and Maintenance Facility	C150052-33	2034	500,000
2013	Lahaina No. 3 Force Main Replacement	C150054-28	2034	<u>4,028,289</u>
				<u>\$ 46,689,071</u>

**County of Maui
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

NOTE 6 - OUTSTANDING LOAN BALANCES (Continued)

Year	Description	Loan Number	Final Maturity	Outstanding Balance June 30, 2014
Department of Water Supply:				
2010	Napili Well "A" Site Improvements	DW214-0009	2029	\$ 1,267,516
2012	Lower Paia Water Tank Replacement	DW212-0007	2032	913,087
2012	Makawao Waterline Replacement	DW213-0006	2031	587,946
2012	Kamaole Water Treatment Plant High Lift Pumps	DW213-0008	2032	1,615,030
2012	Upper Omaopio Road Tank Replacement	DW247-0005	2032	888,663
2012	Middle and Lower Omaopio Road Tanks Replacements	DW247-0006	2032	518,880
2012	Uluniu Road and Ewa Place Waterline Replacement	DW212-0010	2032	233,642
2013	Wakiu Well Replacement	DW217-0005	2033	353,293
2014	Kaupakalua Road Waterline Replacement	DW213-0009	2033	826,682
2014	Waikamoi Flume Repair/Replacement	DW215-0003	2033	6,894,705
2014	Piiholo Water Treatment Plant Improvements	DW247-0004	2034	<u>3,572,229</u>
				<u>17,671,673</u>
	Total State Revolving Fund Loans			\$ <u>64,360,744</u>

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.766/10.780	Community Facilities Loans and Grants
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction
20.500	Federal Transit - Capital Investment Grants
20.509	Formula Grants for Rural Areas
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,839,180
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Auditee qualified as a low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.
No. **Internal Control Findings**

2014-001 Internal Controls Over Automated Payroll Processing System - Significant Deficiency

Condition: Over the past four fiscal years, the Department of Finance has been working to complete the conversion to a new automated payroll processing system. Included in the conversion to this new automated payroll processing system 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 the 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 their operations. This practice has continued to produce inconsistencies between departments which resulted in the following conditions noted during our review of 60 payroll files.

- There were 8 instances (out of 42 samples) where a manual time sheet did not have an approval by the employee or supervisor/department head or the supervisor/department head signed for the employee.
- There were 2 instances (out of 18 samples) where an automated time card did not have an approval by the employee or supervisor/department head.

During our fieldwork, we were informed that the Department of Finance distributed and published a new payroll policies and procedures manual on the intranet effective June 1, 2014. This manual indicates the roles and responsibilities of the departments/agencies and employees, required forms to be used and procedures to be followed with regards 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."

Criteria: A control environment should exist 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.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2014-001 **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 created a new internal control environment requiring changes to existing internal controls and implementation of new internal controls to deal with this new control environment.

Effect: The lack of sufficient internal 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.

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.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-002 Internal Controls Over Payroll System Historical Edits - Significant Deficiency

Condition: Corrections to the standard payroll processing system made throughout the fiscal year are referred to as historical edits, which is essentially an override mechanism used to correct employee time records for a pay period that has been locked out by the Payroll Section. During our current year audit, we noted the following:

- There were 2 instances (out of 60 samples) where a historical edit completed did not have an approval by an authorized individual.

During our fieldwork, we were informed that the Department of Finance distributed and published a new payroll policies and procedures manual on the intranet effective June 1, 2014. This manual indicates the roles and responsibilities of the Department and employees, required forms to be used and procedures to be followed with regards to payroll historical edits.

Criteria: The ability to make corrections to the standard payroll processing should be well controlled, and transactions recorded through this edit process should be properly documented and authorized. Access to this transaction edit process should be limited to personnel in the Payroll Section and a limited number of personnel at the various County departments.

Cause: During the year, the County did not have an established uniform policy over the processing of payroll historical edits.

Effect: Although the vast majority of transactions recorded via payroll historical edits is small and immaterial to total payroll expenditures, the lack of internal controls and established policy over this portion of the payroll processing system could lead to incorrect payments to County employees and inaccurate reporting of payroll costs in the County's financial statements.

Recommendation

The Payroll Section should continue to implement and monitor the use of payroll historical edits on the payroll process and ascertain that all authorizations are properly obtained and documented.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-003 Timely Reconciliation of Federal and State Grant Programs - Significant Deficiency

Condition: The Department of Finance continues to research, reconcile and dispose of unreconciled balances; however, significant reconciling items and unrelieved balances within the Grant Fund still exist as of June 30, 2014. During the current year audit, we noted the following:

- There were 2 instances where prior year deferred grant revenues totaling \$303,770 did not reflect any current year activity as the departments handling the grant were still investigating the proper method to address the amounts.

Criteria: Accrual balances presented in the Grant Fund balance sheet should reflect the amount of unreimbursed grant expenditures (grant receivables) or the amount of grant funds received in advance (deferred grant revenue). Reconciliations of these balances should be performed on a monthly basis.

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 and deferred grant revenues.

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

Recommendation

The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year grant receivables and deferred grant revenues 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.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-004 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency

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 Building Permits and Parks and Recreation, 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.

Criteria: Proper internal controls over miscellaneous cash receipts received directly from the public dictate that adequate segregation of duties exist 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.

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.

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.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-005 Accounting for Construction Work in Progress - Significant Deficiency

Condition: The County and the Department of Water Supply (DWS) prepared construction work 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 work in progress schedules:

- The County had a total of \$92 million in construction in progress carried forward from the prior year. In the current year, a review of the construction in progress projects of the County showed a total of \$3,016,648 of maintenance and repairs expense on various projects that were included in the construction in progress balance that should have been expensed in the prior year. These amounts were expensed in the current fiscal year.
- The DWS had a total of \$32.6 million in construction in progress carried forward from the prior year. In the current year, we noted a total of \$970,702 of current construction in progress that should have been transferred out and capitalized as capital assets in the prior years. The DWS will adjust these projects in the next fiscal year.

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

Cause: The County's projects are maintained and accumulated in the County's accounting system and reconciled in a spreadsheet. However, the process to review these projects to either expense the normal maintenance and repairs or to transfer the project capital assets is a manual process. The current process is to review and reconcile the construction in progress balance at year end.

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

**County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. Internal Control Findings

**2014-005 Accounting for Construction Work in Progress - Significant Deficiency
(Continued)**

Recommendation

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 annual financial report.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-006 **Timely Preparation of the Comprehensive Annual Financial Report - Significant Deficiency**

Condition: The Department of Finance experienced a high degree of turnover in the prior year. During the current year, although there was improvement in the timing of completing the various schedules, there were other issues, including the implementation of new accounting standards and accounting for the other post-employment benefits that arose that caused the delay in issuance of the County's financial statements.

Criteria: The Department of Finance should prepare and issue the County's comprehensive annual financial report on a timely basis for review by the County Council and the general public.

Cause: The Department of Finance had a high degree of turnover in the prior year and was able to hire well qualified staff to replace the personnel; however the experience lost is difficult to replace. Additionally, without the centralized position for oversight of the County's federal programs, the Department of Finance personnel must also assist with the audit of the federal awards programs during the preparation of the County's comprehensive annual financial report.

Effect: The Department of Finance experienced delays in closing the County's financial records and preparation of required audit schedules, analyses, footnotes and reports. The Department of Finance personnel worked many hours of overtime to accomplish this year's closing.

Recommendation

The Department of Finance should continue its efforts to ensure that sufficient, experienced accounting personnel are available to prepare and issue the County's comprehensive annual financial report in a timely manner. In addition, the County and Department of Finance should determine whether the Department has adequate staffing necessary to complete the required audit schedules, analyses, footnotes and reports along with performing the regular daily workload of the current personnel.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-007 Review Agency Fund Accounts - Material Weakness

Condition: During our audit, we noted that the County had agency funds that were not reviewed on an on-going basis. We noted certain balances from prior years that were either unsupported or the County did not know the current status of the monies held.

Criteria: The County maintains fiduciary funds that are limited to agency funds. Agency funds are custodial in nature and are used to receive and disburse funds for an entity or individual that is not part of the County. Agency funds function as a clearing account and do not measure results of operations. Balances should be reviewed periodically and be properly supported of amounts held for individuals and entities.

Cause: There does not appear to be consistent policies and procedures across departments handling the agency funds to properly and timely reconcile balances and investigate differences.

Effect: The County has the following agency funds:

- Refundable Deposits Fund
- Liquor Control Fund
- State Highways Fund
- Other Agency Funds

At June 30, 2014, the County has approximately \$34.2 million in these agency funds. We reviewed these held balances noting the following:

- Real Property Tax Litigated Claims Fund - The County transferred \$849,545 from the account balance that has accumulated over the years to the general fund. The adjusted and reconciled balance at June 30, 2014 was \$4,413,880.
- Parks and Recreation Trust - The County was unable to provide a listing of who the deposits were held for in this account. As of June 30, 2014 the balance in this account was \$383,374.
- Planning Application Fees - In September 2014, the County transferred approximately \$3.6 million related to application fees that had accumulated in this fund from fiscal year 2002. The fees being collected should have been recognized as revenues and a prior period adjustment was made to the financial statements to account for this error.

**County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-007 Review Agency Fund Accounts - Material Weakness (Continued)

Recommendation

We recommend that the County implement procedures to timely review and reconcile these trust and agency funds. Within these procedures the County should require that any unreconciled differences or older outstanding balances are reviewed and properly disposed of. The County should also review the use of all agency fund accounts and ensure that agency funds established are custodial in nature and are being used to receive and disburse funds for an entity or individual that is not part of the County.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-008 Logical Access & Access Security - Significant Deficiency

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

- User access reviews are not performed on the global security groups assigned to domain users and Integrated Financial and Administrative Solution (IFAS).
- 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.
- There are no formal written policies and procedures surrounding changes to the firewall settings.

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.

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 Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-008 Logical Access & Access Security - Significant Deficiency (Continued)

Recommendation

We recommend that the County:

1. Establish a control process in place to review and confirm access rights periodically. There should be at least a semiannual review of user access.
2. This review should include the following:
 - a. A report which includes a list of users and the security role assignments, department and accounts should be generated.
 - b. These reports should be forwarded to the respective departments for review.
 - c. Each of the department heads or business managers should review the list and note/highlight any discrepancies.
 - d. The updated lists should be sent to Finance for approval.
 - e. All changes should be documented by completion of a Network Access Security Form.
3. Monitor vendor access into IAS.
4. Develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration.
5. Develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-009 Backup & Recovery - Significant Deficiency

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

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

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

The restoration of backup media is periodically tested.

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.

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. Additionally, the County should perform formal system restoration testing.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-010 IAS Program Changes & Development - Significant Deficiency

Condition: During our audit, we noted that changes to the IAS system are not following a structured change management process. Changes are made to IAS production without being thoroughly tested.

Criteria: Requests for program changes, system changes and maintenance (including changes to system software) are standardized, logged, approved, documented and subject to formal change management procedures.

Controls are in place to restrict migration of programs to production by authorized individuals only.

Cause: The Change policy modeled after Information Technology Service Management (ITSM) is not being appropriately followed by the IAS consultant.

Effect: Unauthorized or untested changes promoted to the production environment could cause the financial system to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Recommendation

We recommend that the County ensure change management policies and procedures are consistently followed.

County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2014-011 Information Technology (IT) Governance - Significant Deficiency

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 and fraud related assessment need to be completed.

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.

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.

Recommendation

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

**County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Ref. No.</u>	<u>Internal Control over Compliance Findings</u>	<u>Questioned Costs</u>
2014-012	<p>Completeness and Accuracy of the County's Schedule of Expenditures of Federal Awards (SEFA) - Significant Deficiency</p> <p>Federal agency: U.S. Department of Transportation and Environmental Protection Agency</p> <p>CFDA No.: 20.500; 20.509; 66.458</p> <p>Program: Federal Transit - Capital Investment Grants; Formula Grants for Rural Areas; Capitalization Grants for Clean Water State Revolving Funds</p>	
Condition:	<p>During our audit, we were provided the SEFA on a timely basis. However, we noted expenditures for Federal awards for CFDA 20.500 that were recorded as CFDA 20.509 and expenditures for CFDA 66.458 were not properly included in the SEFA. In addition, pass-through awards did not include the identifying number assigned by the pass-through entity.</p>	
Criteria:	<p>In accordance with OMB Circular A-133, the County shall identify all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, and name of the Federal agency. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.</p>	
Cause:	<p>The Federal awards were not properly set up in the accounting system.</p>	
Effect:	<p>Federal expenditures in the SEFA were not properly reported for the correct Federal programs. Failure to include correct federal expenditures in the SEFA may result in instances of noncompliance with federal requirements.</p>	\$ <u> </u> <u> </u>

Recommendation:

We recommend that the County establish policies and procedures to ensure the proper set up of Federal awards in the accounting system. In addition, we recommend that each award be tracked separately for accuracy, easier accountability of all awards and completeness of the SEFA.

**County of Maui
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014**

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

Ref. No.	Internal Control over Compliance Findings	<u>Questioned Costs</u>
2014-013	Centralized Position to Monitor Federal Program Compliance - Significant Deficiency	
Condition:	During our audit, we noted that the County expended over \$61.3 million under numerous federal financial assistance programs. We noted that the responsibilities of a federal program compliance officer do not appear to be assigned to any current position within the County government.	
Criteria:	OMB Circular A-133 suggests that a centralized position be established for any local government receiving federal financial assistance to oversee that government's compliance with federal program requirements.	
Cause:	The responsibility of overseeing the County's compliance with federal program requirements is being delegated to the departmental level.	
Effect:	Without the proper oversight and monitoring, the County has the potential for instances where the County does not comply with certain federal program compliance requirements for major programs.	\$ <u> --</u>
Recommendation:		
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.		

PART IV
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**County of Maui, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2014**

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, 2013, dated February 20, 2014.

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Recommendations</u>	<u>Status</u>
<p>2013-01 Internal Controls Over Automated Payroll Processing System</p> <p>The County should establish a more uniform system of capturing employee time than is currently being used. The County should also ensure that internal controls over the submission, review, and approval of employee time records each pay period be enhanced at each department and at the Payroll Section to ensure that accurate employee compensation expenditures are recorded in the County's general ledger.</p>	<p>Partially accomplished. Refer to finding 2014-001.</p>
<p>2013-02 Internal Controls Over Payroll System Historical Edits</p> <p>The Payroll Section should establish stronger internal controls over the processing of payroll historical edits. Access to this function within the automated payroll processing system should be limited to certain authorized individuals and protected via passwords. In addition, a listing of historical edit transactions should be reviewed by personnel outside of the Payroll Section on a monthly basis.</p>	<p>Partially accomplished. Refer to finding 2014-002.</p>
<p>2013-03 Timely Completion of Operating Account Bank Reconciliation</p> <p>The County should reconcile all cash accounts in a timely manner each month.</p>	<p>Accomplished.</p>
<p>2013-04 Timely Reconciliation of Federal and State Grant Programs</p> <p>The County should ensure that reconciliations be performed on a monthly basis on the Grant Fund accrual balances by grant program. In addition, all long-outstanding Grant Fund accrual balances should be investigated and, if necessary, be written-off on a timely basis.</p>	<p>Partially accomplished. Refer to finding 2014-003.</p>

County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2013-05 Internal Controls Over Miscellaneous Cash Receipts</p> <p>The County should ensure that adequate internal controls 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 the daily cash summary report in the form of sign offs by personnel involved.</p>	<p>Not accomplished. Refer to finding 2014-004.</p>
<p>2013-06 Timely Preparation of the Comprehensive Annual Financial Report</p> <p>Management of the Department of Finance should continue its efforts to ensure that sufficient, experienced accounting personnel are available to prepare and issue the County's comprehensive annual financial report in a timely manner.</p>	<p>Partially accomplished. Refer to finding 2014-006.</p>
<p>2013-07 Implementation of a New Billing System</p> <p>The County should ensure that accurate monthly consumption reports, unbilled revenue reports, and system estimate reports be provided to DWS on a timely basis to ensure proper recording of revenues in the financial statements.</p> <p>In addition, the management of DWS should implement procedures to ensure that bill cancellations or adjustments are reviewed and documented by written approvals by an appropriate level of management.</p>	<p>Accomplished.</p>
<p>2013-08 Accounting for Construction Work in Progress</p> <p>Management of 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 capital assets in the appropriate accounting period.</p>	<p>Partially accomplished. Refer to finding 2014-005.</p>

County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
2013-09 Reconciliation of Customer Deposits Management of DWS should adhere to established procedures requiring the timely reconciliation of customer deposit liability accounts.	Accomplished.

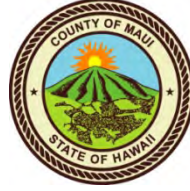
**County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2014**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Recommendations</u>	<u>CFDA Number</u>	<u>Status</u>
<p>SA-2013-01 Reconciliation of Cash Drawdowns</p> <p>The County should establish policies and procedures to ensure that all cash management requirements are met to ensure that payments are incurred before cash is drawn down, unless advances are approved by the grantor. A reconciliation of expenditures should be performed between the Department of Finance and the third party construction management company prior to the federal loan drawdown.</p>	10.780	Accomplished.
<p>SA-2013-02 Completeness and Accuracy of the County's Schedule of Expenditures of Federal Awards</p> <p>The County should establish policies and procedures to ensure that the SEFA prepared by the Department of Finance is complete and accurate, and prepared in a timely manner.</p>		Partially accomplished. Refer to finding 2014-012.
<p>SA-2013-03 Training for Departmental Personnel</p> <p>The County should consider conducting training sessions to update departmental personnel on compliance requirements, and internal controls over compliance, associated with federal grant awards in accordance with OMB Circular A-133.</p>		Accomplished.
<p>SA-2013-04 Centralized Position to Monitor Federal Program Compliance</p> <p>The County should consider assigning the responsibility for overseeing the County's compliance with federal award program requirements to a centralized position. That centralized position would coordinate with the departmental program managers to ensure that the County is complying with federal program requirements, including ARRA grant requirements.</p>		Not accomplished. Refer to finding 2014-013.

PART V
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

March 12, 2015

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

SUBJECT: COUNTY OF MAUI

Dear Mr. Isobe:

The County of Maui appreciates that the CAFR audits often identify opportunities for improving operations and governance. 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 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 circular stamp.

DANILO F. AGSALOG
Director of Finance

Attachment: Corrective Action Plan

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-001 - Internal Controls Over Automated Payroll Processing System

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 finding. In an effort to establish a more uniform system of internal controls over the submission, review, and approval of employee time records, the Department of Finance has implemented regular training meetings with each department's ADP e-Time users. The Payroll Section is actively working with all departments to develop improved procedures for greater consistency in capturing employee time, as well as reviewing and approving payroll time records. In June 2014, the Finance Department has established a policy manual outlining standard payroll procedures and internal controls that should be applied by all departments. The departments are responsible for maintaining effective systems of monitoring the accuracy of its payroll process.

The Payroll Manager, under the Department of Finance continues to implement and monitor the payroll processes and holds quarterly "Super-Users" training meetings emphasizing time record submission, review, and approval.

End Date: March 31, 2015 and ongoing

Responding Person(s): Danielle Navarro, Payroll Manager,
Department of Finance (808) 270-4799

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-002 - Internal Controls Over Payroll System Historical Edits

Recommendation

The Payroll Section should continue to implement and monitor the use of historical edits on the payroll process and ascertain that all authorizations are properly obtained and documented.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Payroll Section has developed procedures to establish stronger internal controls over the processing of payroll historical edits, including departmental supervisory review documentation. Although this function is already limited to certain authorized individuals and password protected, we will continue to work with all departments to reduce the amount of authorized individuals.

Under the direction of the Payroll Manager, the Payroll Accountant I continues to work directly with county departments and reviews the departmental payroll processing procedures including historical edits.

End Date: March 31, 2015 and ongoing

Responding Person(s): Danielle Navarro, Payroll Manager,
Department of Finance (808) 270-4799.

Erica Kokalis-Fernandez, Accountant I
Department of Finance (808) 270-7201

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-003 - Timely Reconciliation of Federal and State Grant Programs

Recommendation

The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year grant receivables and deferred grant revenues 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.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. A periodic reconciliation of federal and state grants is being implemented. We will continue to work with the respective grant managers to close old grants and resolve prior year grants receivable and deferred grant revenues.

Finance Department Accounting Supervisor Accountant V currently performs periodic reconciliation of federal and state grants with the assistance of the Accounts Section staff. All grants have been assigned to staff within the Accounts Division, General Ledger Section for review and reconciliation by March 31, 2015.

End Date: March 31, 2015 and ongoing

Responding Person(s): Ortaeine Acidera, Accounting Supervisor Accountant V,
Department of Finance (808) 270-7497.

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-004 - Internal Controls over Miscellaneous Cash Receipts

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 Department of Finance has recently drafted revised cash handling policies and procedures. The Treasury Division will be meeting with various departments to finalize and implement these policies and procedures.

The Department of Finance Treasurer is taking the lead in the County's cash handling internal controls, including miscellaneous cash receipts that is consistent at the countywide-level. The Treasurer is now monitoring the Cash Handling policies and procedures.

End Date: March 31, 2015

Responding Person(s): Angelita Delapena, Treasurer,
Department of Finance (808) 270-7464.

Anne Jenny, Internal Auditor
Department of Finance (808) 270-5741

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-005 - Accounting for Construction Work in Progress

Recommendation

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 annual financial report.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. The Finance Department will work with the County departments, including DWS to develop and establish policies and procedures to ensure that construction work in progress and projects placed in service are communicated timely, and to maintain and reconcile the construction in progress schedule throughout the year.

End Date: March 31, 2015

Responding Person(s): May-Anne Alibin, Assistant Accounting System Administrator.
Department of Finance (808) 270-7149

Vacant, Financial Control Analyst
Department of Finance (808)463-3201

Holly Ho, Waterworks Fiscal Officer
Department of Water Supply (808) 270-7303

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-006 - Timely Preparation of the Comprehensive Annual Financial Report

Recommendation

The Department of Finance should continue its efforts to ensure that sufficient, experienced accounting personnel are available to prepare and issue the County's comprehensive annual financial report in a timely manner. In addition, the County and Department of Finance should determine whether the Department has adequate staffing necessary to complete the required audit schedules, analyses, footnotes and reports along with performing the regular daily workload of the current personnel.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the recommendations and will hire well qualified and experienced applicant for the Financial System Analyst position, Accountant III, and Payroll Clerk vacancies. Efforts are also underway to assure proper planning, preparation, and year end process improvements are in place for future financial reports.

The Director of Finance has proposed fiscal year 2016 budget expansion requests for staffing and compensation requirements for the Accounts Division, including a new county-wide Grant Manager position and a new position for a Capital Asset (CIP) Accountant, as well as professional fees for specialized assistance. The Accounts Administrator is currently holding training and planning meetings with accounting staff to prepare for the next audit.

End Date: March 31, 2015

Responding Person(s): Mark R. Walker, Deputy Director of Finance,
Department of Finance (808) 270-7844.

Wayne Fujita, Accounting System Administrator.
Department of Finance (808) 270-7503

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-007 - Review Agency Fund Accounts

Recommendation

We recommend that the County implement procedures to timely review and reconcile these trust and agency funds. Within these procedures the County should require that any unreconciled differences or older outstanding balances are reviewed and properly disposed of. The County should also review the use of all agency fund accounts and ensure that agency funds established are custodial in nature and are being used to receive and disburse funds for an entity or individual that is not part of the County.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and acknowledge that an adjustment was made to reclassify the Planning Fee deposits held in our Trust and Agency (T&A) account into the General fund for amounts representing an accumulation of prior year deposits.

T&A balances are not cleared through simple incident = release event. Rather, releases are dependent on other departments determining an old deposit is no longer under obligation (e.g. court case decision, liability release, decedent beneficiary documentation, etc.) We have met and communicated with T&A departments again on February 17, 2015 to remind them of their responsibility to clear T&A liabilities when release is needed. Departments were reminded of our recommendations for their periodic reconciliations of their inventory of T&A, to identify beneficiaries, and to process T&A releases at least quarterly. Our procedures from past years included reviewing T&A reports monthly and communicating with departments for reconciling and releasing discontinued liabilities. The Finance Department's Accounting Supervisor, Accountant V along with the Accountant II continue to resolve T&A balances.

End Date: June 30, 2015

Responding Person(s): Ortaeine Acidera, Accounting Section Accountant V,
Department of Finance (808) 270-7497.

Jean Iniba, Accountant II
Department of Finance (808) 270-7502

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-008 - Logical Access & Access Security

Recommendation

We recommend that the County:

1. Establish a control process in place to review and confirm access rights periodically. There should be at least a semiannual review of user access.
2. This review should include the following:
 - a. A report which includes a list of users and the security role assignments, department and accounts should be generated.
 - b. These reports should be forwarded to the respective departments for review.
 - c. Each of the department heads or business managers should review the list and note/highlight any discrepancies.
 - d. The updated lists should be sent to Finance for approval.
 - e. All changes should be documented by completion of a Network Access Security Form.
3. Monitor vendor access into IAS.
4. Develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration.
5. 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 agrees with the finding and will implement them.

End Date: June 30, 2015

Responding Person(s): Jacob Verkerke, Chief Technology Officer,
Department of Management (808) 270-7842.

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-009 - Backup & Recovery

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. Additionally, the County should perform formal system restoration testing.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and will implement them.

End Date: June 30, 2015

Responding Person(s): Jacob Verkerke, Chief Technology Officer,
Department of Management (808) 270-7842.

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-010 IAS - Program Changes & Development

Recommendation

We recommend that the County ensure change management policies and procedures are consistently followed.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and will implement them. All future changes in IAS programming will be submitted by Real Property Assessment to ITS on a Request For Services help form. IAS will monitor the programming and implementation in accordance with existing change management structure procedures.

End Date: June 30, 2015

Responding Person(s): Jacob Verkerke, Chief Technology Officer,
Department of Management (808) 270-7842.

Wayne Fujita, Accounting System Administrator.
Department of Finance (808) 270-7503

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. - Internal Control Findings

Finding 2014-011 - Information Technology (IT) Governance

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and will implement them.

End Date: June 30, 2015

Responding Person(s): Jacob Verkerke, Chief Technology Officer,
Department of Management (808) 270-7842.

SINGLE AUDIT REPORTS
Corrected Action status for Fiscal 2014 Audit
June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Ref. No. - Internal Control Findings

Finding 2014-012 - Completeness and Accuracy of the County's Schedule of Expenditures of Federal Awards (SEFA)

Recommendation

We recommend that the County establish policies and procedures to ensure the proper set up of Federal awards in the accounting system. In addition, we recommend that each award be tracked separately for accuracy, easier accountability of all awards and completeness of the SEFA.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and understands the critical nature of the SEFA Schedule completeness and accuracy. We have implemented procedures to review and track each award separately to ensure easier accountability of all awards and completeness of the SEFA.

Management agrees with the finding that certain program managers should improve their understanding of amounts that should be reported as Federal expenditures for their respective grants. As in prior years, the County arranged for training of many department personnel by the awarding Federal agencies. The County will continue to coordinate the implementation of training in future years.

The Accounting Administrator will coordinate with County departments training updates and along with the Accountant V and staff will review award accountability and SEFA completeness.

End Date: June 30, 2015

Responding Person(s): Ortaeine Acidera, Accounting Supervisor Accountant V,
Department of Finance (808) 270-7497.

