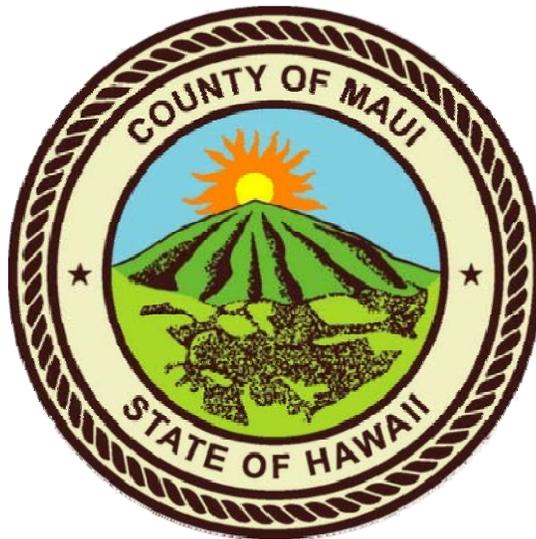


COUNTY OF MAUI

STATE OF HAWAII



SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

February 12, 2016

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

We have completed our financial audit of the basic financial statements and other supplementary information of the County of Maui, Hawai'i (the County), as of and for the fiscal year ended June 30, 2015. 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, 2015, 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, 2015.

ORGANIZATION OF THE REPORT

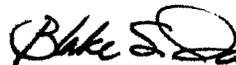
This report is presented in five parts as follows:

- 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

TABLE OF CONTENTS

	<u>Page</u>
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 <i>Government Auditing Standards</i>	5 - 6
PART II REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133	
Report on Compliance on Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	8 - 11
Schedule of Expenditures of Federal Awards	12 - 17
Notes to Schedule of Expenditures of Federal Awards	18 - 21
PART III SCHEDULE OF FINDINGS AND QUESTIONED COSTS	23 - 40
PART IV SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
Status Report	42 - 45
PART V CORRECTIVE ACTION PLAN	
Response of County of Maui	47 - 63

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, 2015, 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 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-004 and 2015-006 through 2015-010 that we consider to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition we noted other matters involving internal controls and its operation that we have reported to management of the County, in a separate letter dated January 5, 2016.

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 5, 2016

PART II

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY 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 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, 2015. 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.

Basis for Qualified Opinion on Section 8 Housing Choice Vouchers Program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the CFDA 14.871 Section 8 Housing Choice Vouchers program as described in finding number 2015-012 for Reporting. Compliance with such requirement is necessary, in our opinion, for the County to comply with requirements applicable to that program.

Qualified Opinion on Section 8 Housing Choice Vouchers Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Section 8 Housing Choice Vouchers program for the fiscal year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2015.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-012 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-011 to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated January 5, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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
February 12, 2016

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Retired Senior Volunteer Program		12SRPHI0024/1/14	\$ 49,333
Retired Senior Volunteer Program		12SRPHI0024/1/15	<u>13,984</u>
Total Retired and Senior Volunteer Program	94.002		<u>63,317</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>63,317</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through State - Summer Food Service Program for Children:			
Play and Learn Sessions (PALS)	10.559	14147HHI3N1099	<u>62,897</u>
Pass-through State - Cooperative Forestry Assistance:			
Volunteer Fire Assistance FY14	10.664	13-DG-11052012-102	<u>7,101</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>69,998</u>
U.S. DEPARTMENT OF COMMERCE			
Pass-through State - Sea Grant Support:			
UH Sea Grant College Program	11.417	NA09OAR417/MA130012	<u>63,019</u>
Pass-through State - Coastal Zone Management Administration Awards:			
Coastal Zone Management Program		NA13NOS4190055	7,172
Coastal Zone Management FY15		B-2015-OP-2	<u>179,313</u>
Total Coastal Zone Management Administration Awards	11.419		<u>186,485</u>
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>249,504</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through State - Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers:			
Aging Title III DHHS FY12		MA201203	61,412
Aging Title III Programs		MA201403	97,277
Aging Title III Programs		MA201503	<u>336,984</u>
Total Special Programs for the Aging Title III, Part B Grants for Supportive Services Senior Centers	93.044		<u>495,673</u>
Affordable Care Act (ACA) - Consumer Assistance Program Grants:			
Care Transitions Program	93.519	CT-0912-0024	<u>52,839</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>548,512</u>
EXECUTIVE OFFICE OF THE PRESIDENT			
High Intensity Drug Trafficking Areas Program:			
High Intensity Drug Trafficking Areas		G13HI0003A	33,507
High Intensity Drug Trafficking Areas		G14HI0003A	<u>65,296</u>
Total High Intensity Drug Trafficking Areas Program	95.001		<u>98,803</u>
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT			<u>\$ 98,803</u>

**County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE			
Drug Enforcement Administration (DEA):			
Domestic Cannabis Enforcement		2014-68	\$ 53,468
Domestic Cannabis Enforcement		2015-69	1,638
Asset Forfeitures Program			42,637
Federal Justice Police Forfeitures		HI0050000	<u>34,216</u>
Total Drug Enforcement Administration	16.000		<u>131,959</u>
Pass-through State - Juvenile Accountability Block Grants:			
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263 SUP#2	3,162
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263 SUP#3	39,881
Juvenile Accountability Incentive Block Grant		DHS-12-OYS-263 SUP#4	<u>4,492</u>
Total Juvenile Accountability Block Grants	16.523		<u>47,535</u>
Pass-through State - Crime Victim Assistance:			
Special Needs Advocacy Program		VOCA FFY11	119,332
Special Needs Advocacy Program		12-VA-01	<u>271,295</u>
Total Crime Victim Assistance	16.575		<u>390,627</u>
Pass-through State - Violence Against Women Formula Grants:			
VAWA Sexual Assault Examination		10-WF-03	2,959
VAWA Domestic Violence Outreach		11-WF-06	16,980
Violence Against Women Act		12-WF-12	17,813
Domestic Violence Investigation		12-WF-09	37,341
Domestic Violence Investigation		13-WF-02	<u>39,419</u>
Total Violence Against Women Formula Grants	16.588		<u>114,512</u>
Pass-through State - Public Safety Partnership and Community Policing Grants:			
Cops Hiring Program	16.710	2010UMWX0091	\$ <u>96,710</u>
Edward Byrne Memorial Justice Assistance Grant Program:			
Hawaii Narcotics Task Force		10-DJ-17	16,877
Statewide Marijuana Eradication		12-DJ-07	4,336
E. Byrne/Epic Awareness		12-DJ-08	14,431
Criminal Justice Information System		11-DJ-08	84,773
Hawaii Narcotics Task Force		12-DJ-10	16,390
E. Byrne/Pros of Drug Crimes		13-DJ-04	<u>8,542</u>
Total Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>145,349</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			\$ <u>926,692</u>

**County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY			
Pass-through State - Capitalization Grants for Drinking Water State Revolving Funds:			
Omaopio #2 Middle Tank		DW#247-0005LOG#12-062	\$ 122,289
Kamole WTP Highlift Pumps		DW#213-0008LOG#12-069J	14,886
Hana Source Improvements - Wakiu Well		DW#217-0005LOG#13-044	12,877
Olinda WTP Reline Sed Basin		DW#215-0004LOG#14-119	816,237
Wailuku Well Development Project		DW#212-0009LOG#14-191	1,403,742
Wakiu Well Replacement Development Project		DW#217-0005LOG#13-044	385,574
Paia-Kuau Water System Improvements Project		DW#213-0014LOG#14-162	154,588
Piiholo WTP Org Carb Reduction		DW#247-0004LOG#14-148	349,079
Waikamoi Flume Repair/Replacement		DW#215-0003LOG#13-174	460,213
Wellhead Protection Program		ASO 12-117[10F2]	231,646
DOH Wellhead Protection		ASO 12-117[20F2]	<u>749,985</u>
Total Capitalization Grants for Drinking Water State Revolving Funds	66.468		<u>4,701,116</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>4,701,116</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through State - Highway Planning and Construction:			
FHWA Projects State Reviews		FHA CENG	74,939
Bridge Inspection Program		BR-NBIS(057)	51,890
FHWA Various Projects County		FHWA CENG	433,125
MFD Hydrafusion Struts		FLEX 2015PRJ12	27,923
Kam/Hina Avenue Traffic Signal		STP-3940(1)	2,430
Kahoolopoo Bridge Replacement		BR0900-078	340,946
Kahekii Highway Pavement/Rehabilitation		STP-3405(3)	400
Haliimaile Road Improvements		STP-A371(1)	12,192
Pukalani Street Pavement		STP-3620(001)	180
Haliimaile Road Improvement Phase 2		STP-A371(002)	74,716
Lahaina Watershed Project Div Phase 3A		STP-0900(083)	997,180
Kamalii Elementary School Safe Routes		SRS-1500(60)	377,147
Princess Nahienaena Safe Route		SRS-1500(59)	26,756
South Kihei Road Pavement Rehabilitation		STP-3100(013)	1,136,720
Wakea Avenue/Wells St Pavement Rehabilitation		STP-0900(082)	1,794,718
Wakea Avenue at Hina Traffic		STP-0900(082)	158,116
Baldwin Avenue Resurfacing		STP-0390(001)	1,788,689
Papa Avenue Pavement Rehabilitation		STP-3910(001)	5,791,646
Hansen Road Pavement Reconstruction		STP-3600(001)	1,614,153
Lono Avenue Pavement Rehabilitation Phase 2		STP-3950(008)	1,357,515
Kokomo Road Pavement Reconstruction		STP-0366(001)	3,872,078
Wailea Alanui/Ike Drive Pavement		STP-0900(084)	<u>580,082</u>
Total Highway Planning and Construction	20.205		<u>20,513,541</u>
Pass-through State - Federal Transit Capital Investment Grants:			
FTA 5309 Bus & Bus Facilities Sgr		FTA-2011-017-SGR	445,458
FTA 5309 Formula Funds Program		HI-04-0010	21,857
FTA 5309 Livability Program FY13		STP 8.0935	<u>96,677</u>
Total Federal Transit Capital Investment Grants	20.500		\$ <u>563,992</u>

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
Pass-through State - Formula Grants for Rural Areas:			
FTA Rural Transit Assistance - RTAP		HI-18-X030	\$ <u>6,747</u>
Total Formula Grants for Rural Areas	20.509		<u>6,747</u>
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			
FTA Planning Program 5305(e)	20.515	HI-80-0019	<u>94,943</u>
Pass-through State - State and Community Highway Safety:			
MPD Roadblock Program		AL030202M0	1,387
Maui Safe Comm Speed		SC03-06(0)	(415)
Maui Speed Enforcement		SC030601M0	(1,020)
MPD Data Records		TR03-03(02)	(6,224)
MPD Traffic Services		PT14-01(03-M-01)	22,370
Distracted Driving Enforcement		DD14-10(03-M-01)	9,425
FFY14 MPD Seat Belt Program		OP14-15(01-M-03)	15,496
FFY14 Speed Enforcement		SC14-06(01-M-03)	32,384
FFY14 MPD Traffic Data Records		TR14-03(05-M-01)	771
MPD Child Restraint Project		OP14-05(03-M-01)	8,032
MPD Roadblock Program		AL14-02(01-M-03)	53,554
Prosecutors Highway Safety Training		AL14-02(17-M-01)	672
MPD Traffic Services		PT15-01(03-M-01)	33,898
FFY15 MPD Seat Belt Program		OP15-05(01-M-03)	29,143
FFY15 Speed Enforcement		SC15-06(01-M-03)	28,066
FFY15 MPD Traffic Data Records		TR15-03(05-M-01)	16,715
Distracted Driving Enforcement		DD15-10(03-M-01)	92
MPD Roadblock Program		AL15-02(01-M-03)	135,106
MPD Child Restraint Project		OP15-05(03-M-01)	12,237
Maui Prosecutors Traffic Rec		TR15-03(10-M-01)	4,848
Highway Safety Grant		AL15-02(05-M-01)	<u>12,442</u>
Total State and Community Highway Safety	20.600		<u>408,979</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>21,588,202</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>648</u>
Emergency Management Performance Grants		8/1/13 TO 6/30/14	45,328
Emergency Management Performance Grants		EMW-2014-EP-00010	<u>13,500</u>
Total Emergency Management Performance Grants	97.042		<u>58,828</u>
Pass-through State - Port Security Grant Program:			
FFY09 Port Security Grant Program	97.056	2009-PU-T9-K035	\$ <u>114,464</u>

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY (Continued)			
Homeland Security Grant Program:			
FFY09 Law Enforcement Terrorism Prevention		FY09-SS-T9-0006	\$ (159)
FFY09 Citizens Corp Program		FY09-SS-T9-0006	18,322
FFY09 State Homeland Security Program		FY09-SS-T9-0006	(159)
FFY11 State Homeland Security Program		2011-SS-00129	224,235
FFY12 Community Outreach / Citizens Corp Program		EMW-2012-SS-00009EXT	21,947
FFY12 State Homeland Security Grant		EMW-2012-SS-00009EXT	199,943
FFY13 State Homeland Security Program		EMW-2013-SS-00003	144,668
FFY13 SHSG Community & Citizen Prep		EMW-2013-SS-00003	6,187
ST Homeland Security		EMW-2014-SS-00003	4,800
Total Homeland Security Grant Program	97.067		<u>619,784</u>
Training Resource and Data Exchange:			
FFY10 Citizens Corp Program		2010-SS-T0-0006	16,947
FFY11 Statewide Outreach / Citizens Corp Program		2011-SS-00129	579
Total Training Resource and Data Exchange	97.097		<u>17,526</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>811,250</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grants / Small Cities Program			
Easter Seals Maui Phase II		PY10 REPRGDTD2/25/13	19,744
Lanai Brush Truck		B-13-DH-15-0003	124,500
Molokai Landfill Dump Truck		B-13-DH-15-0003	183,206
Hana Landfill Dump Truck		B-13-DH-15-0003	233,034
Women Helping Women Domestic Violence		B-13-DH-15-0003	6,831
Lanai Community Health Center Infrastructure		B-13-DH-15-0003	11,112
Total Community Development Block Grants / Small Cities Program	14.219		<u>578,427</u>
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii:			
Lanai Comm Land Acquisition		B-11-DH-15-0003	5,569
Easter Seals Maui Phase II		B-11-DH-15-0003	156,009
CDBG Program Admin FY2014		B-13-DH-15-0003	12,796
The Maui Farm Rehabilitation		B-14-DH-15-0003	1,023
Maui Food Bank Rehab		B-14-DH-15-0003	15,915
CDBG Program Admin FY15		B-14-DH-15-0003	294,526
Total Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228		<u>\$ 485,838</u>

**County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Project Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)			
Pass-through State - Home Investment Partnerships Program:			
Home 1st Time Homebuyers Project		PROJ INCME	\$ 18,842
Home FFY10 Kahawai Apartment		HOME FFY10CMTMNT	226,193
Home FFY10 Administration		HOME FFY10CMTMNT	31,000
Home FFY11 Administration		HOME FFY10	37,192
Home FFY14 Kulamalu Reprg		HOME FFY14	124,467
Home FFY14 Administration		M-2014-MAUI ADMIN	830
Home FFY04 Administration		HOME FFY04	<u>151</u>
Total Home Investment Partnership Program	14.239		<u>438,675</u>
Section 8 Housing Choice Vouchers:			
Section 8 Housing Voucher FY2014		HI004	(1,777)
Section 8 Housing Admin FY2014		HI004	2,040
Section 8 Housing Voucher FY2015		HI004	14,014,592
Section 8 Housing Admin FY2015		HI004	1,168,010
Section 8 Family Self-Sufficient		HI004	<u>73,971</u>
Total Section 8 Housing Choice Vouchers	14.871		<u>15,256,836</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>16,759,776</u>
U.S. DEPARTMENT OF LABOR			
Pass-through State - Workforce Investment Act:			
Workforce Investment Act Admin		WIA-13-LAC-M6/30/2015	52,936
Workforce Investment Act Admin		WIA-14-LAC-M6/30/2016	<u>31,615</u>
Total Workforce Investment Act	17.000		<u>84,551</u>
Pass-through State - WIA Adult Program:			
Workforce Investment Act - Adult		WIA-13-AP-M6/30/2015	218,871
Workforce Investment Act - Adult		WIA-14-AP-M6/30/2016	<u>116,644</u>
Total WIA Adult Program	17.258		<u>335,515</u>
Pass-through State - WIA Youth Activities:			
Workforce Investment Act - Youth		WIA-13-AP-M6/30/2015	203,178
Workforce Investment Act - Youth		WIA-14-YP-M6/30/2016	<u>103,376</u>
Total WIA Youth Activities	17.259		<u>306,554</u>
Pass-through State - WIA Dislocated Workers:			
Workforce Investment Act DWP		WIA-13-DWP-M6/30/2015	217,282
Workforce Investment Act DWP		WIA-14-DWP-M6/30/2016	<u>121,096</u>
Total WIA Dislocated Workers	17.260		<u>338,378</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>1,064,998</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>46,882,168</u>

County of Maui
State of Hawai'i
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

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 Hawai'i (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 Hawai'i
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015

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>393,629</u>
Total U.S. Department of Health and Human Services		<u>393,629</u>
U.S. Department of Housing and Urban Development		
Community Development Block Grants/Small Cities Program	14.219	556,464
Community Development Block Grants/State's Program	14.228	<u>155,323</u>
Total U.S. Department of Housing and Urban Development		<u>711,787</u>
Total Provided to Subrecipients		\$ <u><u>1,105,416</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, 2015, the outstanding principal amounted to \$67,723,846 that bears interest at 0.00 percent to 2.60 percent. The loans require semi-annual principal and interest payments and loan fees through fiscal year 2035. The County has 36 projects funded with these loans.

**County of Maui
State of Hawai'i
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

NOTE 6 - OUTSTANDING LOAN BALANCES (Continued)

State Revolving Fund Loans outstanding as of June 30, 2015 are as follows:

Year	Description	Loan Number	Final Maturity	Outstanding Balance June 30, 2015
1997	Lahaina Pump Station No. 3	C150054-07	2016	\$ 171,125
1997	Kihei Wastewater Reclamation Phase IIB	C150077-06	2016	581,645
1998	Kihei Reuse Core Distribution System	C150077-09	2018	515,469
2004	Lahaina Pump Station Nos. 5 & 6	C150054-12	2026	1,922,751
2004	Kahului Pump Station Modification	C150052-30	2026	1,545,248
2006	Lahaina Pump Station No. 4	C150054-09	2027	1,090,392
2008	Wailuku-Kahului Wastewater Pump Station	C150052-19	2028	6,771,718
2009	Wailuku-Kahului Wastewater Reclamation	C150052-32	2029	1,403,719
2009	Lahaina Wastewater Pump Station No.1	C150054-06	2029	5,015,104
2009	Central Maui Landfill Gas Collection	NPS0052-39	2029	2,464,748
2009	Islandwide EPA Consent Decree	C150052-31	2029	5,976,395
2009	Molokai Integrated Solid Waste Facility	NPS0041-07	2029	2,397,947
2010	Front Street Sewer Line Rehabilitation	C150054-11	2029	342,059
2010	Hyatt/Kaanapali Force Main Replacements	C150054-25	2030	1,349,957
2010	Countywide Pump Station Renovations	C150052-28	2029	743,995
2011	Kihei No. 2 Force Main Replacement	C150077-20	2032	836,342
2013	Alamaha Force Main Replacement	C150052-40	2033	1,016,564
2013	West Maui Recycled Water	C150054-23	2033	1,152,872
2012	Wailuku-Kahului Force Main Replacement	C150052-35	2034	3,478,022
2012	Countywide Pump Station Renovations	C150054-34	2034	2,649,634
2010	Central Operations and Maintenance Facility	C150052-33	2034	475,129
2013	Lahaina No. 3 Force Main Replacement	C150054-28	2034	4,519,072
2013	Lahaina Wastewater Pump Station No. 2	C150054-10	2034	835,039
				<u>\$ 47,254,946</u>

**County of Maui
State of Hawai'i
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

NOTE 6 - OUTSTANDING LOAN BALANCES (Continued)

Year	Description	Loan Number	Final Maturity	Outstanding Balance June 30, 2015
Department of Water Supply:				
2010	Napili Well "A" Site Improvements	DW214-0009	2029	\$ 1,301,387
2012	Lower Paia Water Tank Replacement	DW212-0007	2032	862,401
2012	Makawao Waterline Replacement	DW213-0006	2031	553,361
2012	Kamaole Water Treatment Plant High Lift Pumps	DW213-0008	2032	1,592,828
2012	Upper Omaopio Road Tank Replacement	DW247-0005	2032	837,883
2012	Middle and Lower Omaopio Road Tanks Replacements	DW247-0006	2032	490,076
2012	Uluniu Road and Ewa Place Waterline Replacement	DW212-0010	2032	210,952
2012	Wakiu Well Replacement	DW217-0005	2033	807,034
2014	Kaupakalua Road Waterline Replacement	DW213-0009	2033	786,987
2014	Waikamoi Flume Repair/Replacement	DW215-0003	2033	7,145,373
2014	Piiholo Water Treatment Plant Improvements	DW247-0004	2034	3,985,317
2015	Wailuku Well	DW212-0009	2034	1,829,921
2015	Haliimaile Tank Replacement	DW213-0015	2035	65,380
				<u>20,468,900</u>
	Total State Revolving Fund Loans			\$ <u>67,723,846</u>

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015**

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 type="checkbox"/> yes	<input checked="" 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 checked="" type="checkbox"/> yes	<input 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:	Qualified for Section 8 Housing Choice Vouchers; Unmodified for the remaining programs.
---	---

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
--	---	-----------------------------

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,406,465
--	-------------

Auditee qualified as a low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
--	------------------------------	--

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.

No. **Internal Control Findings**

2015-001 Internal Controls Over Vacation and Sick Leave Records – Significant Deficiency

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

County of Maui:

- There was 1 instance where an 'Application for Leave (DF-2) form' was not signed by the employee taking leave.
- There were 3 instances where an 'Application for Leave (DF-2) form' could not be located for the leave taken by an employee.

DWS:

- There were 3 instances where an 'Application for Leave (DF-1) form' was not signed by the employee taking leave.

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

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

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

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. Internal Control Findings

2015-001 Internal Controls Over Vacation and Sick Leave Records – Significant Deficiency (Continued)

Recommendation

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

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-002 Accounting for Construction 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 in progress and capital asset schedules:

- The County had a total of \$69 million in capital asset additions in the current year. A review of the additions of the County showed a total of \$25,438,044 of capital asset additions that had dates-in-service from prior years that should have been capitalized in prior years.
- The DWS had a total of \$25 million in capital asset additions in the current year. A review of the additions of the DWS showed a total of \$634,526 of capital asset additions that had dates-in-service from prior years that should have been capitalized as capital assets in prior years.
- The DWS had a total of \$49 million in construction in progress carried forward from the prior year. In the current year, we noted a total of \$300,511 of construction in progress balances from prior years that should have been transferred out and capitalized as capital assets in prior years.

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 amounts as incurred.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2015-002 Accounting for Construction Work in Progress – Significant Deficiency (Continued)

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

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

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 financial report.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. Internal Control Findings

2015-003 Internal Controls Over Automated Payroll Processing System – Significant Deficiency

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

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

- 1 instance (out of 40 samples) where a manual time sheet did not have an approval by the supervisor/department head.
- 2 instances (out of 40 samples) where an automated time card did not have an approval by the employee or supervisor/department head.

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

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

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2015-003 Internal Controls Over Automated Payroll Processing System – Significant Deficiency (Continued)

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

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

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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-004 Internal Controls Over pCard Purchases – Significant Deficiency

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

- There were two (2) instances where a pCard transaction log was not signed by an authorized approver.

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

Cause: The guidance stated in the 'Purchasing Card Program Policy and Procedures' was not consistently applied by the County of Maui.

Effect: The lack of adequate internal controls over pCard purchases could result in misuse of the pCard for non-approved purchases in violation of the policies and procedures in effect.

Recommendation

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

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-005 Internal Controls Over Procurement Process

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

- Noted one (1) instance where a 'Pre-Bid' conference was not held prior to the procurement of a contract with an estimated contract value of \$770,000.

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

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

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

Recommendation

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

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-006 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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2015-007 **Timely Reconciliation of Federal and State Grant Programs – Significant Deficiency**

Condition: The Department of Finance continues to research, reconcile and dispose of unrecorded balances; however, unrelieved balances within the Grant Fund still exist as of June 30, 2015. During the current year audit, we noted the following:

- There were two instances where prior year grant receivables totaling \$192,421 did not reflect any current year activity as the departments handling the grants 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). Reconciliations of these balances should be performed on a timely 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.

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 receivables remain and continue to carry forward as there is no specific federal program compliance officer and compliance responsibilities are being handled at the departmental level. The County should implement policies and procedures to complete monthly or quarterly reconciliations and monitoring of federal and state grants.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-008 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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-008 Logical Access & Access Security – Significant Deficiency (Continued)

Recommendation

We recommend that the County:

1. Establish a control process to review and confirm access rights periodically. There should be at least a semiannual review of user access.
2. 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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2015-009 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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

**Ref.
No. Internal Control Findings**

2015-010 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 Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Ref. No.</u>	Internal Control over Compliance Findings	<u>Questioned Costs</u>
2015-011	Centralized Position to Monitor Federal Program Compliance – Significant Deficiency	
Condition:	During our audit, we noted that the County expended over \$46.8 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.		

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015**

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

<u>Ref. No.</u>	<u>Internal Control over Compliance Findings (Continued)</u>	<u>Questioned Costs</u>
2015-012	<p>Completeness and Accuracy of the Financial Data Schedule – Material Weakness</p> <p>Federal agency: Department of Housing and Urban Development CFDA No: 14.871 Program: Section 8 Housing Choice Vouchers (HCV)</p>	
Condition:	<p>The County of Maui, Department of Housing and Human Concerns (DHHC) enters into an Annual Contribution Contract under which the Housing and Urban Development (HUD) provides funds to the DHHC to administer the Section 8 Housing Choice Vouchers (HCV) Program. The following were the conditions noted during our reviews of the unaudited Financial Data Schedule (FDS) in conjunction with the Voucher Management System (VMS) report and the Integrated Financial Accounting System (IFAS) reports as part of our testing of the reporting compliance requirement.</p> <ul style="list-style-type: none"> • Key line items reported per FDS did not agree to amounts reported per IFAS or were not properly supported by VMS. • There were input and/or footing errors within schedules used to populate the FDS. • There was a lack of reconciliations performed during the year. The requested reconciliation between the amounts reported in the Real Estate Assessment Center (REAC) online system to amounts reported in IFAS was requested in August 2015 and subsequently provided on November 30, 2015 without proper reviews performed by knowledgeable personnel prior to submission. As such, the reconciliation provided was inaccurate and not properly reconciled and supported by adequate documentation. 	
Criteria:	<p>In accordance with 24 CFR section 5.801, housing agencies that are contract administrators for this program must comply with the HUD Uniform Financial Reporting Standards rule. Accordingly, public housing agencies that administer Section 8 tenant-based housing assistance payment programs are required to submit financial statements, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. Financial statements should be prepared from the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.</p>	

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015**

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

<u>Ref. No.</u>	Internal Control over Compliance Findings (Continued)	<u>Questioned Costs</u>
2015-012	Completeness and Accuracy of the Financial Data Schedule – Material Weakness (Continued)	
Criteria:	The FDS is submitted electronically to the Financial Assessment Sub-system (FASS-PH) at the REAC. The unaudited financial statement for REAC is due 2 months after the fiscal year end and the audited financial statement is due 9 months after the fiscal year end. The FASS-PH system is one of HUD’s main monitoring and oversight systems for the HCV Program.	
Cause:	The DHHC was not reconciling the financial reports to the general ledger accounting system, which is the underlying support of the audited financial statements and the Schedule of Expenditures of Federal Awards. In addition, the DHHC experienced turnovers and was not able to maintain prior experienced personnel to assist in preparing and submitting accurate unaudited FDS to REAC.	
Effect:	The amounts reported in the unaudited FDS submission were not supported by the County’s accounting records or VMS.	\$ <u> --</u>
Recommendation:		
The DHHC should hire, train, and maintain knowledgeable personnel in the Section 8 HCV Program to comply with the Uniform Financial Reporting Standards (24 CFR section 5.801) requirement of the program and timely reconcile financial reports to the general ledger accounting system on a consistent basis.		
Controls over financial reporting ensure that timely and accurate reconciliations are consistently performed and supporting documentation is maintained.		

PART IV
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

County of Maui, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2015

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, 2014, dated March 12, 2015.

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Recommendations</u>		<u>Status</u>
2014-001	<p>Internal Controls Over Automated Payroll Processing System</p> <p>The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.</p>	Partially accomplished. Refer to finding 2015-003.
2014-002	<p>Internal Controls Over Payroll System Historical Edits</p> <p>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.</p>	Accomplished.
2014-003	<p>Timely Reconciliation of Federal and State Grant Programs</p> <p>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.</p>	Not accomplished. Refer to finding 2015-007.

**County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2014-004 Internal Controls Over Miscellaneous Cash Receipts</p> <p>Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign-offs by personnel involved.</p>	<p>Not accomplished. Refer to finding 2015-006.</p>
<p>2014-005 Accounting for Construction Work in Progress</p> <p>The County and the DWS should establish formal procedures to ensure that construction work in progress and projects placed in service are communicated timely by project engineers to the fiscal staff in order to properly capitalize and depreciate those assets in the appropriate accounting period. The County should also establish procedures to maintain and reconcile the construction in progress schedule throughout the year. These procedures will also assist the County in completing the schedules required to timely close and prepare the County's comprehensive annual financial report.</p>	<p>Partially accomplished. Refer to finding 2015-002.</p>
<p>2014-006 Timely Preparation of the Comprehensive Annual Financial Report</p> <p>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.</p>	<p>Accomplished.</p>

County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2014-007 Review Agency Fund Accounts</p> <p>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.</p>	<p>Accomplished.</p>
<p>2014-008 Logical Access & Access Security</p> <p>We recommend that the County establish a control process in place to review and confirm access rights periodically with at least a semiannual review of user access. The review should include a report which includes a list of users and the security role assignments, department and accounts should be generated. These reports should be forwarded to the respective departments for review, with each department head noting any discrepancies. These updated lists should be sent to Finance for approval, and all changes should be documented by completion of a Network Access Security Form. The County should also monitor vendor access into IAS, develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration. Lastly, the County should develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.</p>	<p>Not accomplished. Refer to finding 2015-008.</p>
<p>2014-009 Backup & Recovery</p> <p>We recommend that the County develop a formal backup and restore policy, have the policy approved by the appropriate level of management and communicate the policy to employees. Additionally, the County should perform formal system restoration testing.</p>	<p>Not accomplished. Refer to finding 2015-009.</p>

**County of Maui, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2014-010 IAS Program Changes & Development</p> <p>We recommend that the County ensure change management policies and procedures are consistently followed.</p>	Accomplished.
<p>2014-011 Information Technology (IT) Governance</p> <p>We recommend that the County hold formal steering committee meetings and complete an IT Risk Assessment and fraud related assessment.</p>	Not accomplished. Refer to finding 2015-010.
<p>2014-012 Completeness and Accuracy of the County's Schedule of Expenditures of Federal Awards (SEFA)</p> <p>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.</p>	Accomplished.
<p>2014-013 Centralized Position to Monitor Federal Program Compliance</p> <p>The County should establish a centralized position charged with overseeing the County's compliance with federal award program requirements. That centralized position would coordinate with the departmental program managers to ensure that the County is complying with federal program requirements.</p>	Not accomplished. Refer to finding 2015-011.

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

February 5, 2016

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

**SUBJECT: SINGLE AUDIT FINDINGS – CORRECTIVE ACTION PLAN FOR
THE FISCAL YEAR ENDED JUNE 30, 2015**

Dear Mr. Isobe:

The County of Maui appreciates that the Comprehensive Annual Financial Report audits often identify opportunities for improving operations and governance. Attached is our Corrective Action Plan in response to the Single Audit Findings for the fiscal year ended June 30, 2015. It is our goal that every audit have a positive result and that our response to findings and recommendations allow us to take positive action and to improve our operations.

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

Sincerely,

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

DANILO F. AGSALOG
Director of Finance

Enclosure

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

**Ref.
No.**

Internal Control Findings

2015-001 Internal Controls Over Vacation and Sick Leave Records – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation but is not convinced this that should be classified as a significant deficiency because the number of instances of unsigned and missing leave forms was small as compared to the sample size. Management believes that additional samples should have been tested to obtain sufficient evidence to support this audit finding.

In June 2014, the County's Department of Finance established a policy manual outlining standard payroll procedures and internal controls in its effort to address the audit finding for the fiscal year ended June 30, 2013. This policy is applicable to all County departments including the Department of Water Supply. The Department of Finance has been continuing its effort to train and periodically remind the departments' ADP e-Time users regarding the payroll process and procedures by conducting a SuperUser Meeting on a quarterly basis. On March 7, 2015, a memo from the Finance Director was sent out to all County employees reminding them of the County's Payroll Policies and Procedures relating to the submission, review, and approval of timesheets. Additionally, the Department of Finance conducted an internal audit in April 2015 to test if all County departments' (except for the agencies under the legislative branch) are following the internal controls over submission, review, and approval of employee time cards. The preliminary results of the internal audit findings were provided to the department heads, supervisors, department personnel offers, and timekeepers through a memo dated June 3, 2015. The findings were discussed in detail during the SuperUser Meeting conducted on June 12, 2015.

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

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

2015-001 **Internal Controls Over Vacation and Sick Leave Records – Significant Deficiency**

End Date: March 31, 2016 and ongoing

Responding Person(s): May-Anne Alibin, Assistant Accounting System Administrator
Department of Finance
Phone No. (808) 270-7149

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

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-002 Accounting for Construction in Progress – Significant Deficiency

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 financial report.

View of Responsible Officials and Planned Corrective Action

Management concurs with this finding. A draft Capital Asset Accounting Manual was completed last year in response to the prior year's audit finding. However, the Department of Finance and Department of Water Supply were unable to finalize the manual and implement the policies and procedures due to staffing shortages. The Department of Finance has proposed a Capital and Fixed Asset Analyst position in the Fiscal Year (FY) 2016 Budget submission; however, this request was denied. The Management believes that even though a formal procedure is established, it does not have the resources available to implement and monitor the policies and procedures at the countywide level and complete a periodic review of the construction in progress schedule. The maintenance and reconciliation of the construction in progress schedule throughout the year takes an enormous amount of effort.

As a short-term plan, the Department of Finance and DWS will work together with the project managers to ensure that construction work in progress and projects placed in service are communicated timely to the appropriate fiscal office staff. However, as a long-term plan, the Department of Finance will review its current organizational chart and propose a re-organization of its structure to acquire the necessary staffing that will help address this audit finding in concert with the formal adoption of the Capital Asset Accounting manual.

End Date: March 31, 2016 and ongoing

Responding Person(s): May-Anne Alibin, Assistant Accounting System Administrator

Department of Finance
Phone No. (808) 270-7149

Kristina Cabbat, Financial System Analyst
Department of Finance
Phone No. (808) 463-3201

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

**Ref.
No. Internal Control Findings**

2015-003 Internal Controls Over Automated Payroll Processing System – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation but is not convinced that this should be classified as a significant deficiency because the number of instances (3 out of 40 samples) of unapproved time cards was small as compared to the sample size. Management believes that additional samples should have been tested to obtain sufficient evidence to support this audit finding. Similar to the response to audit finding no. 2015-001 above, in an effort to establish a more uniform system of internal controls over the submission, review, and approval of employee time records, the County's Department of Finance has established a policy manual outlining standard payroll procedures and internal controls in June 2014. The Department of Finance has been continuing its effort to train and periodically remind the departments' ADP e-Time users regarding the payroll process and procedures by conducting a SuperUser Meeting on a quarterly basis. On March 7, 2015, a memo from the Finance Director was sent out to all County employees reminding them of the County's Payroll Policies and Procedures relating to the submission, review, and approval of timesheets. Additionally, the Department of Finance conducted an internal audit in April 2015 to test if all County departments' (except for the agencies under the legislative branch) are following the internal controls over submission, review, and approval of employee time cards. The preliminary results of the internal audit findings were provided to the department heads, supervisors, department personnel offers, and timekeepers through a memo dated June 3, 2015. The findings were discussed in detail during the SuperUser Meeting conducted on June 12, 2015.

The effectiveness of internal controls over submission, review, and approval of employee timecards relies heavily on the departments' management to ensure that all of their employees follow the policies and procedures and their administrative, authorized, and/or appropriate staff are monitoring the accuracy of these payroll processes. The Department of Finance will continue to conduct its quarterly SuperUser Meeting, communicate the importance of these key payroll policies to the new and existing employees, and complete an internal payroll audit at least once a year. Additionally, the department will update and re-issue the policy to all County departments on or before March 31, 2016 to provide clarity on some policies and procedures and include the newly developed payroll forms such as Historical Edit and ADP Access forms.

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

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

**2015-003 Internal Controls Over Automated Payroll Processing System – Significant
Deficiency**

End Date: March 31, 2016 and ongoing

Responding Person(s): May-Anne Alibin, Assistant Accounting System Administrator
Department of Finance
Phone No. (808) 270-7149

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-004 Internal Controls Over pCard Purchases – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the recommendation but is not convinced that this should be classified as a significant deficiency because the number of instances of missing signatures was so small as compared to the sample size (2 instances out of 40 samples). Management believes that additional samples should have been tested to obtain sufficient evidence to support this audit finding. However, the Purchasing Division strives for excellence and has already implemented a new procedure to have two personnel, instead of one, to check the same monthly records specifically for valid signatures. This change in procedure should provide the same value as an independent proofreader provides for a written document. The Purchasing Division is also considering restructuring the monthly review process so that each reviewer checks for only one thing at a time (e.g. receipts, then signatures, then the presence of a statement, the presence of the log, etc.), instead of checking each document at the same time for multiple items. Although this process will take longer, it will make the review more thorough in that the reviewer is focused on identifying one type of defect at a time.

End Date: Ongoing

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-005 Internal Controls Over Procurement Process

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management agrees with this finding. The Purchasing Division had revised its bid file checklist to ensure that original bid specifications with an estimated budget of over \$500,000.00 have a pre-bid meeting scheduled within the specifications, prior to publishing the bid. Additionally, a memo to project managers will be sent out to remind them of this requirement.

End Date: Ongoing

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-006 Internal Controls Over Miscellaneous Cash Receipts – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Treasury Division has been working with the various departments to implement a county-wide cashiering system. Cash Handling Policies and Procedures are being updated to reflect the changes with the implementation of the county wide cashiering system iNovah software. The Treasurer who has been principal in monitoring the internal controls is exploring the possibility of applying the iCapture Electronic Deposit Program to further simplify the receipt process.

End Date: Ongoing

Responding Person(s): Angelita delaPena, Treasurer
Department of Finance
Phone No. (808) 270-7464

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.

No.

Internal Control Findings

2015-007 Timely Reconciliation of Federal and State Grant Programs – Significant Deficiency

Recommendation

The County has implemented mitigating controls such as a periodic reconciliation of federal and state grants. However, old grants and prior year receivables remain and continue to carry forward 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.

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding. A periodic reconciliation of federal and state grants is being implemented. The department will continuously work with the respective grant managers to close old grants and resolve prior year grants receivables.

The Accountant V or General Ledger Supervisor currently performs periodic reconciliation of federal and state grants with the assistance of the Division of Accounts' staff. However, until a federal program compliance officer position is granted to the Department of Finance, it will not be able to assume the compliance roles responsibilities (i.e. monitoring compliance to the federal and state grants) that are currently being handled at the department level.

End Date: March 31, 2016 and ongoing

Responding Person(s): Ortaine Acidera, Accountant V
Department of Finance
Phone No. (808) 270-7497

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

**Ref.
No. Internal Control Findings**

2015-008 Logical Access & Access Security – Significant Deficiency

Recommendation

We recommend that the County:

6. Establish a control process to review and confirm access rights periodically. There should be at least a semiannual review of user access.
7. 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.
8. Monitor vendor access into IAS.
9. Develop formal password policies and procedures and strengthen password controls including a combination of minimum length, complexity, expiration, history, and lockout policy and duration.
10. Develop an information security policy, have the policy approved by the appropriate level of management and communicate the policy to employees.

View of Responsible Officials and Planned Corrective Action

2015-008.1 and 2015-008.2: In compliance with the recommendation of the prior year's audit finding, the ITS Division has made a report of user access available to the Department of Finance. Establishment of the control process using that report is not the responsibility of the ITS Division.

IFAS System - The Accounts Division in the Department of Finance will establish the control process as it relates to the Integrated Financial and Administrative (IFAS) system to review and confirm access rights by reviewing the NU9110: Users with Role Assigned Report periodically.

IAS World System – The Real Property Assessment Division in the Department of Finance will establish the control process as it relates to the IAS Word to review and confirm access rights by reviewing a list of users and security roles, periodically.

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

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

2015-008 Logical Access & Access Security – Significant Deficiency

2015-008.3: The ITS Division has included in its FY2017 Budget Request a request for funding for a Privileged Access Management utility, that will allow ITSD to monitor vendor access thoroughly.

2015-008.4: Management concurs with the finding. Development of the policy and procedure started in response to the prior year's audit finding, and the ITS Division will continue the implementation of such policy and procedures.

2015-008.5: Management concurs with the finding. Development of the policy and procedure started in response to the 2014 Single Audit Report's finding, and the ITS Division will continue the implementation of such policy and procedures.

End Date: June 30, 2016

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

May-Anne Alibin, Assistant Accounting System Administrator
Department of Finance
Phone No. (808) 270-7149

Scott Teruya, Real Property Assessment Administrator
Department of Finance
Phone No. (808) 270-7739

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-009 Backup & Recovery – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

Management agrees with the finding. Development of the policy and procedure started in response to the prior year's audit finding, and the ITS Division will continue to implement them.

End Date: June 30, 2016

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

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

Ref.
No. **Internal Control Findings**

2015-010 Information Technology (IT) Governance – Significant Deficiency

Recommendation

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

View of Responsible Officials and Planned Corrective Action

The ITS Division has initiated a project to institute IT Governance as an organizational capability; such capability is planned to be implemented by the County of Maui Administration starting March 2016.

Since 2014 ITSD has participated in IT Cyber Security Risk Assessment programs coordinated by MS-ISAC, which is part of the Center for Internet Security. Reports and recommendations are received, and acted upon, as an outcome of these assessments.

The ITS Division feels such efforts are appropriate to satisfy the recommendation and does not believe that it is responsible or competent to conduct fraud related assessments.

The Department of Finance will commission a consultant to conduct a fraud risk assessment as it relates to the overall organization, subject to the approval of the budget request.

End Date: June 30, 2016

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

Danilo F. Agsalog, Director
Department of Finance Phone No. (808) 270-7844

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

**Ref.
No.**

Internal Control over Compliance Findings

**2015-011 Centralized Position to Monitor Federal Program Compliance –
Significant Deficiency**

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.

View of Responsible Officials and Planned Corrective Action

Management concurs with this recommendation. However, establishing a centralized position requires an additional employee position, which is subject to County Council approval.

The Finance Director had included in the departmental budget expansion, a request for the recommended Grant Manager position in the fiscal year 2016 mayor's budget proposal; however, this expansion position request was not granted in the Department of Finance.

End Date: Not applicable

Responding Person(s): Danilo Aagsalog, Director
Department of Finance
Phone No. (808) 270-7844

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

**Ref.
No.**

Internal Control over Compliance Findings

2015-012

Completeness and Accuracy of the Financial Data Schedule - Material Weakness

Federal agency: Department of Housing and Urban Development

CFDA No: 14.871

Program: Section 8 Housing Choice Vouchers (HCV)

Recommendation:

The DHHC should hire, train, and maintain knowledgeable personnel in the Section 8 HCV Program to comply with the Uniform Financial Reporting Standards (24 CFR section 5.801) requirement of the program and timely reconcile financial reports to the general ledger accounting system on a consistent basis.

Controls over financial reporting ensure that timely and accurate reconciliations are consistently performed and supporting documentation is maintained.

View of Responsible Officials and Planned Corrective Action

Management concurs with the finding and has recently hired an Accountant who holds a BA in Accounting with over five years of professional experience. This Accountant has recently completed the HCV Financial Accounting and Reporting Training. As the most comprehensive training on HCV program financial accounting and reporting available, *HCV Financial Accounting and Reporting encompasses:*

- knowledge and tools needed to understand the proper use of HUD's chart of accounts for the HCV program, the application of specific GAAP requirements for various HCV accounting transactions, revenue recognition guidelines, and HCV equity accounts
- cost allocation plans and fee-for-service — including the difference between the two as well as when they would be used
- special rules for the accounting of fraud recoveries, portability, and FSS escrow accounts
- how to properly report year-end financial information to HUD in accordance with GAAP using the Financial Data Schedule (FDS)

The DHHC has also contracted work with Nan McKay & Associates (NMA) for February 22, 2016 through March 4, 2016, to conduct an in-depth review of our accounting processes and procedures which will include a review of the following:

- the current chart of accounts and how the accounts are being used
- current balance sheet asset and liability accounts such as cash, fraud recovery, FSS escrow accounts and determine whether improvements in accounting processes and procedures are needed

**County of Maui
State of Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

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

2015-012 Completeness and Accuracy of the Financial Data Schedule – Material Weakness

- HCV program equity accounts and determine whether these balances are being rolled forward correctly
- accounting for HAP transactions to determine whether transactions are accounted for correctly as well as whether special use vouchers are being accounted for as required by HUD

NMA has more than 35 years of experience serving housing authorities across the nation, NMAs widely known as the gold standard for performance excellence in the public housing and affordable housing industry. NMA expertise includes program and operational assessment, compliance reviews, quality control, technical assistance, program management, financial management, administrative plan consulting, regulatory training, and staff coaching and mentoring. NMA has provided these services to agencies of all sizes, including many of the largest housing authorities in the country.

In summary, DHHC has already taken active steps to properly train and hire experienced personnel which will ultimately satisfy the requirements of the recommendations to timely reconcile financial reports to the general ledger accounting system on a consistent basis.

End Date: March 31, 2016 and ongoing

Responding Person(s): Carol K. Reimann, Director
Department of Housing and Human Concerns
Phone No. (808) 270-7478

Buddy Almeida, Housing Administrator
Department of Housing and Human Concerns
Phone No. (808) 270-7355

Kelci Wandell, HCV Program Manager
Department of Housing and Human Concerns
Phone No. (808) 270-1746

Chelsea Masuda, Accountant I
Department of Housing and Human Concerns
Phone No. (808) 270-7185