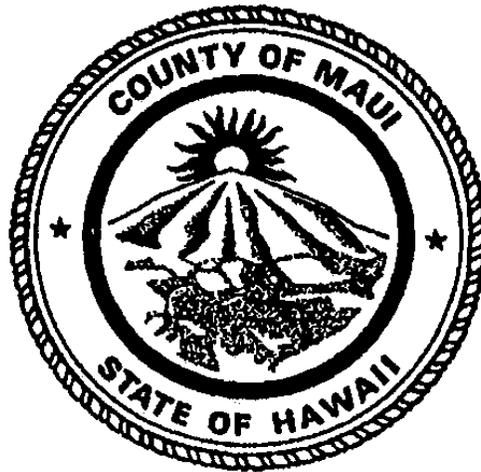


COUNTY OF MAUI

STATE OF HAWAII



SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2013

**COUNTY OF MAUI
STATE OF HAWAII**

Single Audit Reports

For the Year Ended June 30, 2013

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Section I
Introduction



February 20, 2014

Honorable Gladys C. Baisa, Chair
and Members of the Council
County of Maui
Wailuku, Maui:

We have completed the audit of 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, State of Hawaii (the County), as of and for the year ended June 30, 2013, which collectively comprise the County's basic financial statements. We have also audited the County's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports pertaining to our audit of the County's basic financial statements and federal financial assistance programs.

The audit objective and scope of our audit were as follows.

AUDIT OBJECTIVES

1. To provide opinions on the fair presentation of the County's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America. Our independent auditors' report, which expressed unmodified opinions on the County's basic financial statements, is included in the County's Comprehensive Annual Financial Report and issued under separate cover.
2. To consider the County's internal control over financing reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the County's compliance with certain provisions, laws, regulations, contracts, and grants that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the County's internal control over compliance with requirements that could have a direct and material effect on each of its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.
5. To provide an opinion on the County's compliance with applicable laws, regulations, contracts and grants that could have a direct and material effect on each of its major federal programs.

Honorable Gladys C. Baisa, Chair
and Members of the Council
February 20, 2014
Page 2

SCOPE OF AUDIT

We performed an audit of the County's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ORGANIZATION OF REPORT

Our report is organized into three sections as follows:

Section I, entitled "Introduction," describes the objectives and scope of our single audit and the organization and contents of this report.

Section II, entitled "Internal Control Over Financial Reporting and Compliance and Other Matters," contains our report on the County's internal control over financial reporting and on compliance and other matters based upon our audit of the County's basic financial statements.

Section III, entitled "Compliance and Internal Control Over Federal Awards," contains our report on the County's compliance and internal control over federal awards in accordance with OMB Circular A-133, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the County of Maui for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our findings and recommendations.

Sincerely,

Kobayashi, Kanetaka, Aoi, Lind & Yano CPAs LLC

Section II

Internal Control Over Financial Reporting and Compliance and Other Matters



**Independent Auditors' 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***

Honorable Gladys C. Baisa, Chair
and Members of the Council
County of Maui
Wailuku, Maui:

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, State of Hawaii (the County), as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 20, 2014.

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 Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2013-01 through 2013-09 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The County's Responses to Findings

The County's responses to the findings identified in our audit is described in Appendix 1 to the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Kobayashi, Kanetaka, Aoi, Leno & Yano CPAs LLC

Honolulu, Hawaii
February 20, 2014

Section III

Compliance and Internal Control Over Federal Awards



**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Honorable Gladys C. Baisa, Chair
and Members of the Council
County of Maui
Wailuku, Maui:

Report on Compliance for Each Major Federal Program

We have audited the County of Maui, State of Hawaii's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings SA-2013-01 through SA-2013-04. Our opinion on each major federal program is not modified with respect to these matters.

The County's responses to the noncompliance findings identified in our audit are described in Appendix 2 to the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in Appendix 2 to the accompanying schedule of findings and questioned costs as Findings SA-2013-01 through SA-2013-04, that we consider to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are described in Appendix 2 to the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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, 2013, and the related notes to the basic financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated February 20, 2014, 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 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.

Kobayashi, Kenton, Sai, Leno & Yano CPAs LLC

Honolulu, Hawaii
February 20, 2014

COUNTY OF MAUI, STATE OF HAWAII
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (CNCS)			
RETIRED SENIOR VOLUNTEER PROGRAM	94.002	09SRPHI00101/01/2009TO	\$ 112
RETIRED SENIOR VOLUNTEER PROGRAM	94.002	12SRPHI00204/01/201203	53,341
RETIRED SENIOR VOLUNTEER PROGRAM	94.002	12SRPHI0024/1/13	12,989
RETIRED SENIOR VOLUNTEER PROGRAM	94.002	06SRPHI003#2	865
Total CNCS			<u>67,307</u>
U.S. DEPARTMENT OF AGRICULTURE			
Food and Nutrition Service:			
Pass-through State:			
FOOD STAMP PROGRAM PROSECUTIONS	10.551	COOPERATIVE	213
PLAY & LEARN SESSIONS (PALS)	10.559	12127H1H13N10991706-0	58,179
Forest Service:			
Pass-through State:			
VOLUNTEER FIRE ASSISTANCE FY12	10.664	11-DG-11052012-0310701	68,048
VOLUNTEER FIRE ASSISTANCE FY13	10.664	12-DG-11052012-156	19,610
			<u>87,658</u>
Rural Housing Service:			
PLAYGROUND EQUIPMENT ONE ALII PARK-USDA	10.766	610060996000618	28,885
MITCHELL PAUOLE CENTER USDA GRANT	10.766	610060996000618	10,794
			<u>39,679</u>
USDA RURAL BUSINESS ENTERPRISE GRANT FY10	10.769	61-004-996000618	18,963
ARRA KIHEI POLICE STATION	10.780	IFB 10-11/P-6	2,968,134
Total U.S. Department of Agriculture			<u>3,172,826</u>
U.S. DEPARTMENT OF COMMERCE			
Economic Development Administration (EDA):			
EDA WAILUKU MUNICIPAL PARKING	11.307	077906367	181,590
National Oceanic and Atmospheric Administration:			
Pass-through State:			
COASTAL ZONE MANAGEMENT FY2011	11.419	B-10-004-00P	131,142
COASTAL ZONE MANAGEMENT FY2012	11.419	P13325	138,176
COASTAL ZONE MANAGEMENT PROGRAM	11.419	P13325	285,630
			<u>554,948</u>
Total U.S. Department of Commerce			<u>736,538</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Administration for Community Living:			
Pass-through State:			
AGING TITLE III DHHS FY11	93.044	MA201103	25,850
AGING TITLE III DHHS 01/02	93.044	MA200203	55
AGING TITLE III DHHS FY12	93.044	MA201203	246,704
AGING TITLE III PROGRAMS	93.044	MA201303	222,316
			<u>494,925</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)			
AGING/DISABILITY RESOURCE CENTER	93.048	MA-ADRCHD-2010-N	\$ 521
HAWAII COMMUNITY LIVING	93.048	MA.CLP.2010.11.N	3,334
AGING/DISABILITY RESOURCE CENTER	93.048	MA-ADRCHD-2010-N	775
HAWAII COMMUNITY LIVING	93.048	MA.COP32010.11.N	22,007
			<u>26,637</u>
ARRA09 HEALTHY AGING PARTNERSHIP	93.725	MA-ARRA-CDSMP-10-N	6,516
ARRA09 HEALTHY AGING PARTNERSHIP	93.725	MA-ARRA-CDSMP-10-N	4,028
			<u>10,544</u>
Substance Abuse and Mental Health Services Administration:			
Pass-through State:			
HAWAII STRATEGIC FRAMEWORK PH11	93.243	ASO#10-191	254,177
Administration for Children and Families:			
Pass-through State:			
CHILDCARE/DEVELOPMENT DHS	93.575	DHS02-BESSD1184	(6,500)
Centers for Medicare and Medicaid Services:			
Pass-through State:			
HOSPITAL DISCHARGE PLANNING GRANT	93.779	MA-ADRCHD-2010-N	25,588
HOSPITAL DISCHARGE PLANNING GRANT	93.779	MA-ADRCHD-2010-N	29,787
HOSPITAL DISCHARGE PLANNING GRANT	93.779	MA-ADRCHD-2010-N	3,196
			<u>58,571</u>
Total U.S. Department of Health and Human Services			<u>838,354</u>
EXECUTIVE OFFICE OF THE PRESIDENT			
HIGH INTENSITY DRUG TRAFFIC AREAS 2011	95.001	G11HI0003A	60,405
HIGH INTENSITY DRUG TRAFFIC AREAS 2012	95.001	G12HI0003A	2,032
Total Executive Office of the President			<u>62,437</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Office of Community Planning and Development:			
LANAI COMMUNITY HEALTH CENTER PRE-DEV	14.219	08-4PY09	1,293
LANAI COMMUNITY HEALTH CENTER PRE-DEV	14.219	08-4PY10	3
MAUI POLICE DEPARTMENT EMERGENCY RESPONSE VEHICLE HA	14.219	B-11-DH-15-0003	34,817
EMERGENCY GENERATOR WAKIU WELL HANA	14.219	B-11-DH-15-0003	55,458
HALE MAUNALOA CONSTRUCTION MOLOKAI	14.219	B-11-DH-15-0003	350,000
KA HALE A KE OLA REHABILITATION/IMPROVEMENT	14.219	B-11-DH-15-0003	44,420
PHOTOVOLTAIC MFSS WAILUKU WEINBERG	14.219	B-11-DH-15-0003	50,873
CDBG PROGRAM ADMINISTRATION FY2012	14.219	B-11-DH-15-0003	16,504
CDBG PROGRAM ADMINISTRATION FY2013	14.219	B-11-DH-15-0003	252,021
EASTER SEALS MAUI PHASE II	14.219	B-11-DH-15-0003	39,601
LANAI COMMUNITY HEALTH CENTER	14.219	08-4PY 04	16,544
EMERGENCY GENERATOR PROJECT	14.219	B-07-DH-15-0003	23,153
LANAI COMMUNITY HEALTH CENTER FACILITY	14.219	B-08-DH-15-0003	6,014
LANAI COMMUNITY HEALTH CENTER PREDV-RPRG	14.219	08-4PY 08	7,150
			<u>897,851</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
 Schedule of Expenditures of Federal Awards (continued)
 For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)			
Office of Community Planning and Development:			
Pass-through State:			
Title II Home Program:			
HOME FFY09 KAHAWAI APARTMENT	14.239	HOME FFY09	\$ 7,194
HOME FFY09 ADMINISTRATION	14.239	HOME FFY09	72,058
HOME FIRST TIME HOMEBUYERS PROJECT	14.239	PROJ INCME	19,582
HOME FFY10 ADMINISTRATION	14.239	HOME FFR10CMTMNT	37,607
HOME RPGM02 CHDO LP KENOLIO	14.239	B-99-SP-HI-0082	44,299
HOME RPGM PI CHDO MMSSHH1 CONSTRUCTION	14.239	B-99-SP-HI-0082	8,747
HOME FFY08 CHDO MMSSHH1 CONSTRUCTION	14.239	HOMEFFY08	70,043
HOME FFY06 KAHAWAI APARTMENT	14.239	HOMEFFY06	713,427
HOME FFY06 CHDO MMSSHH1 CONSTRUCTION	14.239	HOMEFFY06	4,291
HOME FFY07 CHDO MMSSHH1 CONSTRUCTION	14.239	HOMEFFY07	57,133
HOME RPGM CHDO LP K'LIO L'LANI	14.239	HOMEFFY06	10,971
HOME FY06 CHDO LP KENOLIO	14.239	HOME FFY06	76,835
HOME FFY08 ADMINISTRATION	14.239	HOME FFY08	1,443
			<u>1,123,630</u>
Office of Public and Indian Housing:			
SEC 8 HOUSING VOUCHER FY2012	14.871	HI004	(3,053)
SEC 8 HOUSING VOUCHER ADMINISTRATION FY2012	14.871	HI004	6,725
SEC 8 HOUSING VOUCHER FY2013	14.871	HI004	16,168,541
SEC 8 HOUSING VOUCHER ADMINISTRATION PROGRAM FY2013	14.871	HI004	1,173,111
SEC 8 HOUSING FAMILY SELF-SUFFICIENT	14.871	HI004	22,898
			<u>17,368,222</u>
Total U.S. Department of Housing and Urban Development			<u>19,389,703</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through State:			
FIRE/LOCAL EMERGENCY PLANNING COMMITTEE (DEPARTMENT OF HEALTH) HAZARDOUS MATERIAL EMERGENCY PREPAREDNESS	93.999	MOA 02-17-00	29,377
FEMA FIRE TRAINING FUNDS	97.026	11-106-036	<u>(5,930)</u>
Total Federal Emergency Management Agency			<u>23,447</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through State:			
INTEROPERABLE EMERGENCY COMMUNICATIONS GRANT	97.001	2008-IO-T8-0013	2,970
INTEROPERABLE EMERGENCY COMMUNICATIONS GRANT	97.001	2010-IP-T0-0010	36,741
			<u>39,711</u>
EMERGENCY MANAGEMENT PERFORMANCE GRANT FY 2011	97.042	EMW-2011-EP-000720701	<u>166,000</u>
FEMA AFG FIRE PREVENTION & SAFETY	97.044	EMW-2011-FP-00801	10,000
FEMA AFG OPERATIONS & SAFETY	97.044	EMW-2011-FO-05170	208,828
			<u>218,828</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY (continued)			
FFY09 LAW ENFORCEMENT TERRORISM PREVENTION	97.067	FY09-SS-T9-0006	\$ 39,877
FFY09 CITIZENS CORPS PROGRAM	97.067	FY09-SS-T9-0006	1,240
FFY09 STATE HOMELAND SECURITY PROGRAM	97.067	FY09-SS-T9-0006	382,762
FFY10 STATE HOMELAND SECURITY PROGRAM	97.067	FY10-SS-T0-0006	632,910
FFY11 STATE HOMELAND SECURITY PROGRAM	97.067	FY11-SS-T0-0129	215,027
FFY05 STATE HOMELAND SECURITY PROGRAM	97.067	2008-GE-T5-0034	(38,958)
FFY08 STATE HOMELAND SECURITY PROGRAM	97.067	2008-GE-T8-0022	9,464
			<u>1,242,322</u>
FFY10 CITIZENS CORPS PROGRAM	97.097	2010-SS-T0-0006	<u>8,878</u>
Total U.S. Department of Homeland Security			<u>1,675,739</u>
U.S. DEPARTMENT OF LABOR			
Pass-through State:			
WORKFORCE INVESTMENT ACT PY11-ADMINISTRATION	17.000	WIA BULLTN#03-11	27,549
WIA ADMINISTRATIVE PY2012	17.000	BULLETIN #03-12	47,308
			<u>74,857</u>
Employment Training Administration:			
Pass-through State:			
WORKFORCE INVESTMENT ACT PY10-ADULT	17.258	WIA BULLTN#19-09	(421)
WORKFORCE INVESTMENT ACT PY11-ADULT	17.258	WIA BULLTN#03-11	148,946
WIA ADULT PROGRAM - PY2012	17.258	BULLETIN #03-12	102,000
			<u>250,525</u>
WORKFORCE INVESTMENT ACT PY10-YOUTH	17.259	WIA BULLTN#19-09	5,053
WORKFORCE INVESTMENT ACT PY11-YOUTH	17.259	WIA BULLTN#03-11	281,748
			<u>286,801</u>
WORKFORCE INVESTMENT PY11 DISLOCATED WORKER	17.260	WIA BULLTN#03-11	213,387
ARRA09 STATE ENERGY SECTOR TRAINING GRANT	17.275	WDC-ARRA-2010-13	52,445
WORKFORCE INVESTMENT ACT PY10-DISLOCATED WORKER	17.278	WIA BULLTN#19-09	1,929
WIA DISLOCATED WORKER PY2012	17.278	BULLETIN #03-12	42,000
			<u>43,929</u>
Total U.S. Department of Labor			<u>921,944</u>
U.S. DEPARTMENT OF JUSTICE			
Drug Enforcement Agency (DEA):			
DOMESTIC CANNABIS ERADICATION/SUPPRESSION	16.000	2012-691/1/2012	56,122
DOMESTIC CANNABIS DEA	16.000	LOA2004-53	2,720
DOMESTIC CANNABIS DEA	16.000	LOA2005-60	2,469
FEDERAL JUSTICE POLICE FORFEITURES	16.000		76,728
			<u>138,039</u>
Office of Juvenile Justice and Delinquency Prevention:			
Pass-through State:			
JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT	16.523	DHS-12-OYS-263	45,557
JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT	16.523	DHS-12-OYS-263 SUP#2	2,161
			<u>47,718</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
 Schedule of Expenditures of Federal Awards (continued)
 For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE (continued)			
Office of Victims of Crime:			
Pass-through State:			
SPECIAL NEEDS ADVOCACY PROGRAM	16.575	08-VA-01	\$ 92,332
SPECIAL NEEDS ADVOCACY PROGRAM FY13	16.575	10-VA-01	177,787
			<u>270,119</u>
Bureau of Justice Assistance:			
Pass-through State:			
E BYRNE MEMORIAL GRANT	16.579	2009-DJ-BX-0290	71,425
SW NARCOTICS TASK FORCE	16.579	04-DB-24	(119)
			<u>71,306</u>
Violence Against Women Office:			
Pass-through State:			
DOMESTIC VIOLENCE INVESTIGATION	16.588	FY2010STOP	37,708
VAWA VIOLENT CRIMES AGAINST WOMEN	16.588	09-WF-05	8,383
DOMESTIC VIOLENCE INVESTIGATION	16.588	11-WF-04	33,507
VAWA SEXUAL ASSAULT EXAMINATION	16.588	10-WF-03	5,154
VAWA DOMESTIC VIOLENCE OUTREACH	16.588	11-WF-06	7,039
			<u>91,791</u>
Office of Community Oriented Policing Services:			
Pass-through State:			
RESEARCH GUIDED RESP TO ROBBERY	16.609	08-GP-03	10,244
CHOICES MENTORSHIP PROGRAM	16.609	11-GP-01	19,927
			<u>30,171</u>
COPS HIRING PROGRAM	16.710	2010UMWX0091	557,885
Bureau of Justice Assistance:			
JUSTICE ASSISTANCE GRANT PROGRAM	16.738	2010-DJ-BX-0448	4,535
STATEWIDE MARIJUANA ERADICATION	16.738	2009-DJ-07	5,215
HAWAII NARCOTICS TASK FORCE	16.738	2009-DJ-08	18,547
E BYRNE MEMORIAL JAG SEXUAL ASSAULT	16.738	2010-DJ-02	103,038
STATEWIDE MARIJUANA ERADICATION TASK FORCE	16.738	2010-DJ-18	50,873
KIHEI DISTRICT BICYCLE PATROL	16.738	2010-DJ-08	21,183
HAWAII NARCOTICS TASK FORCE	16.738	2010-DJ-17	5,937
			<u>209,328</u>
Pass-through State:			
SOH JUVENILE JUSTICE INFORMATION SYSTEM	16.803	09-SU-3112/1/12 TO2/28/2	24,596
			<u>24,596</u>
Total U.S. Department of Justice			<u>1,440,953</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
 Schedule of Expenditures of Federal Awards (continued)
 For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Highway Administration:			
Pass-through State:			
BRIDGE INSPECTION/APPRaisal	20.205	BR-NBIS(44)	\$ 76,500
FHWA PROJECTS STATE REVIEWS	20.205	FHWA CENG	34,818
PAPAHAWAHAWA BRIDGE REPLACEMENT	20.205	BR0900(49)	49,111
WAIHONU BRIDGE REPLACEMENT	20.205	STP0900(68)	1,974,058
LAHAINA WATERSHED PROJECT DIVERSITY	20.205	STP-0900(077)	695,827
KAHOOLOPOO BRIDGE REPLACEMENT	20.205	BR0900-078	2,604
KAHEKILI HIGHWAY PAVEMENT/REHABILITATION	20.205	STP3405(3)	1,038,154
HALIIMAILE ROAD IMPROVEMENTS	20.205	STP-A371(1)	(2,540)
MAKANI ROAD RESURFACING/HALEAKALA	20.205	STP-3630(1)	699,728
LONO AVE PAVEMENT REHABILITATION	20.205	STO-3950(007)	321,922
PUKALANI STREET PAVEMENT	20.205	STP-3620(001)	645,216
KIHEI BIKEWAY-PIILANI NORTH	20.205	STP-03115(2)	22,604
			<u>5,558,002</u>
Federal Transit Administration:			
Pass-through State:			
FTA 5309 FFY 2010 BUS & FACILITIES	20.509	HI-04-0004	52,280
FEDERAL TRANSIT ADMINISTRATION #5311 FFY2012	20.509	HI-18-X023HI-18-X024	28,897
RURAL TRANSIT ASSISTANCE PROGRAM 04	20.509	FTA 5311 RTAP	5,676
RURAL TRANSIT ASSISTANCE PROGRAM 06	20.509	FTA 5311 RTAP	2,627
			<u>89,480</u>
National Highway Traffic Safety Administration:			
Pass-through State:			
FFY12 MPD TRAFFIC DATA PROGRAM	20.600	TR12-03(06-M-01)	1,036
FFY12 MPD DISTRACTED DRIVING	20.600	DD12-10(01-M-03)	16,540
FFY12 MPD ROADBLOCK PROGRAM	20.600	AL11-02(01-M-03)	40,639
FFY12 MPD SPEED ENFORCEMENT PROGRAM	20.600	SC12-06(01-M-03)	41,435
MPD CHILD RESTRAINT PROJECT FFY12	20.600	OP12-05(03-M-01)	16,380
MPD TRAFFIC SERVICES FY2012	20.600	PT12-01(03-M-01)	22,241
FFY12 MPD SEATBELT PROGRAM	20.600	OP12-05(01-M-03)	36,602
NHTSA MFD PNEUMATIC LIFTING BAGS	20.600	EM13-0405-M-01	24,480
FFY13 MPD TRAFFIC DATA	20.600	TR13-03(06-M-01)	5,843
FFY13 MPD DISTRACTED DRIVING	20.600	DD13-10(01-M-03)	11,994
FFY13 MPD ROADBLOCK PROGRAM	20.600	AL13-02(01-M-03)	100,668
FFY13 MPD SPEED ENFORCEMENT	20.600	SC13-06(01-M-03)	44,260
MPD CHILD RESTRAINT PROJECT	20.600	OP13-05(03-M-01)	28,605
MPD TRAFFIC SERVICES FFY13	20.600	PT13-01(03-M-01)	17,353
FFY13 MPD SEATBELT PROGRAM	20.600	OP13-05(01-M-03)	37,466
MPD SPEED ENFORCEMENT WAILUKU	20.600	SC04-06(01-M-03)	6,238
MPD TRAFFIC DATA-DOT FY04	20.600	PT04-03(02-M-01)	(172)
KEIKI INJURY PROTECTION	20.600	OP04-05(03-M-01)	312
MPD RECONSTRUCTION	20.600	PT04-01(03-M-01)	(2)
MAUI TRAFFIC SAFETY - DOT	20.600	AL05-02(02-M-01)	366
			<u>452,284</u>
Pipeline and Hazardous Materials Safety Administration:			
Pass-through State:			
HAZARDOUS MATERIALS EMERGENCY PREPAREDNESS GRANT	20.703	HM HMP-0223-11-01-00	<u>(2,466)</u>
Total U.S. Department of Transportation			<u>6,097,300</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF MAUI, STATE OF HAWAII
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
National Park Service:			
Pass-through State:			
NATIONAL PARK SERVICE LAND WATER CONSERVATION	15.916	15-00158	\$ 428,597
ENVIRONMENTAL PROTECTION AGENCY			
Office of the Chief Financial Officer:			
KAMOLE HI-LIFT PUMP STAG GRANT	66.202	DW213-0008	55,070
Office of Water:			
Pass-through State:			
ARRA09 CLEAN WATER PUMP STATION RENOVATION-	66.458	C150052	1,115,886
OMAOPIO #1 UPPER TANK-300K GAL	66.468	247-0005 LOG#12-062	361,892
OMAOPIO #2 MIDDLE TANK-40K GAL	66.468	247-0005 LOG#12-062	48,130
KAMOLE WTP HIGHLIFT PUMPS	66.468	213-0008 LOG#12-069	550,134
HANA SOURCE IMPROVEMENTS-WAKIU WL	66.468	217-0005 LOG#13-044	200,643
LOWER PAIA TANK REPLACEMENT	66.468	212-0007 LOG#12-087	447,197
LOWER OMAOPIO TANK 40K GAL	66.468	247-0006 LOG#12-064	19,608
WAIKAMOI FLUME REPLACEMENTS	66.468	247-0005 LOG#12-062	1,401,002
ULUNIU ROAD/EWA PLACE WATERLINE REPLACEMENT	66.468	212-0010 LOG#12-123	649,608
KAUPAKALUA WATERLINE REPLACEMENT	66.468	213-0009 LOG#12-126	684,895
NAPILI WELL "A" TANK	66.468	214-0003 LOG#09-121	383,499
			<u>4,746,608</u>
Total Environmental Protection Agency			<u>5,917,564</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 40,772,709</u>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, and Notes to Schedule of Expenditures of Federal Awards.

**COUNTY OF MAUI
STATE OF HAWAII**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

1. General

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

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.

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.

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.

5. 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, 2013, the outstanding principal amounted to \$46,204,372 that bear interest at 0.50 percent to 2.60 percent. The loans require semi-annual principal and interest payments and loan fees through fiscal year 2033. The County has 26 projects funded with these loans.

**COUNTY OF MAUI
STATE OF HAWAII**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

State Revolving Fund Loans outstanding as of June 30, 2013 are as follows:

Year	Description	Loan Number	Final Maturity	Outstanding Balance June 30, 2013
1994	Wailuku/Kahului Wastewater Reclamation	C150052-14	2013	\$ 301,783
1997	Lahaina Pump Station No. 3	C150054-07	2016	498,532
1997	Kihei Wastewater Reclamation Phase IIB	C150077-06	2016	1,708,426
1998	Kihei Reuse Core Distribution System	C150077-09	2017	905,080
2004	Lahaina Pump Station Nos. 5 and 6	C150054-12	2026	2,261,178
2004	Kahului Pump Station Modification	C150052-30	2026	1,817,260
2006	Lahaina Pump Station No. 4	C150054-09	2027	1,265,887
2008	Wailuku-Kahului Wastewater Pump Station	C150052-19	2028	7,775,790
2009	Wailuku-Kahului Wastewater Reclamation	C150052-32	2028	1,603,977
2009	Lahaina Wastewater Pump Station No. 1	C150054-06	2028	5,729,735
2009	Central Maui Landfill Gas Collection	NPS0052-39	2028	2,815,987
2009	Islandwide EPA Consent Decree	C150052-31	2028	6,828,112
2009	Molokai Integrated Solid Waste Facility	NPS0041-07	2029	2,726,937
2010	Front Street Sewer Line Rehabilitation	C150054-11	2030	389,050
2010	Hyatt/Kaanapali Force Main Replacements	C150054-25	2030	1,522,640
2010	Countywide Pump Station Renovations	C150052-28	2028	690,346
2011	Kihei No. 2 Force Main Replacement	C150077-20	2031	973,327
2013	Alamaha Force Main Replacement	C150052-40	2023	1,128,000
				<u>40,942,047</u>
Department of Water Supply:				
2010	Napili Well "A" Site Improvements	DW214-0009	2029	1,308,376
2012	Lower Paia Tank Replacement	DW212-0007	2032	963,596
2012	Makawao Waterline Replacement	DW213-0006	2031	622,531
2012	Kamaole WTP High Lift Pumps	DW213-0008	2032	1,026,403
2012	Upper Omaopio Road Tank Replacement	DW247-0005	2032	488,439
2012	Middle and Lower Omaopio Road Tanks	DW247-0006	2032	547,582
2012	Uluniu Road and Ewa Place Waterline Replacement	DW212-0010	2032	233,553
2013	Wakiu Well Replacement	DW217-0005	2033	71,845
				<u>5,262,325</u>
Total State Revolving Fund Loans				<u><u>\$ 46,204,372</u></u>

**COUNTY OF MAUI
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

- (a) The independent auditors' report expressed unmodified opinions for the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, State of Hawaii (the County), which collectively comprise the County's basic financial statements.
- (b) Internal control over financial reporting:
 - No material weaknesses were noted.
 - Significant deficiencies were noted and are reported as Findings 2013-01 through 2013-09 (Refer to Appendix 1).
- (c) No instances of noncompliance material to the financial statements were noted.

Federal Awards

- (a) Internal control over major programs:
 - No material weaknesses were noted.
 - Significant deficiencies were noted and are reported as Findings SA-2013-01 through SA-2013-04 (Refer to Appendix 2).
- (b) The independent auditors' report on compliance expressed an unmodified opinion on all major programs.
- (c) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported as Findings SA-2013-01 through SA-2013-04 (Refer to Appendix 2).
- (d) The County's major programs were:

U.S. Department of Agriculture – ARRA Community Facilities Loans and Grants Cluster (CFDA Nos. 10.766 and 10.780)

U.S. Department of Housing and Urban Development – Office of Public and Indian Housing – Section 8 Housing Choice Voucher Program (CFDA No. 14.871)

U.S. Department of Homeland Security – Homeland Security Grant Program (CFDA No. 97.067)

Environmental Protection Agency – Office of Water – Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

**COUNTY OF MAUI
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

Environmental Protection Agency – Office of Water – Capitalization Grants for Drinking Water State Revolving Funds (CFDA No. 66.468)

- (e) A threshold of \$1,223,181 was used to distinguish between Type A and Type B programs.
- (f) The County qualified as a low-risk auditee.

(2) Financial Statement Findings

Refer to Appendix 1

(3) Federal Award Findings and Questioned Costs

Refer to Appendix 2

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-01- Internal Controls Over Automated Payroll Processing System*Condition*

Over the past three fiscal years, the Department of Finance has been working to complete the conversion to a new automated payroll processing system. Included in the conversion to this new automated processing system was a move toward a fully automated employee time recording system. This conversion also required a change from a more manual, centralized time recording and monitoring system at the Payroll Section to a more decentralized system, with payroll responsibilities disbursed out to the individual departments.

With the move from a highly centralized system to a decentralized system for capturing employee time records, we noted that the internal controls over the processing of payroll varied from department to department and could be improved to ensure the completeness and accuracy of the County's payroll.

We again noted some distinct inconsistencies between departments with respect to capturing employee time records. Some departments have gone fully automated with all employees responsible for inputting their time worked into the automated system and supervisory approval performed electronically. Other departments have maintained a manual time keeping system for some or all of the employees in their departments. In fact, during fiscal year 2013, we noted that some departments have elected to revert back to a manual timesheet system. For the manual time keeping systems, some departments utilized formal timesheets, while other departments utilized informal time summaries. Those manual time records were submitted to a centralized employee in the department for input into the automated system. In addition, for both automated and manual time keeping systems, we found inconsistencies in the documentation of supervisory reviews of employee time records.

During our audit, we reviewed 60 employee time records submitted throughout the fiscal year and compared those time records to the information in the automated pay registers, which is used to record personnel expenditures into the County's general ledger. For 31 tested records, we were unable to test the electronic supervisor authorization of the employee's submitted time because the employee's time was initially recorded on a manual timesheet and then entered by a centralized department time keeper. We also noted 4 instances where the time records were not properly approved by the employees' supervisor.

Criteria

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

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Cause

The change from a centralized to a decentralized system for capturing employee time has created a new internal control environment requiring changes to existing internal controls and implementation of new internal controls to deal with this new control environment.

Effect

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

Recommendation

We again recommend that management establish a more uniform system of capturing employee time than is currently being used. We also recommend that the internal controls over the submission, review, and approval of employee time records each pay period be enhanced at each department and at the Payroll Section to ensure that accurate employee compensation expenditures are recorded in the County's general ledger.

Specifically, internal controls should include (1) utilizing a standardized timesheet for departments capturing employee time records on a manual basis, (2) requiring explicit documentation (i.e., electronic or manual initials) evidencing supervisory reviews for all automated and manual employee time records, (3) performing sufficient reviews of payroll processing at the departmental level prior to updating into the County's automated payroll register, and (4) devoting certain Payroll Section resources to perform periodic reviews of employee and departmental time records.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. In an effort to establish a more uniform system of internal controls over the submission, review, and approval of employee time records, the Department of Finance has implemented regular training meetings with each department's "Super-Users." The Payroll Section is actively working with all departments to develop improved procedures for greater consistency in capturing employee time, as well as reviewing and approving payroll time records. We are working towards establishment of an internal control framework which provides greater audit controls and system review procedures to ensure completeness and accuracy of payroll transactions. We have established a Payroll Specialist position who reviews payroll procedures for necessary internal controls and documentation at the various Departments. The Departmental reviews would include standardizing timesheets, process reviews, and evidencing supervisory reviews. The Payroll Specialist position also provides payroll training to Departmental staff. The reorganization of the Payroll Section was completed in July 2013 and we are in the process of hiring and training to fulfill the vacant positions.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-02 – Internal Controls Over Payroll System Historical Edits*Condition*

Corrections to the standard payroll processing system made throughout the fiscal year are referred as historical edits, which is essentially an input override mechanism used by the Payroll Section and some departments to correct employee automated time records prior to processing the payroll for the period. During our audit, we reviewed 20 historical edit transactions for proper supporting documentation and authorization. For 7 of the transactions, the appropriate supporting documentation could not be provided. For 11 of the transactions, the appropriate authorization for the transaction was not apparent.

In addition, it appears access to this function within the automated payroll processing system could be improved.

Criteria

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

Cause

There does not appear to be an established and uniform policy over the processing of payroll historical edits.

Effect

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

Recommendation

We recommend that the Payroll Section establish stronger internal controls over the processing of payroll historical edits. Access to this function within the automated payroll processing system should be limited to certain authorized individuals and protected via passwords. In addition, a listing of historical edit transactions should be reviewed by personnel outside of the Payroll Section on a monthly basis.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Payroll Section is in the process of developing procedures to establish stronger internal controls over the processing of payroll historical edits, including departmental supervisory review documentation. Although this function is already limited to certain authorized individuals and password protected, we will continue to work with all departments to reduce the amount of authorized individuals. The reorganization of the Payroll Section will allow us to perform periodic reviews of historical edit transactions.

COUNTY OF MAUI
STATE OF HAWAII

Significant Deficiencies

June 30, 2013

Finding 2013-03- Timely Completion of Operating Account Bank Reconciliation

Condition

Similar to the previous year, we noted that the bank reconciliation for one of the County's general operating cash accounts was not properly reconciled in a timely manner. The June 30, 2013 bank reconciliation was not completed until December 2013.

Criteria

The Department of Finance should prepare bank reconciliations in a timely manner each month.

Cause

General ledger transactions pertaining to the County's operations from prior years, which amounted to approximately \$700,000, were not recorded on a timely basis.

Effect

The County's inability to perform timely and accurate reconciliations for all cash accounts could lead to misstatements of cash balances in the County's interim and year-end financial statements and may allow incorrect reconciling items to go undetected.

Recommendation

We again recommend that all cash accounts be reconciled in a timely manner each month.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The entry to record the \$700,000 prior years reconciling items was recorded in December 2013. In the fiscal year 2013, this appears to be an isolated incident which would not reoccur. Bank reconciliations are now being completed in a timely manner.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-04 – Timely Reconciliation of Federal and State Grant Programs*Condition*

During our audit, we noted that receivables and deferred grant revenues from the federal and state governments recorded in the Grant Fund were not reconciled on a timely basis. We also noted certain Grant Fund accrual balances in prior years (grant receivables and deferred grant revenue) remain unrelieved as of June 30, 2013.

We noted that significant efforts were made in the current year by the Department of Finance to research, reconcile, and dispose of unreconciled balances; however, there still remained significant reconciling items and unrelieved balances within the Grant Fund as of June 30, 2013.

Criteria

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

Cause

There does not appear to be a uniform reconciliation process between the Department of Finance personnel and grant management personnel in the other County departments to ensure the periodic and timely reconciliation of grant receivables and deferred grant revenues.

Effect

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

Recommendation

We recommend that reconciliations be performed on a monthly basis on the Grant Fund accrual balances by grant program. We also recommend that all long-outstanding Grant Fund accrual balances be investigated and, if necessary, be written-off on a timely basis.

Views of Responsible Officials and Planned Corrective Action

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

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-05- Internal Controls over Miscellaneous Cash Receipts*Condition*

During our audit, we again noted that internal controls over miscellaneous cash receipts collected by various divisions and departments of the County could be improved. As we noted in the previous year, 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 the 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

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

Views of Responsible Officials and Planned Corrective Action

Management concurs with the finding. The Department of Finance has recently drafted revised cash handling policies and procedures which is in the process of implementation. The Department of Finance Internal Auditor (currently reports to the Director of Finance) will take the lead in establishing internal controls and procedures over miscellaneous cash receipts that is consistent at the countywide-level.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-06- Timely Preparation of the Comprehensive Annual Financial Report*Condition*

The Department of Finance experienced a high degree of management and staff turnover during the past year. Although personnel from the Department of Finance worked very hard to accomplish the many tasks necessary to account for and report on the County activities, they encountered difficulties and delays in completing the required audit schedules, analyses, and reports; reconciling account balances and transactions; and preparing the fund and county-wide financial statements and footnotes.

Criteria

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

Cause

The Department of Finance experienced significant turnover with the departure of key personnel, which negatively impacted their ability to prepare the County's comprehensive annual financial report on a timely basis.

Effect

The County's comprehensive annual financial report was delayed by approximately two months.

Recommendation

We recommend that management of the Department of Finance 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.

Views of Responsible Officials and Planned Corrective Action

Management concurs with the recommendations and has hired well qualified and experienced staff replacements for the vacancies. Efforts are also underway to assure proper planning, preparation, and year end process improvements are in place for future financial reports.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-07 – Implementation of a New Billing System*Condition*

In January 2013, the Department of Water Supply (DWS) implemented a new billing system that was maintained by the Honolulu Board of Water Supply. Several issues resulted from the implementation of the new billing system:

- 1) DWS was unable to determine the reasonableness of monthly revenues as the appropriate monthly consumption reports were not provided to DWS until late-October 2013.
- 2) DWS did not receive a detailed schedule of unbilled revenues as of June 30, 2013 until October 2013.
- 3) DWS was unable to provide us the number of customers affected by system estimates and quantify the required adjustments to their accounts until September 2013.
- 4) The new billing system no longer required supervisory approval for cancellations or adjustments to customer bills.
- 5) For the months of March through June 2013, DWS was unable to provide reconciliations of daily revenue totals to monthly totals until late-September 2013. Additionally, DWS was not able to provide reconciliations of daily revenue totals to monthly totals for the months of January and February 2013.

Criteria

Reports from the Honolulu Board of Water Supply should be provided to DWS on a timely basis to ensure revenues are properly accounted for and accurately reported in the financial statements.

Additionally, supervisory approvals should be required and documented for all cancellations or adjustments to customer bills.

Cause

The Honolulu Board of Water Supply did not generate required reports from the new billing system on a timely basis. This implementation also caused changes in system requirements for supervisory approval for cancellations and adjustments.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Effect

The receipt of inaccurate or untimely reports and the lack of controls over adjustments to customer bills could result in billing errors going undetected and misstatements of revenues recorded in the financial statements.

Recommendation

We recommend that accurate monthly consumption reports, unbilled revenue reports, and system estimate reports be provided to DWS on a timely basis to ensure proper recording of revenues in the financial statements.

We also recommend that management of DWS implement procedures to ensure that bill cancellations or adjustments are reviewed and documented by written approvals by an appropriate level of management.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. Necessary reports critical to the balancing and reconciling were not immediately available to the department when the new billing system was installed. Management was able to determine reasonableness of the revenue report from the basic stock reports provided by the system. However, custom reports necessary to tie all critical components and complete the reconciliations were not available. Management made numerous requests and attempts to stress the urgent and critical nature of these reports directly to the Honolulu Board of Water Supply (HBWS). When the reports were completed and provided, management was able to reconcile the revenues and statistics and provide details to the audit.

In addition, an audit trail complete with approvals has been created for all adjustments to customer bills.

**COUNTY OF MAUI
STATE OF HAWAII**

Significant Deficiencies

June 30, 2013

Finding 2013-08 – Accounting for Construction Work in Progress*Condition*

During our audit of DWS, we again noted that several projects included in construction work in progress were actually placed in service or available to be placed in service prior to fiscal year ended June 30, 2013. Upon inquiry, we noted that certain projects included in construction work in progress were transferred to capital assets when all payments were made to the contractor rather than when the project was placed in service or available to be placed in service as required by accounting principles generally accepted in the United States of America (GAAP). Additionally, projects were being transferred when communicated by the project engineers to fiscal staff.

As a result, an audit adjustment of \$6.9 million was made to reclassify projects in construction work in progress that should have been transferred and classified as capital assets as of June 30, 2013. A corresponding audit adjustment of \$1.5 million was also necessary to properly state accumulated depreciation and depreciation expense as of and for the year ended June 30, 2013 for capital assets placed in service in previous years.

Criteria

GAAP requires 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.

Cause

Procedures were not in place to ensure the transfer of assets on a timely basis.

Effect

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

Recommendation

We recommend that management of DWS establish formal procedures to ensure that construction work in progress and projects placed in service are communicated timely by project engineers to the fiscal staff in order to properly capitalize and depreciate those capital assets in the appropriate accounting period.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. Procedures have been put into place which should allow the Engineering Division to notify the Fiscal Division on job status and closing of projects in a timely manner.

COUNTY OF MAUI
STATE OF HAWAII

Significant Deficiencies

June 30, 2013

Finding 2013–09 – Reconciliation of Customer Deposits

Condition

During our audit, we noted that DWS was not able to provide a readily available reconciliation of the customer deposit liability account balances amounting to approximately \$1,444,000 at June 30, 2013. A reconciliation was not prepared until late-October 2013.

Criteria

Reconciliations of the customer deposit liability accounts should be performed on a timely basis to ensure that customer deposits are properly accounted for and accurately reported in the financial statements.

Cause

Reconciliations of customer deposits liability accounts were not performed on a timely basis.

Effect

The DWS's inability to perform timely and accurate reconciliations of customer deposit liability account balances could lead to an inaccurate accounting of customer deposits and financial statement misstatements.

Recommendation

We recommend that management of DWS adhere to established procedures requiring the timely reconciliation of customer deposit liability accounts.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding and understands the critical nature of accounting for customer deposits. A comprehensive deposits report was not provided by the HBWS to enable timely reconciliation of customer deposits. A manual reconciliation was created by the staff to isolate customer deposits. A custom report of the liability was requested early in the installation process and is currently being finalized by the HBWS with assistance from the DWS staff.

**COUNTY OF MAUI
STATE OF HAWAII**

Single Audit Findings

For the Year Ended June 30, 2013

**Finding SA-2013-01
Cash Management**

U.S. Department of Agriculture
Rural Housing Service
ARRA Community Facilities Loans and Grants Cluster
Pass-through State of Hawaii
Kihei Police Station Project
IFB 10-11 / P-6
CFDA No. 10.780

Condition

The County requests loan funds for the Kihei Police Station project under the Community Facilities Loans and Grants Cluster from the U.S. Department of Agriculture on a reimbursement basis, except for the initial advance of \$51,000, which was used to pay loan closing costs. We noted that the County incorrectly drew down loan funds in excess of program costs actually paid.

Criteria

Non-Federal entities receiving Federal awards should establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

OMB Circular A-133 documents that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal government.

Questioned Costs

Total questioned costs amounted to \$117,836, which represents the difference between the loan funds drawn and the actual payments made to vendors and contractors.

Cause

The County contracted a third-party construction management company to oversee the construction of the project. Requests to draw down loan funds were prepared by the construction management company; however, expenditure records and their funding sources were not reconciled with the Department of Finance prior to the loan request. The County does not have adequate policies and procedures to ensure that the project costs are paid prior to requesting draw down of loan funds.

Effect

The County is not in compliance with applicable Federal laws and regulations.

**COUNTY OF MAUI
STATE OF HAWAII**

Single Audit Findings

For the Year Ended June 30, 2013

Recommendation

We recommend that the County establish policies and procedures to ensure that all cash management requirements are met to ensure that payments are incurred before cash is drawn down, unless advances are approved by the grantor. A reconciliation of expenditures should be performed between the Department of Finance and the third party construction management company prior to the federal loan drawdown.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding that the Kihei Police Station project incorrectly drew down loan funds in excess of program costs actually paid. The County understands that program costs must be paid for by entity funds before reimbursement is requested from the Federal government. The County has provided OMB grant management training to its program managers and also reminded its accountants monitoring the reimbursement requests from the Federal government to review the reimbursement request were actually paid.

COUNTY OF MAUI
STATE OF HAWAII

Single Audit Findings

For the Year Ended June 30, 2013

Finding SA-2013-02 – Completeness and Accuracy of the County’s Schedule of Expenditures of Federal Awards

Condition

During our audit, we noted that the Department of Finance experienced difficulty in producing a complete and accurate schedule of expenditures of federal awards (SEFA). There were numerous versions of the SEFA provided to us throughout our audit, which included significant changes in the amount of federal expenditures.

Criteria

A complete and accurate SEFA should be maintained to properly identify all federal awards received by the County and the correct amount of expenditures incurred under each award program. A complete and accurate SEFA ensures that all federal grant expenditures are properly reported to the appropriate federal agencies.

Cause

This situation is attributable to the need to improve understanding by certain program managers pertaining to the amounts that should be reported as federal expenditures for their respective grants.

Effect

Failure to include correct federal expenditures in the SEFA will result in instance of noncompliance with federal requirements.

Recommendation

We recommend that the County establish policies and procedures to ensure that the SEFA prepared by the Department of Finance is complete and accurate, and prepared in a timely manner.

Views of Responsible Officials and Planned Corrective Action

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

COUNTY OF MAUI
STATE OF HAWAII

Single Audit Findings

For the Year Ended June 30, 2013

Finding SA-2013-03 - Training for Departmental Personnel

Condition

During our audit, we again noted that those individuals responsible for managing the department's federal financial assistance programs could improve their knowledge of applicable compliance requirements.

Criteria

All County personnel with responsibility for managing federal financial assistance programs should be familiar with the respective program's compliance requirements as outlined under the program's respective catalog of federal domestic assistance number included in the *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*.

Cause

Personnel turnover at the departmental level, new federal financial assistance programs, and constantly changing compliance requirements make it difficult to keep up with applicable compliance requirements.

Effect

Familiarity with a respective program's compliance requirements at the departmental level will enhance compliance with applicable program requirements.

Recommendation

We again recommend that the County consider conducting training sessions to update departmental personnel on compliance requirements, and internal controls over compliance, associated with federal grant awards in accordance with OMB Circular A-133.

Views of Responsible Officials and Planned Corrective Action

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

**COUNTY OF MAUI
STATE OF HAWAII**

Single Audit Findings

For the Year Ended June 30, 2013

Finding SA-2013-04 - Centralized Position to Monitor Federal Program Compliance*Condition*

During our audit, we noted that the County expended over \$40 million under numerous federal financial assistance programs, including a number of American Recovery and Reinvestment Act (ARRA) grants which require additional reporting and compliance requirements. We again 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

Effective monitoring of the County's compliance requirements will enhance compliance with applicable federal program requirements and questioned costs.

Recommendation

We again recommend that the responsibility for overseeing the County's compliance with federal award program requirements be assigned to a centralized position. That centralized position would coordinate with the departmental program managers to ensure that the County is complying with federal program requirements, including ARRA grant requirements.

Views of Responsible Officials and Planned Corrective Action

Since centralizing this function will require additional position(s) along with incremental costs to the County, this recommendation has not been implemented. We will consider this option in the future when the economic issues facing the County are less challenging. The County will continue to ensure that all operational departments review and administer the awards on an ongoing basis.