

James Whitfield
Chair

Members:
Preston Chong
Tyler Rodighiero

Joanne Nakashima
Vice Chair

COUNTY OF KAUA'I COST CONTROL COMMISSION
NOTICE OF MEETING AND AGENDA

Monday, October 14, 2019
1:30 p.m. or shortly thereafter
Mo'ikeha Building, Meeting Room 2A/2B
4444 Rice Street, Lihue, HI 96766

CALL TO ORDER

CHAIR'S ANNOUNCEMENT INCLUDING BUT NOT LIMITED TO

- Next Meeting at 1:30 p.m. Monday, November 18, 2019 at the Mo'ikeha Building Meeting Room 2A/2B.

APPROVAL OF MINUTES

- Regular Open Session Meeting Minutes September 9, 2019

RECAP BY CHAIR WHITFIELD ON HIS APPEARANCE BEFORE THE CHARTER REVIEW COMMISSION ON A PROPOSAL TO CHANGE THE COST CONTROL COMMISSION TO THE COST CONTROL/REVENUE ENHANCEMENT COMMISSION

BUSINESS

CCC 2019-03

Discussion on possible areas to investigate to reduce the cost of county government while maintaining a reasonable level of public service in accordance to Section 28.04 of the Kaua'i County Charter Article XXVIII Cost Control Commission. (On-going)

- (a) Communication dated September 18, 2019 from Arryl Kaneshiro, Chair, Kaua'i County Council to James Whitfield, Chair, Cost Control Commission responding to a request from the Cost Control Commission for information on audits performed.

NOTICE OF EXECUTIVE SESSION

Pursuant to Hawai'i Revised Statutes §92-7 (a), the Commission may, when deemed necessary, hold an Executive Session on any agenda item without written public notice if the Executive Session was not anticipated in advance. Any such Executive Session shall be held in pursuant to H.R.S. §92-4 and §92-9 and shall be limited to those items described in H.R.S. §92-5(a). Discussions held in Executive Session are closed to the public.

ADJOURNMENT

PUBLIC COMMENTS and TESTIMONY

Persons wishing to offer comments are encouraged to submit written testimony at least 24-hours prior to the meeting indicating:

1. Your name and if applicable, your position/title and organization you are representing
2. The agenda item that you are providing comments on; and
3. Whether you will be testifying in person or submitting written comment only.
4. If you are unable to submit your testimony at least 24 hours prior to the meeting, please provide 10 copies of your written testimony at the meeting.

The length of time allocated to person(s) wishing to present verbal testimony may be limited at the discretion of the chairperson or presiding member.

Send written testimony to:

Cost Control Commission
Office Boards and Commissions
4444 Rice Street, Suite 150
Lihue, HI 96766
E-Mail: mrromo@kauai.gov
Phone: (808) 241-4920
Fax: (808) 241-5127

SPECIAL ASSISTANCE

If you need an auxiliary aid/service or other accommodation due to a disability, or an interpreter for non-English speaking persons, contact Anela Segreti at 808-241-4917 or asegreti@kauai.gov as soon as possible. Requests made early as possible will allow adequate time to fulfill your request. Upon request, this notice is available in alternate formats such as large print, Braille, or electronic copy.

DRAFT TO BE APPROVED

COUNTY OF KAUAI Minutes of Meeting OPEN SESSION

Board/Commission	Cost Control Commission		Meeting Date	Monday, September 9, 2019	
Location	Mo`ikeha Building – Meeting Room 2A/B		Start of Meeting:	1:40 p.m.	End of Meeting: 2:11 p.m.
Present	Chair James Whitfield; Vice Chair Joanne Nakashima; Commissioners: Preston Chong and Tyler Rodighiero. Also present: Board & Commissions Office Staff: Support Clerk Mercedes Omo; Administrator Ellen Ching; Office of the County Attorney:				



SUBJECT	DISCUSSION	ACTION
Call To Order		With a quorum being present, Chair Whitfield called the meeting to order at 1:40 p.m.
Chair Announcements	Next meeting – 1:30 p.m. on Monday, October 14, 2019 at the Mō`ikeha Building, Meeting Room 2A/2B.	
Approval of minutes	Regular Open Session Minutes of July 29, 2019.	Mr. Rodighiero moved to accept the minutes as circulated. Mr. Chong seconded the motion. The motion carried 4:0.
Business CCC 2019-03	<p><u>Discussion on possible areas to investigate to reduce the cost of county government while maintaining a reasonable level of public service in accordance to Section 28.04 of the Kaua'i County Charter Article XXVIII Cost Control Commission.</u></p> <p>After reviewing the budgetary reports from Fire and Police, Chair Whitfield expressed his concerns on the amount of overtime expenditures both Fire and Police had accumulated. He stated that to his understanding council also had concerns about the overtime usage so, he will be attending the council meeting this coming Wednesday to hear if they had anything more to say about the overtime. He clarified that for the record that the reports was not distributed to commissioners and that he had asked staff to provide him with the reports to use as a talking point.</p>	

SUBJECT	DISCUSSION	ACTION
<p>CCC 2019-04</p>	<p>He then referred to the Kaua'i Police Department's fiscal report reflecting data on the vacant positions particularly for police services officer which, he believes is contributing to the Department's overtime. He questioned why fifty percent of the applicants who applied fail to pass the written exam. To address Chair Whitfield concerns, Ms. Ching explained that as part of the Police Department's recruitment efforts, the Department has been offering police exam preparation course to interested persons to help them prepare for the written exam. She further explained that those who pass the written exam and are deemed qualified will have to undergo a pre-offer psychological examination, background check and a physical readiness standards test which the applicant will be given the opportunity to watch a video of the readiness test to help prepare them mentally and physically.</p> <p><u>Discussion and decision-making on a draft letter from Chair James Whitfield to Jan TenBruggencate, Vice Chair, Charter Review Commission (CRC) regarding a proposal to change the Cost Control Commission to a Cost Control and Revenue Enhancement Commission and to designate Chair Whitfield to represent the Commission at the next Charter Review Commission meeting.</u></p> <p>Chair Whitfield asked the Commissioners to review the draft letter and to point out any changes they would like to make. Hearing none. He called for a motion to approve the draft letter as circulated. Ms. Ching indicated that she would ask staff to forward the letter to the Charter Review Commission's secretary for placement on the agenda.</p> <p>Chair Whitfield stated that the next order of business is to designate a member to represent the Commission at the CRC meeting on September 23, 2019. He noted that if no one is interested, he'll be happy to do it. Mr. Rodighiero thanked Chair Whitfield for his willingness to appear before the Charter Review Commission, then proceeded to make the motion.</p>	<p><u>Motion No. 1</u> Mr. Rodighiero moved to approve the draft letter as circulated. Mr. Chong seconded the motion. The motion carried 4:0.</p> <p><u>Motion No. 2</u> Mr. Rodighiero moved to designate Chair Whitfield to represent the Cost Control Commission at the CRC meeting on September 23, 2019. Mr. Chong seconded the motion. The motion carried 4:0.</p>
<p>CCC 2019-05</p>	<p><u>Discussion and decision-making on a draft letter from Chair James Whitfield to Council Chair Arryl Kaneshiro and Members of the Council regarding a request for information on audits performed.</u></p> <p>Chair Whitfield asked the commissioners to review the letter and point out any changes they would like to make. He noted that the response date should be no later than October 7, 2019 to which the commissioners agreed.</p>	<p>Mr. Rodighiero moved to approve the draft letter with a request to receive the information no later than October 7, 2019. Mr. Chong seconded the motion. The motion carried 4:0.</p>

SUBJECT	DISCUSSION	ACTION
	Hearing no further discussion, Chair Whitfield called for a motion to approve the draft letter with the response date on no later than October 7, 2019. Ms. Ching indicated that she would ask staff to forward the request to the County Clerk for processing.	
Adjournment	With no further business to conduct, Chair Whitfield called for a motion to adjourn the meeting.	Mr. Rodighiero moved to adjourn the meeting. Mr. Chong seconded the motion. The motion carried 4:0. At 2:11 p.m. the meeting adjourned

Submitted by: Mercedes Omo, Staff Support Clerk

Reviewed and Approved by: James Whitfield, Chair

- () Approved as circulated on _____
- () Approved as amended. See minutes of _____ meeting.



COUNTY COUNCIL

Arryl Kaneshiro, Chair
Ross Kagawa, Vice Chair
Arthur Brun
Mason K. Chock
Felicia Cowden
Luke A. Evslin
KipuKai Kualii'i



OFFICE OF THE COUNTY CLERK

Jade K. Fountain-Tanigawa, County Clerk
Scott K. Sato, Deputy County Clerk

Telephone: (808) 241-4188
Facsimile: (808) 241-6349
E-mail: cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Lihu'e, Kaua'i, Hawai'i 96766

September 18, 2019

RECEIVED

James Whitfield, Chair
and Members of the Cost Control Commission
c/o Office of Boards & Commissions
4444 Rice Street, Suite 150
Lihu'e, Hawai'i 96766

SEP 20 2019

BOARDS & COMMISSIONS

Dear Chair Whitfield and Members of the Cost Control Commission:

RE: REQUEST FOR INFORMATION ON AUDITS PERFORMED

Thank you for your letter dated September 9, 2019 (See Enclosed), which requested information on recent audits performed. I am responding with the assumption that the Cost Control Commission is interested in performance audits and not the annual Comprehensive Annual Financial Report (CAFR). Please see below in response to the questions posed.

Fiscal Year 2014-2015:

No performance audits completed.

Fiscal Year 2015-2016:

Audit of County Hiring Practices (Report No. 15-01)

Audit of the County Payroll System (Report No. 15-02)

Fiscal Year 2016-2017:

Audit of the Kaua'i Humane Society (Report No. 17-01)

Fiscal Year 2017-2018:

Follow-Up Audit of County Hiring Practices (Report No. 18-01)

Fiscal Year 2018-2019:

No performance audits completed.

James Whitfield, Chair
and Members of the Cost Control Commission
Re: Request for Information on Audits Performed
September 18, 2019
Page 2

Performance audits noted above have been enclosed hereto. All performance audits include any management letters and responses from the auditee that were available to the Council. Unfortunately, this Office does not have access to the external auditors' working papers, which are typically confidential. Recommendations and further auditee responses are also included within each performance audit.

As deemed necessary, the Council does have the ability to request individual briefings from the Administration at a Council or Committee Meeting or during the annual Budget Session to check on specific audit recommendations. The Council has also moved forward with a more formal follow-up process, as evidenced by the Follow-Up Audit of County Hiring Practices, to do a progress check on the recommendations associated within the original Audit of County Hiring Practices. This formal follow-up audit does cost additional monies to carry out.

Should you have any questions, please feel free to contact me or Council Services Staff at 241-4188.

Sincerely,



ARRYL KANESHIRO
Council Chair, Kaua'i County Council

Enclosures

cc: Ellen Ching, Boards & Commissions Administrator

AUDIT OF COUNTY HIRING PRACTICES



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 15-01

PREFACE

This audit assesses whether the County of Kaua‘i’s hiring practices are in compliance with laws, statutes, rules and regulations and is efficient and effective. This performance audit of the County’s hiring process was designed to examine County procedures to hire, promote, transfer and reallocate employees fairly and without bias.

We would like to thank all who contributed data to this report, especially the Information Technology section of the Department of Finance and the Department of Personnel Services.

TABLE OF CONTENTS

PREFACE	1
EXECUTIVE SUMMARY	3
CHAPTER 1	5
Introduction	5
Background	5
Audit Objectives and Scope	5
The County of Kaua'i Hiring Procedures	6
Audit Methodology	8
CHAPTER 2	12
Audit Findings and Recommendations	12
Finding 1. The County did not consistently adhere to HRS and County policies when hiring and conducting promotions, transfers and reallocations.	12
Finding 2. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS.	13
Finding 3. A lack of controls surrounding certain procedures and DPS' IT systems subjects the County to fraud risk.	15
AUDITEE RESPONSE	16

EXECUTIVE SUMMARY

PKF Pacific Hawaii LLP (“PKF” or “we”) has completed an audit of the County of Kaua‘i’s (“County”) hiring practices under contract with the Office of the County Auditor. The performance audit examined the County’s hiring procedures from January 1, 2009 to December 31, 2013. The audit was designed to answer:

- Is the County in compliance with applicable rules and regulations related to the hiring of civil service and exempt personnel? and
- Does the County have sufficient controls in place to ensure fair, uniform and transparent selection of the best qualified employee for the position?

The audit findings and recommendations are summarized as follows:

Finding 1: The County did not consistently adhere to Hawai‘i Revised Statutes (“HRS”) and County policies when hiring and conducting promotions, transfers and reallocations.

The Department of Personnel Services (“DPS”) did not conduct physical examinations for two of the employee numbers in our sample. DPS also delegates certain procedures to the appointing authority but does not require formal documentation to show the procedures were actually performed.

Recommendation: DPS should reassess current procedures and controls to ensure compliance with HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations. Because HRS assigns much of the policy-making authority to the Director of DPS, most procedures may not be specifically required by statute. Nonetheless, internal policies should be reviewed for best practices, clearly written, regularly communicated to DPS staff and held to the same standard of authority as HRS.

DPS should not completely remove themselves from any personnel action procedure. If DPS decides to empower the departments, it should at least act in the capacity of record-keeper to keep itself involved with the process and maintain segregation of duties. This will allow DPS to monitor the appointing authority to ensure all procedures are sufficiently followed.

Finding 2: The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS.

We noted 64 instances where DPS was unable to provide documentation for one of our hiring, promotion, transfer or reallocation testing procedures, including four files that were missing in their entirety.

Recommendation: DPS should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County. All documents should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate its adherence to HRS and County policies for future audit examinations, comply with employee requests to exercise their right to inspect their personnel file and resolve any possible dispute with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Finding 3: A lack of controls surrounding certain procedures subjects the County to fraud risk.

In accordance with internal policy, DPS is allowed to designate certain positions as "unskilled labor," which permits the appointing authority to bypass the interview process during recruitment. However, we noted there were insufficient approval and monitoring controls surrounding the assignment of this designation, which potentially allows the interview process to be circumvented for all county positions.

Recommendation: DPS should ensure sufficient controls and procedures are in place for all types of personnel action, in particular for those that allow civil service requirements to be bypassed as these subject the County to the greatest amount of risk.

CHAPTER 1

Introduction

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the County Charter.

Background

This performance audit examines the County's hiring practices, including promotions, transfers and reallocations. Performance audits provide information to improve program operations and facilitate decision making. For a complete definition of performance audits see Government Auditing Standards section 2.10.

Audit Objectives and Scope

The audit was designed to answer the following questions:

- Is the County in compliance with applicable rules and regulations related to the hiring of civil service and exempt personnel? and
- Does the County have sufficient controls in place to ensure the fair, uniform and transparent selection of the best qualified employee for the position?

The period under examination spanned from January 1, 2009 through December 31, 2013. Our scope included all hires, transfers, promotions and reallocations that occurred during this time period. Controls within the County's NeoGov IT recruiting and hiring system ("NeoGov") were also considered.

The County of Kaua'i Hiring Procedures

Background

There are two primary types of hiring categories in the County: civil service and exempt. Each is comprised of several sub-types of hires such as contractors, temporary and emergency hires.

Civil service employees are hired based on the State of Hawai'i's merit system and principles. According to HRS §76-1, the merit principle is "the selection of persons based on their fitness and ability for public employment and the retention of employees based on their demonstrated appropriate conduct and productive performance." The County must adhere to the merit system unless specifically exempt by statute or a request for exempt status is approved.

Civil Service Hires

According to County policy, after the Department of Finance and the Mayor approve the availability of funds, the County may begin to openly recruit applicants either publicly or internally from the County's existing personnel. Those who pass a preliminary screening are issued an exam developed by DPS. These exams are tailored based on the position description to determine whether minimum qualifications are met. Applicants who pass are ranked by exam score and compiled to form an Eligible List, the pool from which the appointing authority may select to interview. Known as the "Rule of Five," DPS submits batches of five applications per vacancy to the appointing authority. Additional applicants may be requested as needed by the appointing authority but every applicant received must be contacted for interviews. Interviews are conducted by a panel of two or more people, including the position's direct supervisor.

In addition to interviews, the appointing authority performs reference checks for each applicant. Although no formal policy exists, DPS will review the position description and requirements to determine whether a background check is required (e.g. position required working with children, handling money, etc.). The appointing authority notifies DPS of their final decision and files the basic employment documents (e.g. W-4, I-9, etc.). Pending a drug test, pre-employment physical examination and Mayoral approval, the applicant is considered an employee of the County.

Exempt Hires

Exempt employees may bypass the standard civil service recruiting procedures. To qualify for exempt status, a position must be specifically excluded by statute (HRS chapter 76-77). These positions include those in the office of the mayor; elected officials; department heads and their assistants; deputy county attorneys, corporate counsel and prosecuting attorneys; law clerks and district judges among others.

Alternatively, certain emergency, temporary or contracted positions may be classified as exempt if the appointing authority can show normal civil service recruitment procedures are not feasible. A properly approved request to fill vacancy is still required as well as an approved request for exempt status by the appointing authority. Although no formal policies exist, if enough applications are received, DPS will generate an eligible list and will remove applicant names prior to sending to the appointing authority. Typically, DPS only receives one or two applicants or the appointing authority notifies DPS a specific individual is sought for their position and no eligible list is formed. The remaining hiring and screening procedures are ultimately left to the discretion of the appointing authority.

Transfers

Transfers occur when an employee moves from one County position to another of similar duties and pay grade. Approval from both the department transferring the employee and the department receiving the employee are required.

Reallocations

Occasionally, departments will review position descriptions to determine whether they still adequately reflect position requirements and duties. If changes are necessary, consideration is given to whether title and pay grade should be adjusted as well. If the position is vacant, the department will initiate the appropriate recruitment process. Alternatively, if the position is already filled, DPS will reassess whether the incumbent meets the minimum qualifications of the updated position description.

Audit Methodology

We developed an overall audit plan and risk-based strategy to approach and address the audit objectives, which included three distinct stages: planning, fieldwork and reporting.

The planning stage involved obtaining an understanding of the County's hiring, transfer, promotion and reallocation process. Through telephone conferences and written requests, we reviewed documents prepared by DPS including memoranda of agreement, circular agreements, department policies and guidelines, HRS and other documentation to familiarize ourselves with the hiring, transfer, reallocation and promotion processes, identify areas of risk and determine the rules and regulations by which the County must abide.

We also reviewed the County's organizational chart and position descriptions to select those to interview and walk us through each process to identify areas of risk and key controls to test. On November 18, 2014, we met with the Acting Director for DPS and two HR Specialist IIs to discuss the hiring, promotion, transfer and reallocation processes, NeoGov and internal controls, including segregation of duties, within the department.

To review internal controls within DPS' IT systems, we requested a listing of those who have access to NeoGov and the AS400, the payroll processing software used by DPS, along with their user rights and permissions in each system. We compared the lists to determine whether anyone had access to both systems and if proper segregation of duties had been implemented.

Once we established our understanding of the processes surrounding each type of personnel activity, we identified a population from which to sample. We defined the population as all personnel activity during the period from January 1, 2009 through December 31, 2013. Employee numbers were ultimately the easiest way to track personnel activity during the period. As such, we requested a list of all County employee numbers and all personnel activity for each number for the period under scope. We removed any duplicate line items and scanned the listing for any unusual activity. We also removed all activity involving elected officials as DPS was not involved with their hiring or employment. The list was categorized into six groups based on activity and each group was weighted based on the frequency of activity. We selected a sample for each based on their weighted values and a sample size of 40. A summary of the population and our sampling methodology is displayed below.

POPULATION AND SAMPLING METHODOLOGY

Civil service hires	453	14%	6
Exempt hires	1,327	42%	17
Temporary hires	217	7%	3
Promotions	312	10%	4
Transfers	468	15%	6
Reallocations	388	12%	4
Total	3,165	100%	40

Based on our interviews and review of DPS' internal policies and HRS, we developed procedures to test for compliance and the implementation of key controls. Exempt hires were deemed high risk because 1) civil service procedures are typically bypassed and 2) the departments hiring the exempt workers are given autonomy when recruiting for these positions. We followed-up on any issues and noted any mitigating circumstances or controls. Remaining findings that still posed a risk were summarized in Chapter 2 of this report. The procedures we performed and documents reviewed for each type of employment activity are listed in the tables below.

CIVIL SERVICE HIRES

No.	Procedure Performed	Document(s) Reviewed
1	Noted proper approval of appointing authority's request to fill vacancy.	Request to Fill Vacant Position, Approval History (from NeoGov).
2	Noted position availability was properly advertised by DPS.	Detail Job Posting (County website).
3	Noted minimum position qualifications and exam score were met.	Eligible Candidates Listing (from NeoGov).
4	Noted applicant was included in the list of eligibles and list of certified applicants sent to appointing authority for consideration.	Eligible Candidates Listing (from NeoGov).
5	Noted proper interview procedures were performed.	Referred Candidates (from NeoGov).
6	Noted reference checks were performed.	No documentation available at DPS.
7	Noted physical and drug examinations were issued and passed.	Doctor Evaluation, Pre-Employment Examination Results Letter, Drug Test Results.
8	Noted proper approval of appointing authority's final selection notification to DPS.	Hire/Personnel Action Form (from NeoGov).

EXEMPT HIRES

No.	Appointing Authority	Documents Reviewed
1	Noted proper approval of appointing authority's request to fill vacancy.	Request to Fill Vacant Position, Approval History (from NeoGov).
2	Noted proper approval of appointing authority's request for exempt hiring status.	DPS AS-1.
3	Noted position was specifically exempt under HRS 76-16.	HRS 76-16.
4	Noted physical and drug examinations were issued and passed.	Doctor Evaluation, Pre-Employment Examination Results Letter, Drug Test Results.
5	Noted proper approval of appointing authority's final selection notification to DPS.	Hire/Personnel Action Form (from NeoGov).

EXEMPT HIRES FOR PERSONAL SERVICE CONTRACTS

No.	Appointing Authority	Documents Reviewed
1	Noted proper approval of appointing authority's request for exempt status due to special and unique services.	DPS AS-1.
2	Noted duration of contract was limited to one year and properly approved.	Contract, DPS AS-1.
3	Noted physical and drug examinations were issued and passed.	Doctor Evaluation, Pre-Employment Examination Results Letter, Drug Test Results.

TEMPORARY HIRES

No.	Appointing Authority	Documents Reviewed
1	Noted proper approval of appointing authority's request to fill vacancy.	Request to Fill Vacant Position, Approval History (from NeoGov).
2	Noted proper approval of appointing authority's request for exempt status due to impracticality of civil service recruitment.	DPS AS-1.
3	Noted employment term is less than 90 days with up to a 90 day extension.	Payroll Certification, DPS AS-1.
4	Noted physical and drug examinations were issued and passed.	Doctor Evaluation, Pre-Employment Examination Results Letter, Drug Test Results.
5	Noted proper approval of appointing authority's final selection notification to DPS.	Hire/Personnel Action Form (from NeoGov).

PROMOTIONS

No.	Appointing Authority	Documents Reviewed
1	For civil service promotions, see civil service procedures above.	See civil service procedures above.
2	For exempt promotions, see exempt procedures above.	See exempt procedures above.

REALLOCATIONS

No.	Description of Reassignment	Documentation Reviewed
1	Noted proper approval of revisions to position description.	Classification Summary Audit Report, Memo from Director of Personnel Services.
2	If revisions necessitated a change in pay grade, noted proper approval.	Classification Summary Audit Report, Memo from Director of Personnel Services.
3	Noted appropriate hiring procedures were performed if position was vacant.	See civil service or exempt procedures above.
4	Noted minimum qualifications were met with proper approval if position had an incumbent.	Classification Summary Audit Report, Memo from Director of Personnel Services.

TRANSFERS

No.	Description of Transfer	Documentation Reviewed
1	Noted position being transferred to had a similar position description and pay grade.	Payroll Certification.
2	Noted proper approval from transferring and receiving departments and that position was vacant.	No documentation available at DPS.

We conducted this performance audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (HRS chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices ("OIP") Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

CHAPTER 2

Audit Findings and Recommendations

Finding 1. The County did not consistently adhere to HRS and County policies when hiring and conducting promotions, transfers and reallocations.

To ensure the best fit is hired for each position and a thorough recruiting process is implemented, HRS chapter 76 requires the application of the merit principle and acts as broader guidance for DPS when recruiting for civil service and exempt positions. Much of the statute, however, empowers and relies upon the Director of DPS to implement policies and procedures that will uphold the merit system.

Exempt positions were deemed a high-risk area due to the number of civil service procedures waived during recruitment. With few procedures in place for the recruitment for exempt positions, there is a higher risk that unqualified applicants are accepted or that the appointing authority is able to use bias in its selections.

All positions, including those exempt from civil service procedures require a physical and drug examination. We discovered two of the 17 exempt positions had no physical examinations performed.

We also observed certain civil service procedures were delegated to the departments themselves. For these procedures, DPS did not require formal substantiation from the departments that the procedures were actually performed. DPS was therefore unable to provide any support as no documentation was maintained at DPS. A summary of the outsourced procedures is displayed below.

PROCEDURES PERFORMED BY APPOINTING AUTHORITY

Procedure	Count	Count	Procedure
Civil service hires	6	6	Reference check
Transfers	6	6	Transfer approval between departments
Total	12	12	

Recommendation: DPS should reassess current procedures and controls to ensure compliance with HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations. Because HRS assigns much of the policy-making authority to the Director of DPS, most procedures may not be specifically required by statute. Nonetheless, internal policies should be reviewed for best practices, clearly written, regularly communicated to DPS staff and held to the same standard of authority as HRS.

DPS should not completely remove themselves from any personnel action procedure. If DPS decides to empower the departments, it should at least act in the capacity of record-keeper to keep itself involved with the process and maintain segregation of duties. This will also allow DPS to monitor the appointing authority to ensure all procedures are sufficiently followed.

Finding 2. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS.

All County BU agreements include a clause providing employees the right to inspect their personnel files. One of the most prevalent and pervasive issues during our testing was the lack of documentation. Three exempt hires and one temporary hire, who was also considered an exempt employee, had their entire employee files missing. There were a total of 64 instances in which DPS was unable to provide documentation to support a personnel action. We have summarized them below.

MISSING DOCUMENTATION DETAIL

Documentation Item	AS-1	AS-2	AS-3	AS-4	AS-5	AS-6	Total
Vacancy Request Approval	0	11	2	1	N/A	N/A	14
AS-1 Request for Exempt Status	N/A	14	2	1	N/A	N/A	17
PC/AS-1 Less than 90 Day Term	N/A	N/A	1	N/A	N/A	N/A	1
Interview Documentation	1	N/A	N/A	0	N/A	N/A	1
Physical/Drug Screening	2	3	2	N/A	N/A	N/A	7
Final Selection Approval	1	11	2	3	N/A	N/A	17
Contract	N/A	3	0	N/A	N/A	N/A	3
Reallocation Approval Documents	N/A	N/A	N/A	N/A	N/A	4	4
Total Instances Noted	4	42	9	5	0	4	64
Total Sampled Items Affected	4	16	3	3	0	2	28
Sample Total	6	17	3	4	6	4	40

Recommendation: DPS should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County. All documents should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate their adherence to HRS and County policies for future audit examinations, comply with employee requests to exercise their right to inspect their personnel file and resolve any possible dispute with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Finding 3. A lack of controls surrounding certain procedures subjects the County to fraud risk.

We discovered interviews were not conducted for two of the six civil service hires tested. Although this was in compliance with Selection Procedures Circular No. 86-30 dated May 16, 1986, which states "When selection is made from unskilled registration lists, all eligibles need not be contacted for an interview," we noted DPS had not implemented adequate controls to approve and monitor which positions were deemed as "unskilled labor." DPS explained only certain positions were given this designation based on their position description and included golf course groundskeepers, groundskeepers, land fill laborers, laborers, park caretakers and janitors. Without proper controls in place, however, DPS could potentially bypass the interview process for any position they designated as unskilled.

Recommendation: DPS should ensure sufficient controls and procedures are in place for all types of personnel action, in particular for those that allow civil service requirements to be bypassed as these subject the County to the greatest amount of risk.

* * * *

AUDITEE RESPONSE

Finding 1: The County did not consistently adhere to HRS and County policies when hiring and conducting promotions, transfers and reallocations.

Recommendation: DPS should reassess current procedures and controls to ensure compliance with HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations. Because HRS assigns much of the policy-making authority to the Director of DPS, most procedures may not be specifically required by statute. Nonetheless, internal policies should be reviewed for best practices, clearly written, regularly communicated to DPS staff and held to the same standard of authority as HRS.

DPS should not completely remove themselves from any personnel action procedure. If DPS decides to empower the departments, it should at least act in the capacity of record-keeper to keep itself involved with the process and maintain segregation of duties. This will also allow DPS to monitor the appointing authority to ensure all procedures are sufficiently followed.

Auditee's Response: Agree. Prior to the restructuring of the Department of Human Resources (HR), individual departments were empowered with much of the recruitment and hiring decisions. In addition, prior to 2011, the NEOGOV online recruitment system was not used consistently among all departments.

With the recent restructuring of the Department of Human Resources (HR), duties formally performed at the individual department level are now being done at HR for greater consistency and standardization. HR conducts reference checks for all employees new to the County (excluding sworn Kua'i Police Department (KPD) staff), contacts selected applicants with conditional offers of employment, and schedules all necessary pre-employment requirements including drug tests, physicals, and background checks for those positions requiring this assessment (excluding sworn KPD staff).

HR agrees that duties that remain with departments (interviewing, etc.) still require substantiation from the departments that proper procedures are followed. As such, HR will begin to require individual departments to submit the necessary documents to HR to ensure that necessary procedures were adhered to.

In addition, since 2011, all requests to fill vacant positions must go through the NEOGOV online recruitment system ensuring proper approvals occur prior to eligible applicant lists being referred to departments.

A review of internal recruitment and hiring practices is underway that incorporates best practices, adheres to HRS and that will be communicated to all departments and HR staff once completed.

Finding 2: The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS.

Recommendation: DPS should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County. All documents should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate their adherence to HRS and County policies for future audit examinations, comply with employee requests to exercise their right inspect their personnel file and resolve any possible dispute with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Auditee's Response: Agree. With the recent restructuring of the Department of Human Resources (HR), employee files related to employment, pay and benefits are now centrally maintained at HR.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files. This policy will set the guidelines for HR and all departments to maintain necessary documents.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at ways to streamline documents including new software that will assist with electronic recordkeeping.

Finding 3: A lack of controls surrounding certain procedures subjects the County to fraud risk.

Recommendation: DPS should ensure sufficient controls and procedures are in place for all types of personnel action, in particular for those that allow civil service requirements to be bypassed as these subject the County to the greatest amount of risk.

Auditee's Response: Agree. A review of HR's current positions that have been designated as "unskilled labor" as defined in the "Rules of the Director" will be undertaken and incorporated into revised internal recruitment and hiring practices policies and procedures and communicated to all departments and HR staff.

HR agrees that aside from maintaining internal controls within HR, duties that remain with departments (interviewing, etc.) still require substantiation from the departments that proper procedures were followed. As such, HR will begin to require individual departments to submit the necessary documents to HR to ensure that necessary procedures were adhered to and not bypassed.

Although exempt positions as defined under the HRS are exempt from civil service procedures, HR agrees that sufficient controls and procedures should be in place for all types of personnel action. With the recent restructuring of the Department of Human Resources (HR), all exempt positions go through the approval process via our NEOGOV online recruitment system. HR will begin to update policies and procedures to address controls and procedures for exempt appointments as well, and will be shares with all departments and HR staff.

Bernard P. Carvalho, Jr.
Mayor



Janine M.Z. Rapozo
Director

Nadine K. Nakamura
Managing Director

DEPARTMENT OF HUMAN RESOURCES

County of Kauai, State of Hawaii
4444 Rice Street, Suite 140, Lihu'e, Hawaii 96766
TEL (808) 241-4956 FAX (808) 241-6593

June 19, 2015

Mr. Tyler Kimura
PKF Pacific Hawaii LLC
1132 Bishop Street, Suite 2500
Honolulu HI 96813-2864

Subject: Hiring Practices Audit
Draft Report

Dear Mr. Kimura,

Thank you for the opportunity to submit a written response to the subject draft audit report. Following are our responses to the recommendations made therein.

Finding 1: The County did not consistently adhere to Hawaii Revised Statutes ("HRS") and County policies when hiring and conducting promotions, transfers and reallocations.

Recommendation: DPS should reassess current procedures and controls to ensure compliance with HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations. Because HRS assigns much of the policy-making authority to the Director of DPS, most procedures may not be specifically required by statute. Nonetheless, internal policies should be reviewed for best practices, clearly written, regularly communicated to DPS staff and held to the same standard of authority as HRS.

DPS should not completely remove themselves from any personnel action procedure. If DPS decides to empower the departments, it should at least act in the capacity of record-keeper to keep itself involved with the process and maintain segregation of duties. This will allow DPS to monitor the appointing authority to ensure all procedures are sufficiently followed.

AN EQUAL OPPORTUNITY EMPLOYER

Response:

Agree. Prior to the restructuring of the Department of Human Resources (HR), individual departments were empowered with much of the recruitment and hiring decisions. In addition, prior to 2011, the NEOGOV online recruitment system was not used consistently among all departments.

With the recent restructuring of the Department of Human Resources (HR), duties formally performed at the individual department level are now being done at HR for greater consistency and standardization. HR conducts reference checks for all employees new to the County (excluding sworn Kaua'i Police Department (KPD) staff), contacts selected applicants with conditional offers of employment, and schedules all necessary pre-employment requirements including drug tests, physicals, and background checks for those positions requiring this assessment (excluding sworn KPD staff) .

HR agrees that duties that remain with departments (interviewing, etc.) still require substantiation from the departments that proper procedures are followed. As such, HR will begin to require individual departments to submit the necessary documents to HR to ensure that necessary procedures were adhered to.

In addition, since 2011, all requests to fill vacant positions must go through the NEOGOV online recruitment system ensuring proper approvals occur prior to eligible applicant lists being referred to departments.

A review of internal recruitment and hiring practices is underway that incorporates best practices, adheres to HRS and that will be communicated to all departments and HR staff once completed.

Finding 2:

The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS.

Recommendation:

DPS should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County. All documents should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate its adherence to HRS and County policies for future audit examinations, comply with employee requests to exercise their right to inspect their personnel file and resolve any possible dispute with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Response:

Agree. With the recent restructuring of the Department of Human Resources (HR), employee files related to employment, pay and benefits are now centrally maintained at HR.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files. This policy will set the guidelines for HR and all departments to maintain necessary documents.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at ways to streamline documents including new software that will assist with electronic recordkeeping.

Finding 3:

A lack of controls surrounding certain procedures subjects the County to fraud risk.

Recommendation:

DPS should ensure sufficient controls and procedures are in place for all types of personnel action, in particular for those that allow civil service requirements to be bypassed as these subject the County to the greatest risk.

Response:

Agree. A review of HR's current positions that have been designated as "unskilled labor" as defined in the "Rules of the Director" will be undertaken and incorporated into revised internal recruitment and hiring practices policies and procedures and communicated to all departments and HR staff.

HR agrees that aside from maintaining internal controls within HR, duties that remain with departments (interviewing, etc.) still require substantiation from the departments that proper procedures were followed. As such, HR will begin to require individual departments to submit the necessary documents to HR to ensure that necessary procedures were adhered to and not bypassed.

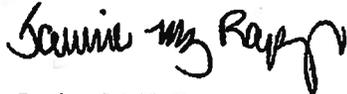
Although exempt positions as defined under the HRS are exempt from civil service procedures, HR agrees that sufficient controls and procedures should be in place for all types of personnel action. With the recent restructuring of the Department of Human Resources (HR), all exempt positions go through the approval process via our

Mr. Tyler Kimura
Page 4
June 19, 2015

NEOGOV online recruitment system. HR will begin to update policies and procedures to address controls and procedures for exempt appointments as well, and will be shared with all departments and HR staff.

We are pleased that the audit report confirmed that many of the changes being implemented since the centralization of the personnel functions within the County Department of Human Resources are continuing to move in the right direction towards ensuring a fair, uniform and transparent selection of the best qualified employees for various County positions.

Respectfully submitted,



Janine M.Z. Rapozo
Director of Human Resources

cc: Bernard P. Carvalho Jr., Mayor
Nadine Nakamura, Managing Director
Mel Rapozo, Council Chair
Ross Kagawa, Council Vice Chair
Mason K. Chock, Councilmember
Gary L. Hooser, Councilmember
Arryl Kaneshiro, Councilmember
KipuKai Kualii, Councilmember
JoAnn A. Yukimura, Councilmember

AN EQUAL OPPORTUNITY EMPLOYER

AUDIT OF COUNTY PAYROLL SYSTEM



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 15-02

PREFACE

This audit assesses whether the County of Kaua'i's payroll system is in compliance with rules and regulations and uniformly applied. This performance audit of the County's payroll system was designed to examine County programs to ensure accurate reporting, appropriate application of pay scales and to identify areas for process improvement.

We would like to thank all who contributed data to this report, especially the Information Technology section of the Department of Finance and the Department of Personnel Services.

TABLE OF CONTENTS

PREFACE	1
EXECUTIVE SUMMARY	3
CHAPTER 1	6
Introduction	6
Background	6
Audit Objectives and Scope	6
The County of Kaua'i Payroll Process	7
Audit Methodology	8
CHAPTER 2	10
Audit Findings and Recommendations	10
Finding 1. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements.	10
Finding 2. The County applied incorrect pay or benefit rates resulting in overpayments to employees.	12
Finding 3. Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.	13
AUDITEE RESPONSE	15

EXECUTIVE SUMMARY

PKF Pacific Hawaii LLP ("PKF" or "we") has completed an audit of the County of Kaua'i's ("County") payroll system and procedures under contract with the Office of the County Auditor. The performance audit examined the County-wide payroll system during the period from January 1, 2009 to December 31, 2013. The audit was designed to answer:

- Are the County's controls and policies related to payroll activities adequately and appropriately operating to assure the County is in compliance with applicable rules and regulations?
- Are the County's policies and procedures uniformly and consistently applied throughout the County to ensure that pay and benefits are accurate, appropriate, earned and paid to its employees? and
- Has the County established appropriate rules, policies and procedures to safeguard County assets, provide appropriate checks and balances and ensure the accountability of government?

The audit findings and recommendations are summarized as follows:

Finding 1: The amount of supporting documentation maintained by Department of Personnel Services ("DPS") is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Employee files are not centrally and securely maintained. There were many instances of missing documents due to lack of record retention and poor transitions of duties and responsibilities as payroll personnel turnover occurred. Documentation for benefit elections were not maintained prior to 2013.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Finding 2: The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Pay rates and benefit elections are not timely updated and documentation for the changes are missing or unsecured.

Recommendation: Pay rates and benefit elections should be updated in the County's AS400 Payroll system ("the AS400" or "the payroll system") in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Certain employees outside the payroll function are capable of creating positions requisitions, adding new users and updating user permissions, among other user rights. They also have the ability to reapply base rates, rebuild hours, override and make pay adjustments. Though they cannot create new employees themselves, personnel outside of the payroll function should not have the ability to adjust an employee's pay rate due to the potential for fraud.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the human resource ("HR") and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

CHAPTER 1

Introduction

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the County Charter.

Background

This performance audit examines the County payroll system for compliance, efficiency and accuracy. Performance audits provide information to improve program operations and facilitate decision making. For a complete definition of performance audits see Government Auditing Standards section 2.10.

Audit Objectives and Scope

The audit was designed to answer the following questions:

- Are the County's controls and policies related to payroll activities adequately and appropriately operating to assure the County is in compliance with applicable rules and regulations?
- Are the County's policies and procedures uniformly and consistently applied throughout the County to ensure that pay and benefits are accurate, appropriate, earned and paid to its employees? and
- Has the County established appropriate rules, policies and procedures to safeguard County assets, provide appropriate checks and balances and ensure the accountability of government?

The period under evaluation spanned from January 1, 2009 through December 31, 2013. Our scope included all pay periods during this time period. Controls and access rights in the AS400 were also considered.

The County of Kaua'i Payroll Process

DPS has been processing payroll since July 1, 2014. Three employees who process payroll were transferred to DPS as of July 2014; the Central Payroll Accountant, Accountant III and the Payroll Specialist. Prior to this, the payroll function and positions were part of the Department of Finance.

The County begins its payroll processing once each department has entered its time in the AS400. The AS400 is a password protected payroll-processing software that contains a digital profile of all county employees including the employee's department, position, pay grade and benefit elections. DPS uses this system to process their payroll. Updates to employee data are made by the Payroll Administrator and Accountant III when an EC-1 form is received and signed by the employee and departmental personnel officer.

Out of 19 departments, nine submit a signed, detailed summary of their employees' hours to the DPS. The Payroll Specialist enters the time in the AS400 on the departments' behalf, while the remaining departments submit their time via the AS400. A signed Hours Proof Listing is submitted by all departments to DPS, which summarizes the department's hours by pay code. Changes to hours input can be made up until the Preliminary Payroll report is generated by the Central Payroll Accountant. The Preliminary Payroll report is sent to each department's payroll clerk for review but are only returned if errors are noted by the payroll clerk. At this point, the departments are unable to make any further changes in the AS400. Additional corrections may be made with approval from the Payroll Administrator and Accountant III up to two days prior to processing payroll. When the final payroll register is run, DPS compares it to the signed Hours Proof Listing to ensure no unauthorized changes were made during payroll processing.

After payroll is finalized, a fiscal officer from the Department of Finance authorizes the release of County funds. The EUTF bills DPS for the benefits who, in turn, bills the individual departments. The IT Department prints the payroll checks, which are housed and issued by the Department of Finance. For the employees who have not elected direct deposit, their department must sign for, and pick up, the checks at DPS. Checks issued are for the work performed in the prior period as the County is on a one period pay lag.

Pay rates and benefits are negotiated between the County and the individual BUs. The BU agreements list employee rights, grievance procedures, types of pay, types of leave, allowable expense reimbursements and types of benefits and their rates. Non-BU employees receive comparable rates based on the BU agreements or individual service contracts. The table below lists the types of BUs associated with the County.

COUNTY OF KAUAI BARGAINING UNITS

BU Number	BU Description
1	Blue collar workers
2	Blue collar supervisors
3	White collar workers
4	White collar supervisors
11	Fire fighters
12	Police officers
13	Professionals and scientists

Audit Methodology

We developed an overall audit plan and risk-based strategy to approach and address the audit objectives, which included three distinct stages: planning, fieldwork and reporting.

The planning stage involved obtaining an understanding of the County's payroll system and process. Through telephone conferences and written requests, we reviewed documents prepared by DPS including payroll process checklists, memorandums and executive orders among other documentation to familiarize ourselves with the County's payroll process. We also utilized our employee benefit plan and financial audit resources to help identify key controls and high-risk areas in the payroll process, as well as establish a benchmark against which to test.

We reviewed the County's organizational chart and position descriptions to select key personnel to interview and walk us through the payroll process. On November 18, 2014, we met with the Payroll Administrator and Accountant III to get a better understanding of the payroll process, the AS400 and internal controls, including segregation of duties, within the department.

To review internal controls within DPS' IT systems, we requested a listing of those with access to the AS400 and those with access to NeoGov, the hiring and personnel software used by DPS, along with their user rights and permissions in each system. We compared the lists to determine whether anyone had access to both systems and if proper segregation of duties had been implemented.

We randomly selected five departments, one for each pay period in our sample to test hours input procedure within the payroll process. For each department, we reviewed the hours proof listing for proper sign-off by the Payroll Clerk and agreed the hours to the payroll register for each pay period. We also reviewed the Fiscal Officer's approval of the release of funds for each pay period in our sample as part of our test of the overall payroll process.

To test the accuracy of employee pay and benefits, we identified a population from which to sample. The population was defined as all pay periods within the time period under scope. We randomly selected one pay period from each year and requested a comprehensive list of county employees along with their salaries and bargaining units ("BU"). We randomly chose one employee from each BU and one non-BU employee from each pay period for a total of 40 unique sample items to test payroll reporting.

We recalculated the pay and benefits for each employee in our sample using the hours reported on the payroll register and the salary schedules from the BU agreements. We used the grade and step from the employee's Payroll Certification ("PC") as of each pay period sampled to determine the correct rate on the salary schedule.

For each employee in our sample, we agreed the employer portion of benefits paid per the payroll register to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") Monthly Insurance Premium Rates schedules based on the employee's EC-1 benefit election form. We followed-up on any issues noting mitigating circumstances and controls. Remaining findings were noted in Chapter 2 of this report.

To test the overall payroll process, we reviewed the fiscal officer's approval of the release of funds for each pay period in our sample and randomly chose one department from each period and agreed the hours per the signed Hours Proof Listing to the payroll register.

We conducted this performance audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (Hawai'i Revised Statutes ("HRS") chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices ("OIP") Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

CHAPTER 2

Audit Findings and Recommendations

Finding 1. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements.

Despite multiple follow up requests for support, one of the most prevalent and pervasive issues during our testing was the lack of documentation maintained by DPS, in particular for benefit elections. DPS disclosed to us that documentation for benefit elections had not been maintained prior to 2013. Of the 40 employees we tested, 38 had at least one benefit or pay item where DPS was unable to provide supporting documentation for a total of 81 instances. The details of our findings are presented in the table below.

INSTANCES OF UNSUPPORTED BENEFIT ELECTIONS OR PAY

Type of Payroll Item	Classification	Description	No. of Times Occurred
Benefit	Ret Other Pst Ret-Medical	Benefits paid to cover employee medical expenses after retirement.	38
Benefit	Retirement (Regular Employee, Fire, Police)	Employer contributions for employees who participate in the State retirement system.	23
Pay	Temporary Assignment	Additional pay for employees who temporarily fill and serve in a position above their own.	12
Benefit	Health Fund Life Ins	Employee's election for life insurance.	5
Pay	Fire Rescue Specialist; Hazard Assignment	Additional pay for employees who serve in search and rescue missions and hazardous conditions.	2
Pay	Employee's Basic Pay	Base salary paid to employee.	1

Though there appeared to be adequate authorization and review of changes in employee status, pay rates and benefit elections, there did not seem to be an independent verification of time entry. Departments ultimately certify their own time input during the preliminary payroll approval process. Without independent verification or support to show approval of additional hours, the County is left susceptible to both error and fraud.

Further, all County BU agreements include a clause providing employees the right to inspect their personnel files. Based on our findings, the County may have risked violating the BU agreements if a dispute over benefits had arisen, or if an employee had requested to see any of the missing support in the table above between 2009 and 2013.

In addition, six of 39 EC-1 benefit election forms were signed after the pay period we selected for testing. Although the benefit elections matched the rates reported on each employee's payroll register, there was no way to confirm these were the actual benefits elected at the time payroll was processed as they were signed after the fact.

As we tested the overall payroll process, we noted discrepancies between the billings from the EUTF to DPS and the subsequent billing from DPS to the departments. DPS partially substantiated this by explaining the EUTF is not always up to date and, for example, will continue to bill for benefits for an employee who terminated. DPS noted, however, the EUTF will usually correct their error on subsequent billings. After several requests, DPS was ultimately unable to reconcile and quantify the difference in billings.

Finally, we noted eight instances where both BU and non-BU employee pay could not be substantiated beyond their PC. The PC acts as the County's input sheet into the AS400 for basic employee data including position title, class and grade, pay rate and other demographic information. It is derived from various source documents including the BU agreements and is signed by both the appointing authority and the Director of DPS. Though we agreed the employee's pay from the payroll register to their PC, we were subsequently unable to use their step and grade from their PC to vouch their pay to the salary schedule from their BU agreement. We were therefore unable to verify the accuracy of their pay and determine the extent of any potential over or under payments by the County.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated

versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Finding 2. The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Our testing revealed a total of 43 instances in which pay and benefits were improperly applied to the 40 employees in our sample. Nine of the findings were due to incorrect application of rates for various types of pay, which affected five of the 40 employees we tested and resulted in approximately \$1,400 in overpayment by the County as shown in the table below.

INCORRECTLY APPLIED PAY RATES

Reason for Incorrect Application	Count	Overpayment	Pay Type
Rate applied does not appear in BU salary schedule.	7	\$118.63	Employee's basic pay, leave without pay, standby pay, night alarm pay and rest period pay.
Wrong pay class or grade applied,	2	\$1,265.50	Employee's basic pay.
Total Pay Rates Applied Incorrectly.	9	\$1,384.13	Net overpayment.

The remaining 34 instances were comprised of benefits that, according to the employee's EC-1, were applied but not elected or had a rate assigned from either the wrong type of plan (e.g. two-party vs individual vs family plans, etc.)

or the wrong BU agreement. The 34 instances affected 10 of the 40 employees who had an average of 3.4 benefits incorrectly calculated out of a possible seven different benefit elections. As mentioned in the prior finding, DPS did not maintain documentation for benefit elections prior to 2013. Breakdowns of the various types of errors encountered are provided below.

INCORRECTLY APPLIED BENEFITS

Reason for Incorrect Application	Count	Over (under) Payment	Benefit Type
Rates from wrong BU and wrong plan applied.	19	(\$64.31)	Medical, drug, dental and vision coverage.
Rates from wrong BU applied.	8	\$79.47	Medical, drug, dental and vision coverage.
Did not elect benefit on EC-1 but was given anyway.	6	\$1,191.41	Life insurance, retirement contributions, retirement medical contributions, drug coverage.
Benefit elected but not paid.	1	(\$2.08)	Life insurance.
Total Benefits Applied Incorrectly.	34	\$1,204.49	Net overpayment.

Recommendation: Pay rates and benefit elections should be updated in the AS400 in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Finding 3. Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Segregation of duties is a key component of effective internal control and consists of the Authorization, Custody and Record Keeping functions. The principle behind segregation of duties is to isolate key operating functions in a business so no single individual or entity is able to bypass internal controls or perpetrate fraud.

During our review of IT controls, we noted 23 employees who have access to both the AS400 and NeoGov. Eight of these employees are representatives from requesting departments that are classified as Hiring Liaisons in NeoGov. These employees are capable of creating position requisitions, adding new users and updating user permissions, among other user rights. The eight liaisons also have access rights to the hours entry function in the AS400, which

gives them the ability to reapply base rates, rebuild hours, override and make pay adjustments.

Those with the ability to create an employee should not be able to pay them as well. Though Hiring Liaisons are incapable of creating new employees themselves, personnel outside of DPS should not have the ability to adjust an employee's pay rate.

While we did not observe any lack of segregation of duties within DPS, we did note during our interviews that no formal action plan had been established either prior to or during the merger of the payroll and hiring functions under DPS to ensure a seamless transition. Both functions appeared to continue to operate independently of each other without a clear direction of the goals or vision of the department.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the HR and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

* * * *

AUDITEE RESPONSE

Finding 1: The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Auditee's Response: Agree. With the recent restructuring of the Department of Human Resources (HR) including the transfer of central payroll functions, employee files related to employment, pay and benefits are now centrally maintained at HR.

Cross training is already in progress at HR to ensure seamless transitions when employees separate from the County or on extended leaves.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files.

Finding 2: The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Recommendation: Pay rates and benefit elections should be updated in the AS400 in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Auditee's Response: Agree. With the recent restructuring Department of Human Resources (HR), payroll transactions are now being generated centrally at HR (versus at the various departments). A flowchart that depicts the work flow processing has been developed and anticipated payroll transactions are tracked to be processed one (1) month before the effective date. Reliance on departments for operational changes still present a challenge for timely processing.

Payroll staff will monitor and audit transactions including benefits during every payroll cycle to ensure accurate payments. Departments will be required to submit a summary of payroll entries as a check to the payroll hours proof form that is already being submitted.

Payroll staff will continue to work with the Employer-Union Health Benefits Trust Fund (EUTF) to obtain accurate and detailed billing information to ensure that health insurance premiums paid out correctly reflect the County's financial obligations.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the HR and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel

with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

Auditee's Response: Agree. The Department of Human Resources (HR) has been working diligently with the Department of Finance-Information Systems to develop appropriate security access for the various HR functions while maintaining an adequate level of backup support. Changes have already been made to provide read-only access to specific HR staff who are not involved with personnel and payroll transactions.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at merging the different aspects of payroll and personnel, thereby creating greater efficiencies.

Auditor's Comment: While DPS is taking steps to ensure the appropriate security access and internal controls are in place to prevent payroll fraud, DPS should remain vigilant of the inherent risks associated with combining payroll and personnel functions under the same department. In addition, payroll personnel should leverage resources from the Department of Finance for any complex tax issues and other payroll-related compliance measures to the extent needed. DPS should further ensure that its personnel have the appropriate experience and training to carry out its implementation plan. This includes having adequate succession planning procedures in place in the event of the attrition of key personnel.

Bernard P. Carvalho, Jr.
Mayor



Janine M.Z. Rapozo
Director

Nadine K. Nakamura
Managing Director

DEPARTMENT OF HUMAN RESOURCES
County of Kauai, State of Hawaii
4444 Rice Street, Suite 140, Lihu'e, Hawaii 96766
TEL (808) 241-4956 FAX (808) 241-6593

June 19, 2015

Mr. Tyler Kimura
PKF Pacific Hawaii LLP
1132 Bishop Street, Suite 2500
Honolulu HI 96813-2864

Subject: Payroll System Audit
Draft Report

Dear Mr. Kimura,

Thank you for the opportunity to submit a written response to the subject draft audit report. Following are our responses to the recommendations made therein.

Finding 1: The amount of supporting documentation maintained by the Department of Personnel Services ("DPS") is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Recommendation: DPS should maintain accurate and complete employee file, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

AN EQUAL OPPORTUNITY EMPLOYER

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Response:

Agree. With the recent restructuring of the Department of Human Resources (HR) including the transfer of central payroll functions, employee files related to employment, pay and benefits are now centrally maintained at HR.

Cross training is already in progress at HR to ensure seamless transitions when employees separate from the County or on extended leaves.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files.

Finding 2:

The County applied incorrect pay or benefit rates resulting in overpayment to employees.

Recommendation:

Pay rates and benefit elections should be updated in the County's AS400 Payroll system ("the AS400" or the payroll system") in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Response:

Agree. With the recent restructuring Department of Human Resources (HR), payroll transactions are now being generated centrally at HR (versus at the various departments). A flowchart that depicts the work flow processing has been developed and anticipated payroll transactions are tracked to be processed one (1) month before the effective date. Reliance on departments for operational changes still present a challenge for timely processing.

Payroll staff will monitor and audit transactions including benefits during every payroll cycle to ensure accurate payments. Departments

will be required to submit a summary of payroll entries as a check to the payroll hours proof form that is already being submitted.

Payroll staff will continue to work with the Employer-Union Health Benefits Trust Fund (EUTF) to obtain accurate and detailed billing information to ensure that health insurance premiums paid out correctly reflect the County's financial obligations.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the human resource ("HR") and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

Response: Agree. The Department of Human Resources (HR) has been working diligently with the Department of Finance-Information Systems to develop appropriate security access for the various HR functions while maintaining an adequate level of backup support. Changes have already been made to provide read-only access to specific HR staff who are not involved with personnel and payroll transactions.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at merging the different aspects of payroll and personnel, thereby creating greater efficiencies.

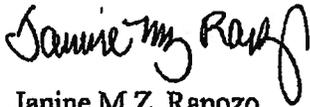
Mr. Tyler Kimura

Page 4

June 19, 2015

We are pleased that the audit report confirmed that the many of the changes being implemented since central payroll functions were transferred from the Department of Finance to the Department of Human Resources are moving in the right direction towards safeguarding the County's assets, providing checks and balances and ensuring accountability of government.

Respectfully submitted,



Janine M.Z. Rapozo

Director of Human Resources

cc: Bernard P. Carvalho Jr., Mayor
Nadine Nakamura, Managing Director
Mel Rapozo, Council Chair
Ross Kagawa, Council Vice Chair
Mason K. Chock, Councilmember
Gary L. Hooser, Councilmember
Arryl Kaneshiro, Councilmember
KipuKai Kualii, Councilmember
JoAnn A. Yukimura, Councilmember

AUDIT OF THE KAUA'I HUMANE SOCIETY



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 17-01

PREFACE

This performance audit of the Kaua'i Humane Society ("KHS" or "Society") was designed to examine the Society's use of funds under its contract with the County of Kaua'i ("County") to ensure compliance with the terms of the contract and identify any recommendations for improvement.

We would like to thank all who contributed data to this report, especially KHS personnel and the Department of Finance.

TABLE OF CONTENTS

PREFACE	1
EXECUTIVE SUMMARY	3
CHAPTER 1	9
Introduction	9
Background	9
Audit Objectives and Scope	9
KHS County Contract	10
Other Functions of KHS (Out of Audit Scope)	12
Audit Methodology	13
Difficulties During the Audit	21
CHAPTER 2	22
Audit Findings and Recommendations	22
Finding 1. County Funds Were Not Solely Used for County-Related Services.	22
Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.	23
Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.	26
Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Premature Euthanasia.	30
Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.	32
Finding 6. KHS' Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.	34
AUDITEE RESPONSE	36

Attachment 1 – Kaua'i Humane Society Responses to Audit

EXECUTIVE SUMMARY

Spire Hawaii LLP (“Auditor,” “Spire” or “we”) has completed a performance audit of the Kaua‘i Humane Society’s (“KHS” or “Society”) compliance with its contract with the County of Kaua‘i (“County”). The audit examined KHS’ use of County funds, financial and statistical reporting, compliance with laws and regulations and the efficiency and effectiveness of internal controls and procedures during the period from July 1, 2012 to June 30, 2015 (“Period Under Scope”). The audit was designed to answer:

- Are KHS controls and policies adequate and appropriate to ensure compliance with the County contract and the applicable statutes and codes?
- Are County funds being used exclusively towards contracted services as evidenced by separate accounting records and no occurrences of co-mingling?
- Would it be more cost effective for contracted services to be handled by the County instead?
- Are there best practices that would boost efficiency and effectiveness in meeting contract objectives?

The audit findings and recommendations are summarized as follows:

Finding 1: County Funds Were Not Solely Used for County-Related Services.

KHS allocated 100% of Field Service Officer pay and benefits to the County even though the Officers were performing non-County-related services, such as dropping off and picking up animals at the airport for quarantine and transfer programs. In addition, KHS allocated other inappropriate expenses to the County such as a subscription to The Garden Island newspaper, expenses that pertained to KHS’ holiday party, and gift cards related to an employee incentive program.

Recommendation: We recommend KHS maintain better records of the methodology used to calculate their allocation percentages. We also recommend KHS re-evaluate which expenses it allocates to the County. For example, Field Service Officer pay should not be fully allocated to the County if they are doing non-County related services.

While certain operational overhead expenses are appropriate to be allocated as County expenses, those only related to KHS are not. An

expense should only be allocated if incurred as either a direct or indirect result of County-related work. Further, expenses should be allocated using a logical and well-documented methodology. While using customized methods to allocate expenses may be well-intended, it is more efficient and transparent to use a single allocation percentage that is communicated to, and ideally agreed to by, the County.

Finding 2: KHS' Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

KHS' Standard Operating Procedures ("SOPs") are informally documented and copies of previous versions are not maintained. As a result, KHS was unable to definitely prove that it was following its operating procedures during each of the Periods Under Scope. We were only able to test current procedures against current SOPs.

KHS was also unable to provide supporting documentation or otherwise substantiate many of its procedures, the majority of which pertained to its allocation percentage calculations. As discussed in the Audit Methodology section of this report, KHS uses multiple allocation methodologies for various types of expenses. When we tried to understand what the allocation percentages were based on, we were unable to obtain any support for 34 of 42 (81%) items of our sample. These 34 instances had a total dollar value of \$27,571.

Recommendation: We recommend KHS implement stronger recordkeeping policies, in particular for the missing support noted in the finding discussion. In terms of KHS' accountability to the County and the public, it is crucial that KHS maintain the supporting calculations for its allocation percentages, including its animal study to substantiate its allocation of expenses to the County. This is especially true when allocations are customized.

Finding 3: KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

There is currently no government institution or animal organization responsible for tabulating national statistics, and publicly available statistics vary considerably. KHS' dog adoption and euthanasia and dog and cat returned to owner rates trend better than the American Society for the Prevention of Cruelty to Animals' ("ASPCA") national estimates. KHS' cat adoption and euthanasia rates trend worse than ASPCA's national estimates. However, KHS' cat euthanasia rate is in line with American Humane and The Humane Society of the United States' ("HSUS") euthanasia rate.

KHS' total animal intake has also decreased by approximately 16% year over year from FY 2013 through FY 2015. This could be viewed as either a positive (animal control efforts have worked and there are less strays) or a negative (fewer people turning in animals to KHS).

We were unable to fully substantiate the animal statistics reported to the County. When we requested support for the animal statistics, KHS provided multiple variations of the Animal Outcome Reports from PetPoint, none of which agreed to the statistics submitted to the County. We recalculated the animal statistics based on the Animal Outcome Reports, and noted that FY 2014 figures were significantly different (up to 19.1%) from those submitted to the County. KHS was unable to provide any explanations as to why the Animal Outcome Reports did not support the statistics it had reported to the County.

KHS' Animal Outcome Reports from PetPoint show fewer adoption and returned to owner cases, and more euthanasia cases, than were reported to the County.

Recommendation: Section 6-3.3 of the Kaua'i County Code ("KCC") allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds. As such, KHS should maintain exact supporting documentation for any information provided to the County. This would be in KHS' best interest, as KHS would be able to provide accurate and timely answers to any inquiries from the County on its performance.

Finding 4: Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Pre-Mature Euthanasia.

Hawai'i Revised Statutes ("HRS") and the KCC both require minimum hold periods for both licensed and unlicensed cats and dogs. Dogs are the only type of animal specifically identified by HRS that are permitted to be euthanized before expiration of their hold period if they are too heavily diseased or pose an endangerment to other animals or humans.

However, during our planning and research phase, we noted KHS implemented a SOP permitting immediate euthanasia of unweaned kittens weighing less than one pound. We inquired about this policy during our interviews and the Executive Director explained these kittens require nearly 24-hour care and are highly susceptible to disease with a low survival rate. After additional research, we discovered this practice is not uncommon as unweaned kittens require intense resources. It does, however, violate a strict reading of HRS and KCC.

In addition, we noted a lack of segregation of duties between the user who approves, and the person who performs, the euthanasia. This resulted in the same person authorizing and performing 25 of the 45 euthanasia cases.

Further, with no IT department or personnel, there is no monitoring or administration of IT controls. While we observed most personnel had limited access between modules in PetPoint and QB, it appeared easy for someone to override these controls at any point in time.

Recommendation: While KHS' policy of euthanizing unweaned kittens may be a common industry practice, it is not specifically allowed under the KCC.

The County should consider revising the KCC to allow the euthanasia of all animals prior to the expiration of their hold period. As part of the revision process, the County should consult with KHS and other animal shelter organizations to review the practicality of euthanasia in cases where costs of maintaining the animal might outweigh the benefits.

In order to conform with best practices regarding segregation of duties, KHS should mandate that the person who schedules and approves euthanasia in PetPoint differs from the person who performs it. This will segregate the authorization and custody functions in the euthanasia process so someone cannot immediately euthanize an animal after they approve it without a secondary review.

Finding 5: Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

The County's contracts with KHS do not provide any guidance on how KHS' operating costs should be allocated to the County. KHS is therefore allowed to allocate costs in whatever methodology it deems appropriate, with what appears to be limited to no oversight or approval by the County.

In addition, the contracts state, "The Society shall submit quarterly program and financial reports," and then list various requirements to be included in the reports. The contracts later state, "...such reports shall include a program status summary and program data summary, a summary of participant characteristics, and a narrative report" but provide no further explanation or examples of what this means. We interpreted the contract to mean these summaries and narrative report were meant to be grouped as the "program report" while the remainder of the reporting requirements were supposed to be grouped as the "financial reports." Although we received assurance from the Director of Finance that KHS had met its reporting obligations, we noted the content of each reporting package was fairly inconsistent.

We further believe the County could have monitored KHS' performance more closely. This was made evident when the County was unable to produce 4 of the 26 reports they were supposed to have received. Though we were ultimately able to obtain the missing reports from KHS, of the reports submitted, there were 54 instances of missing information specifically required by the contract. In total, 20 of the 26 submissions sent to the County were missing at least one reporting requirement from the contract.

Almost all reporting periods were missing either the fiscal year to date or prior year to date financial information as well as the narrative report and the capital budget for the following fiscal year. We also noted the 2013 third and fourth quarter financial and program reports and audited financial statements from 2013 were all missing in their entirety.

Reports must further be submitted within a specific time period. After reviewing proof of submission, we were unable to confirm the timely submission of nine of the 26 reports.

Recommendation: The County should consider revising its contracts with KHS to clearly define performance obligations and reporting requirements to clarify the County's role and oversight over KHS. The contract should not just "allow...full access to records" but require KHS to substantiate allocation methodologies, submitted financial

reports and animal statistics or, at a minimum, require supporting documentation to be readily available upon request. We recommend the County proactively exercise its oversight rights and monitor KHS performance more closely to hold KHS to a higher level of accountability.

Finding 6: KHS' Unsupported Allocation Methodologies Make it Difficult to Determine Whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

Inconsistencies in how KHS allocates expenses to the County remains a fundamental roadblock in conclusively determining whether the County grant is sufficient to cover the animal control program. KHS does not have a consistent allocation methodology, and the methodologies that it does use are applied inconsistently and are not supported by any auditable documentation.

While it may be feasible that the County could hire its own Field Service Officers, who have a combined base salary cost of approximately \$127,000, there would also be costs associated with dispatch/call center personnel and constant coordination with KHS to determine capacity and timing. Because the care of an animal extends beyond the pickup and delivery of the animal to the shelter, the costs associated with animal care personnel and administrative personnel would likely have to be allocated between the County and KHS.

Recommendation: The County should fully understand KHS' allocation methodology before evaluating whether it could realize cost savings by performing the contracted services in-house. Once the County fully understands the costs associated with the animal control program, it should then conduct a separate feasibility study to determine if it would be cost effective to move a portion of the animal control services under County control.

KHS was provided an opportunity to respond to our findings and recommendations. KHS' response is included as Attachment 1. KHS did not disagree with any of our findings except for one, and provided comments on how it has addressed, or plans to address, our recommendations.

KHS believes it is the most effective organization to provide animal control services, and welcomes the feedback provided through this audit. KHS' willingness to work with the County to establish a clear understanding of the requirements of the contract by both the County and KHS is a positive step.

CHAPTER 1

Introduction

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the County Charter.

Background

This performance audit examines KHS' contract with the County to determine whether County funds are used exclusively towards contractual services and whether KHS is in compliance with applicable sections of the HRS and the KCC. Performance audits provide information to improve program operations and facilitate decision making. For a complete definition of performance audits see Government Auditing Standards section 2.10.

Audit Objectives and Scope

The audit was designed to answer the following questions:

- Are KHS controls and policies adequate and appropriate to ensure compliance with the contract and related statutes and codes?
- Are County funds being used exclusively towards contracted services as evidenced by separate accounting records and no occurrences of co-mingling?
- Is it more cost effective for contracted services to be handled by the County?
- Is there opportunity for KHS to improve the efficiency and effectiveness by which they perform to meet contract objectives by implementing best practices?

Our audit period spanned from July 1, 2012 through June 30, 2015 ("Period Under Scope") and included all County-related animal activity, allocation of County funds and both financial and program reporting. Controls within KHS' animal maintenance system PetPoint and accounting software QuickBooks ("QB") were also evaluated to determine the usability of financial and program data.

KHS County Contract

Background

The County contracts with KHS to perform certain animal management activities, most notably services “necessary to protect, capture, care and dispose of dogs and cats that were customarily and historically performed by the animal wardens formerly employed by the County Department of Public Works.”¹ We have summarized key terms and requirements from each fiscal year’s contract below.

Summary of Contracts

Contract Number	8784	8971 A1*	9130
Fiscal Year	7/1/12-6/30/13	7/1/13-6/30/14	7/1/14-6/30/15
Grant Amount	\$595,000	\$695,000	\$760,000
Spay/Neuter	\$65,000	\$65,000	N/A**
Respond to public requests for assistance in matters relating to:	Capture of stray, dangerous or diseased animals and collection and disposal of animal carcasses on public roadways	Stray, sick, injured and/or aggressive animals, dogs running at large, animals in traffic, dangerous dog ordinance violations, deceased dogs on roadways, cruelty and neglect complaints, and provide assistance to police and fire department	Stray, sick, injured and/or aggressive animals, dogs running at large, animals in traffic, dangerous dog ordinance violations, deceased dogs on roadways, cruelty and neglect complaints, and provide assistance to police and fire department
During times the Society is closed for business, Society shall continue to perform the duties listed above.	No	Yes	Yes
Spay and neuter services for dogs and cats at no or reduced cost to the public?	Yes	Yes	No
Society shall provide quarterly cost breakdown detailing the costs incurred to provide spay and neuter along with the number of household dogs and cats that were spayed or neutered.	Yes	No	No

¹ County Contract No. 9130.

Contract Number	8784	8971 A1*	9130
Separate accounting records shall be kept for County funds	Yes	Yes	Yes
Quarterly program and financial reports to the Directory of Finance and County Council concerning use of County funds	45 days following the close each fiscal quarter	No later than 15 th day of the month following close of [first] quarter	No later than 15 th day of the month following close of each quarter
Year-end program and financial report	No later than 90 days after June 30, 2013	No later than 90 days after June 30, 2014	No later than 90 days after June 30, 2015
Reporting requirements:			
<ul style="list-style-type: none"> Actual quarterly, fiscal-year-to-date, prior year to date and current fiscal year budgeted information attributable to: 	Functions of the Animal Shelter and Pet Adoption Center and animal collection	Functions of the Animal Shelter and animal collection.	Functions of the Animal Shelter and animal collection.
<ul style="list-style-type: none"> Revenues itemized by source of funds 	Yes	Yes, include summary of dog licenses received and collected	Yes
<ul style="list-style-type: none"> Expenditures made with and balances remaining from County funds 	Yes	Yes	Yes
<ul style="list-style-type: none"> Explanation for budget variances of \$1,000 or more 	Yes	Yes	Yes
<ul style="list-style-type: none"> Program status and summary of data and participant characteristics, and a narrative report 	Yes	Yes	Yes
<ul style="list-style-type: none"> Audited financial statements 	No later than February 15, 2014	No later than December 15, 2014	No later than December 15, 2015
<ul style="list-style-type: none"> Notice of change in Executive Director within 1 month of such change 	Yes	Yes, or change in accountant	Yes, or change in accountant
<ul style="list-style-type: none"> Fiscal operating and capital budgets to the Director of Finance 	Detailed revenues and expenditures for County funded programs within 7 days of execution of this Agreement	Operating and capital budgets within 3 days of all parties' execution of this Agreement	Operating and capital budgets within 3 days of all parties' execution of this Agreement

* Contract No. 8971 was executed July 3, 2013, for the period July 1, 2013 to September 30, 2013, pending the passage of Bill No. 2490, which called for an increase in dog license fees. The initial grant amount was \$173,750, with a separate \$16,250 for spay and neuter services. The contract was amended (A1) on September 25, 2013, setting the total grant sum of \$695,000, with a separate \$65,000 for spay and neuter services.

**The outsourcing of the spay/neuter program and its funding were removed from the contract after the 2013-2014 fiscal year.

Other Functions of KHS (Out of Audit Scope)

KHS provides other services unrelated to the County contract that were not part of our audit scope. They are presented below to provide information and context for our later discussion of how KHS allocates shared costs between the County contract and non-County contract functions.

Adoption

KHS provides shelter to all animals they receive. Once an animal is evaluated to determine if it is able to be put up for adoption, KHS will shelter it. KHS also has a mobile adoption vehicle that brings four to five dogs to events and pet stores, called Wags on Wheels.

Airport Direct Release

Per KHS' website, KHS provides "the required inspection of animals for entry into Hawaii at the Lihue Airport." This includes those that are direct released, or quarantined if they do not qualify for direct release.

Aloha Escorts

This is KHS Shelter Pet Transfer Program, which asks for volunteers who are flying to San Diego, Portland, Seattle, or Oakland on non-stop Alaska Airlines flights from Lihue to travel with one of the shelter dogs for the purpose of transporting them to mainland pet shelters for adoption.

Bloomingtales

This is KHS' Resale Shop, which operates to generate revenue for KHS.

Gomez' Galley

This is the KHS pet food bank, which allows those who need assistance to pick up pet food once per month from either KHS or their partners, St. Catherine Church in Kapa'a and St. William Church in Hanalei.

Owner Surrenders

KHS is an "open door" shelter, which means any animal that comes to KHS is accepted. Owners may transfer ownership of their animals to KHS via a surrender process. KHS also offers low-cost euthanasia and cremation services for dogs and cats.

Pet Boarding

This is a service for dogs and cats, but only available to KHS members. Fees charged are \$30 per night for dogs and \$25 per night for cats.

Save Our Shearwaters

This is a program funded by the State of Hawai'i's Department of Land and Natural Resources to rescue and release seabirds who have fallen to the ground.

Veterinary Services

KHS offers low-cost spay/neuter services for pets with same day drop-off and pick-up. There is also a spay/neuter assistance program, which provides financial assistance to those in need.

Trap, Neuter, Return of Feral Cats

This program is to help get feral cats spayed or neutered. This program provides information for the public on the guidelines and trapping information.

Vaccinations and Microchips

KHS offers low-cost vaccination and microchip clinics on the first and third Saturdays of each month from 8-11 a.m.

Audit Methodology

We developed an overall audit plan and risk-based strategy to address the audit objectives, which included three distinct stages: planning, fieldwork and reporting.

The planning stage involved obtaining an understanding of the County contract requirements as well as KHS' processes surrounding allocating County funds, euthanasia procedures, field service operations and financial reporting. Through telephone conferences and written requests, we reviewed, among others, the following pertinent documents: the executed contracts between the County and KHS, applicable HRS and KCC sections and KHS' standard operating procedures ("SOP") to identify areas of risk and familiarize ourselves with the scope of the County contracts, the procedures KHS performs to fulfill its obligation and KHS' financial information and other operational documentation.

We also reviewed KHS' organizational chart and position descriptions to select key personnel to interview and walk us through the above processes. Though KHS denied us access to personnel who were not associated with the County contract, we met in-person or called the following employees: Executive Director, Controller (current and previous), Outreach and Client Services Manager, Staff Veterinarian, Field Services Supervisor, Animal Care Manager, and the President of the Board on April 19, 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (HRS chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices ("OIP") Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

The following narratives describe our understanding of SOPs currently in place. SOPs are informally documented in Microsoft Word and, while the effective date is occasionally documented and modified, the prior version is overwritten and no copies are maintained. As a result, the descriptions below may not necessarily reflect the SOPs in place during the Period Under Scope. This holds especially true for fiscal year 2013 when, due to high turnover and poor employee transitioning, current key personnel were not yet employed by KHS with the exception of the Staff Veterinarian.

The following sections describe KHS' SOPs with our methodology followed by our testing procedures relating to these activities.

Euthanasia

A health exam is performed at intake and documented in the animal's Medical Record. This Medical Record, along with the animal's demographics and intake type, are entered in PetPoint. Profiles, records and any notes associated with the animal, known as memos, are maintained in this software. Memos are created at the discretion of the employee and are time-stamped and initialed when created or modified.

Each employee has his or her own unique log-in to PetPoint and varying access rights depending on position and department.

If the animal is licensed, KHS begins its Owner Notification Process which includes a written notice and "reasonable attempts" to call the owners. In accordance with HRS section 143-10 and KCC Title VIII section 22-24.4(b), licensed stray dogs and cats must be held a minimum of nine days before euthanasia may be performed. Non-licensed strays are only required to be held 48 hours per KCC Title VIII section 22-10.6, KCC Title VIII section 22-24.4(c) and HRS section 143-8.

Though HRS and KCC are silent as to when a hold period should start, KHS begins the hold the day after intake and excludes days when closed. These

dates are verified daily during the Executive Director's walkthrough of the kennels.

There are, however, exceptions to the above. HRS section 143-12, allows animal control officers to "kill any dog running at large...so obviously diseased as to be a menace to the health of persons or animals" and HRS section 143-13 allows "all dogs taken into the custody of the animal control officer which by reason of age, disease, or other causes, are unfit for further use or are dangerous to keep impounded, maybe forthwith humanely destroyed..."

Once a decision to euthanize is made, an "authorized user" must schedule the euthanasia in PetPoint. Authorized users during the Period Under Scope were the Executive Director, the Staff Veterinarian, and, in cases of emergency, the Client Services and Outreach Manager. (This policy has been updated as of April 25, 2016 to include the Animal Care Manager and the Lead Veterinary Technician.) The user reviews all memos and ensures all holds are cleared prior to approval.

If the user differs from the person performing the euthanasia, the user will run a report of all euthanasia scheduled for that day called the Daily Euthanasia Log. Those authorized to perform euthanasia include the Staff Veterinarian, Lead Veterinarian Technician and Executive Director. The employee performing the euthanasia must review all memos again and verify the euthanasia was approved in PetPoint prior to euthanizing.

Once completed, the employee who performed the euthanasia must mark the animal as euthanized in PetPoint which includes documenting who performed the procedure, the method used and the reason for euthanizing.

We performed the following procedures:

- We defined our population as all euthanasia cases from the Animal Outcome Reports from PetPoint, which we requested for each Period Under Scope.
- To test for completeness, we filtered for stray cats and dogs, sorted and summed by their outcome type and compared our recalculation to KHS' statistics.
- We sampled 15 "County animal" euthanasia cases for every Period Under Scope for a total sample of 45. Each year's sample was selected to include 10 animals euthanized before the statutory 48 hour hold period and five that were euthanized after.

- We requested the animal's PetPoint profile, related memos, Medical Record and support showing the euthanasia was scheduled by an authorized user and was performed by a qualified staff.
- We began testing by agreeing our sampled demographic data from the Animal Outcome Report to the Animal View report in PetPoint.
- To test IT controls in PetPoint, we performed a walkthrough to verify that non-authorized users could not approve a euthanasia either as themselves or as an authorized user.
- Since PetPoint was not implemented until 2014, all prior records were input after the fact by Customer Service Representatives who were temporarily given euthanasia approval rights in PetPoint. We observed a Customer Service Representative log into PetPoint and attempt to approve an animal for euthanasia.
- To submit approval, a user from a drop-down menu must be selected. We reviewed the list of users, confirmed they were all currently authorized and noted PetPoint blocked the Customer Service Representative from proceeding any further.
- We reviewed intake and outcome dates in PetPoint to ensure the minimum hold periods and any custom hold periods, if any, were met. If an animal was euthanized during a hold period, we reviewed the Outcome Subtype in PetPoint to verify the early euthanasia was permissible under HRS or KCC.
- Due to the fact KHS did not have a list of authorized users during the Period Under Scope, we used the authorized user's sign-off in PetPoint to trace the employee's position from their personnel file to a current listing of authorized positions on KHS' SOP titled *Euthanasia Authorization revised July 2015*.
- We then reviewed both the memos associated with the animal and the Outcome section of their Animal View report noting the euthanasia was approved by an authorized user.
- We reviewed the sign-off of the person who performed the euthanasia in PetPoint, which we compared to an informal listing of qualified personnel received from KHS.
- For cases performed prior to the implementation of PetPoint, we reviewed the animal's hardcopy file noting the original sign-off. However, KHS was unable to confirm whether this sign-off was from the person who approved the euthanasia or the person who performed it.

Financial Reporting

The County contract requires financial and program reports to be submitted to the Director of Finance and the County Council within specific time frames as detailed by the contract. Per the County contract, the financial reports should be in proper accounting form with itemized revenues, descriptions for County expenditures and explanations for budgeted variances over \$1,000.

The program reports should include a summary of participants and other program data. See the Summary of Contracts table above for further detail.

The financial reports, which only include County-related transactions, are run by the Controller from QB while the program reports are generated by the Executive Director from PetPoint. The general ledger detail ("GL") is reviewed by the Executive Director on a monthly basis.

KHS must also submit audited financial statements, operating and capital budgets and notify the County within a month of any change in Executive Director or accountant.

We performed the following procedures:

- We identified the financial reporting population as all reporting packages during the Period Under Scope. Due to the small number of reporting periods, we tested the entire population.
- We requested all reporting packages from every fiscal quarter and year-end to determine whether KHS met their reporting requirements. We also requested proof of submission to confirm all reports were submitted on time.
- Although the contract does not clearly differentiate between "financial reports" and "program reports," we defined "program reports" as "a program status summary and program data summary, a summary of participant characteristics, and a narrative report," as per the contract, while designating the remaining reporting requirements as part of the "financial report."
- To test the accuracy of the animal statistics submitted to the County, we requested the Animal Outcome Reports for each Period Under Scope from PetPoint. We filtered for stray cats and dogs, sorted and summed by their outcome type and compared our recalculation to KHS' statistics.
- In our journal entry testing, we requested the GL printouts to verify their review as indicated by the Executive Director's sign-off.

- KHS' financial statements are audited each fiscal year by CW Associates. To evaluate financial reporting accuracy, we reviewed each audit report during the Period Under Scope for any significant issues or findings. We also requested from either KHS or the County KHS' operating and capital budgets and any notification of a change in Executive Director or accountant.

Journal Entry Recording

All journal entries are recorded in QB by the Controller, the only employee with access to the software. If the Executive Director sees an entry or account believed to be incorrect during the monthly review, the Controller is asked to make a change and new financials are printed.

We performed the following procedures:

- To confirm the Controller was the only person with access to QB, we had the outgoing Controller log in to QB Online to confirm only the outgoing and current Controllers were registered. Although access to QB was limited to the Controller, we noted the Executive Director's ability to request changes to accounting records potentially undermines the strength of this control.
- In addition to relying on KHS' audited financials for accurate reporting, we also selected fifteen journal entries coded to the County to test KHS' recording process. Our population consisted of all entries during the Period Under Scope. We therefore requested the GL detail for all three years.
- We reviewed the supporting invoices or documents to make sure our sampled entries were recorded to the correct accounts, in the correct period and for the correct amounts. We also scanned the GL detail for the Executive Director's sign-off to confirm the entries were properly reviewed.

Field Service Activity

Field Service Officers perform various duties outside of the shelter such as responding to calls regarding stray or abused animals. Incoming calls are logged by Customer Service staff in PetPoint before notifying a Field Service Officer via mobile text. Prior to this, Dispatch Logs were used to log the Field Service Officer activity.

Field Service Officers also assist the Kaua'i Police Department with animal related cases, though this activity does not get logged in PetPoint.

The Field Service Supervisor reviews the Daily Activity Reports though no official sign-off is required.

We performed the following procedures:

- Because Field Service Officer pay is completely allocated to the County, we defined our population as all activity during the Period Under Scope.
- We defined our population as all Daily Activity Reports during the Period Under Scope and selected five from each for a total sample of fifteen. We reviewed each report to ensure all activity was County-related and approved by the Field Service Manager.

Allocation of County Expenses

KHS attempts to allocate expenses to the County using a percentage of “County animals” compared to non-county animals. KHS defined “County animals” as all incoming stray cats and dogs. Originally, we were told an intake study was performed using prior year animal counts to determine the percentage of total intake deemed to be County animals. This percentage (the “Allocation Percentage”) would then be applied to expenses, in particular overhead, to allocate to the County.

KHS did not have documentation of the intake study it said it performed or its calculation of the Allocation Percentage. It was also unable to confirm the methodology used to calculate the 2013 Allocation Percentage as this was before both the Executive Director and Controller were employed.

KHS later explained that utility and rent expenses are allocated on an individual invoice basis. Additionally, unique or varying circumstances are taken into consideration. For example, if the incinerator breaks down, KHS will manually allocate its operating cost based on knowledge of use. Therefore, simply multiplying an account balance by the Allocation Percentage would not have equaled the sum of the County-coded entries.

Non-overhead expenses, on the other hand, are more often allocated based on KHS’ knowledge of how the purchase will be used to ensure fair allocation to the County. For example, if two medications are purchased from the same vendor but only one is used on County animals, KHS will only allocate the medicine used on County animals to the County. Likewise, the cost of medicine purchased for both County and non-County animals will be allocated based on its use.

Since timesheets are not maintained other than to record sick and vacation days, payroll is allocated using a mixture of methods. Certain positions, such as Field Service Officers, are allocated 100% to the County. Others are allocated using the Allocation Percentages such as the Front Desk Department in fiscal years 2014 and 2015. The Animal Care and Vet Clinic Departments were also allocated in this manner during 2015 as well.

The remaining personnel are allocated based on the Executive Director's best knowledge of their time spent on County versus KHS duties. In fiscal years 2014 and 2015, this included the Executive Director, Customer Service Manager, Animal Caretaker Manager, Facility Caretaker among other back office and upper management personnel.

KHS maintains an Allocation Schedule with everyone's pay, benefits and allocation percentage to automatically calculate the pay and benefits assigned to the County.

We performed the following procedures:

- Our allocation testing primarily involved recalculating the allocated expense by substantiating the methodology and reviewing support for the expense itself. We defined our population as all expenses allocated to the County and requested a coded GL detail and a list of all employees with pay allocated to the County.
- To test expenses allocated using the Allocation Percentage, we requested the Allocation Percentage from each fiscal year and sampled seven utility and overhead accounts from each Period Under Scope.
- Because we were previously unable to recalculate KHS' animal statistics, we would not have been able to accurately recalculate the Allocation Percentages provided by KHS. However, in order to test the application of the Allocation Percentages used by KHS, we took KHS' Allocation Percentages at face value, multiplied it by each sampled account's year-end balance and compared the product to the sum of the entries coded to the County within each account.
- Even though we used KHS' Allocation Percentages, as opposed to our own recalculated Allocation Percentages, we were still unable to recalculate the expenses coded to the County based on the support provided by KHS.
- With our new understanding that even overhead expenses might be customarily allocated, we re-sampled one utility and one rent bill from separate months for each Period Under Scope and we requested KHS to substantiate its allocation to review for appropriateness rather than re-compute it ourselves. We then attempted to recalculate the portion of the expense coded to the County to ensure the methodology was applied correctly.
- To test non-overhead related invoices, we filtered the GL detail for all expenses charged to the County unrelated to rent, utilities and payroll. For fiscal years 2013 and 2014, we selected two County related expenses and five expenses related to the Spay and Neuter Program. Since County

funding for the Spay and Neuter Program ended after fiscal year 2014, we selected four County expenses in fiscal year 2015 for a total sample size of 18. We requested support for all expenses and their allocations to review the allocation methodology and recalculate the expense to the County.

- To test payroll, we obtained a list of everyone who KHS claimed had been allocated to the County and selected five positions from one randomly selected pay period per year. We compared each employee's pay from their employee file to their payroll register.
- We agreed each employee's pay from the register to KHS' Allocation Schedule. Though KHS was unable to substantiate the percentages, we used the schedule to recalculate the County's portion of pay and benefits and agreed them to the GL detail noting it was properly coded.
- For sampled employees who were involved with the Spay and Neuter Program in fiscal years 2013 and 2014, we used the animal statistics posted to KHS' website to recalculate both the Allocation Percentages and the pay assigned to the County.

Difficulties During the Audit

There were a few challenges that caused setbacks and delays during the audit. The most notable difficulty encountered was KHS' inconsistent explanations of operational processes and responses to our inquiries regarding variances and findings. This forced us to reassess our overall approach and testing, re-perform testing procedures and re-write sections of our report. This ultimately led to delays in issuing our draft report.

Due to the nature of the County contract and our audit scope, KHS limited our access to its records. With the backing of its Board of Directors, KHS refused to provide any documents or let us speak with anyone that was not involved with County activity. This included denying us an interview as well as a number of invoices or support we requested for our testing.

As previously disclosed, we were also forced to perform testing procedures based on current practices as prior SOPs were unavailable and key personnel were not employed at KHS during 2013.

We were also informed during our interviews and testing that the data in PetPoint may neither be complete nor accurate. Compounding this further was KHS' lack of knowledge of the reporting function in its PetPoint software. After requesting support for the animal statistics submitted to the County, multiple variations of the Animal Outcome Reports were received. However, each report varied from the others and none tied to the program reports sent to the County.

CHAPTER 2

Audit Findings and Recommendations

Finding 1. County Funds Were Not Solely Used for County-Related Services.

Field Service Pay

KHS allocates 100% of Field Service Officer pay and benefits to the County. During our review of their Daily Activity Logs, we noted 11 of the 15 logs, or 73.3%, contained at least one instance of non-County-related activity. The most common activity was the drop-off and pick-up of animals at other animal clinics on Kaua'i and the airport for quarantine and transfer programs. Because detailed timesheets are not maintained, it is not possible to quantify the number of hours associated with these activities.

The County contract specifically states "funds...shall not be used by the Society to fund any employment positions which, either in whole or in part, perform or discharge any service not specifically described in H.R.S. Sections 143-15 and 143-16." In other words, KHS employees who are not fully allocable to the County should therefore not be billed to the County.

The results of our review of the Daily Activity Logs and KHS' payroll allocation schedules demonstrate that Field Service Officers were performing services not covered by the County contract while their pay was allocated 100% to the County. As such, KHS did not adhere to this contract provision during each Period Under Scope.

Allocation Testing

We noted certain expenses that should not have been allocated to the County. Examples include a subscription to The Garden Island newspaper, expenses that pertained to KHS' holiday party, and gift cards related to an employee incentive program. The County was charged a total of \$255 as a result of these expenses.

In our testing of the allocation of overhead expenses, we came across a rent expense that should have been split 50% to KHS and 50% to the County. When we recalculated the actual allocation, we discovered it was split 55% to the County and 45% to KHS, an overcharge of \$15.62. KHS was unable to explain why the expense was allocated in this manner.

Recommendation: We recommend KHS maintain better records of the methodology used to calculate their allocation percentages. We also

recommend KHS re-evaluate which expenses they allocate to the County to ensure the County is only charged for County-related services. For example, Field Service Officer pay should not be fully allocated to the County if they are doing non-County related services.

While certain operational overhead expenses are appropriate to be allocated as County expenses, those only related to KHS are not. An expense should only be allocated if incurred as either a direct or indirect result of County-related work. Further, expenses should be allocated using a logical and well-documented methodology. While using customized methods to allocate expenses may be well-intended, it is more efficient and transparent to use a consistent allocation methodology that is communicated to, and ideally agreed to by, the County. This would provide both KHS and the County with a baseline understanding of how KHS allocates its expenses to the County.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

As previously discussed, SOPs are informally documented and copies of previous versions are not maintained. As a result, KHS was unable to definitely prove that it was following its operating procedures during each of the Periods Under Scope. We were only able to test current procedures against current SOPs.

In addition, in our testing of KHS' procedures, controls and journal entries, KHS was unable to provide supporting documentation or otherwise substantiate many of its procedures, the majority of which pertained to its allocation percentage calculations. As discussed in the Audit Methodology section of this report, KHS uses multiple allocation methodologies for various types of expenses. When we tried to understand what the allocation percentages were based on, we were unable to obtain any support for 34 of 42 (81%) items of our sample. These 34 instances had a total dollar value of \$27,571. A summary of the missing support is shown in the following table:

Test Category	Description	No. of Instances	Total Sample Size	Issue
Allocation – General	Unable to provide support for allocation percentages	4	6	Unsupported Expense
Allocation – Invoices	Unable to provide support for allocation percentages	14	18	Unsupported Expense
Allocation – Payroll	Unable to provide support for allocation percentages	16	18	Unsupported Expense
Euthanasia	Unable to provide support for euthanasia authorization	1	45	Internal Control Deficiency
Euthanasia	No formal record of employees certified/qualified to perform euthanasia available	45	45	Internal Control Deficiency
Field Service Testing	No activity logged on Daily Activity Report	2	15	Internal Control Deficiency
Field Service Testing	Unable to provide support for Field Service Manager’s review of Daily Activity Reports	15	15	Internal Control Deficiency
Journal Entry	Unable to provide support for Executive Director’s review of GL detail	15	15	Internal Control Deficiency
Allocation – Invoices	Supporting invoice was either missing or faded and unreadable	3	18	Poor Record Keeping
Allocation – Payroll	Unable to provide supporting timesheet or timesheet is too informal to verify	2	18	Poor Record Keeping

Separately, during our allocation testing, we noted the allocation methodology for five invoices was not adequately supported. Typically, a “split” is noted on the invoice itself such as “50/50” or “60/40” meaning the invoice is meant to be split 60% to the County and 40% to KHS. When we inquired about invoices where the split was not obvious or needed further explanation, KHS explained it was uncertain of why it was split in that manner, the support was missing or the invoice should have been split differently.

In addition, we noted that out of 18 QB entries related to allocated invoices, three did not agree to their supporting invoices. Further, four of 18 payroll entries did not agree to KHS’ allocation schedule for those positions.

Recommendation: We recommend KHS implement stronger recordkeeping policies, in particular for the missing support noted in the table above. In terms of KHS' accountability to the County and the public, it is crucial that KHS maintain the supporting calculations for its allocation percentages, including its animal study to substantiate its allocation of expenses to the County. This is especially true when allocations are customized.

Maintaining SOPs in Microsoft Word is acceptable if the document is secured and not accessible to the person authorized to sign them into effect. However, a secured format such as a PDF would be preferable. We recommend KHS require its Executive Director sign-off on the SOP before it takes effect, and that access to the original document be restricted following implementation. We further recommend all previous versions be preserved. Proper maintenance and adherence to policy should allow for easier transitioning of employees and provide a clear understanding of past practices.

While the proper implementation of internal controls can help to prevent fraud and abuse, the only way to assess their effectiveness is through review of documentation. Although we identified the Executive Director's review of the GL detail and the Field Service Managers review of the Daily Activity Logs as key controls, the lack of a physical sign-off effectively made it appear as though neither happened.

Though some of the recommendations may appear tedious or unnecessary, they ensure the establishment of proper audit trails and improved accountability to reassure the Department of Finance, County Council and the public that operations are properly monitored with sufficient controls to prevent both operational and financial fraud and abuse. Given the fact that Section 6-3.3 of the KCC allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds, it is in KHS' best interest to be able to provide sound reasoning and adequate supporting documentation if expense items are ever scrutinized by the Department of Finance.

Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

KHS submits statistics on its animal control program to the County on an annual basis. The following table displays key statistics related to cat and dog intake and outcomes as reported to the County.

	FY 2013		FY 2014		FY 2015	
	Count	Percent of Intake ²	Count	Percent of Intake	Count	Percent of Intake
All Animals						
Intake	5,225	100.0%	4,380	100.0%	3,698	100.0%
Outcome						
Adopted	1,205	23.1%	806	18.4%	793	21.4%
Returned to Owner	1,165	22.3%	680	15.5%	494	13.4%
Transferred	129	2.5%	221	5.0%	362	9.8%
Euthanized	2,780	53.2%	2,615	59.7%	2,045	55.3%
Dogs						
Intake	2,490 ³	100.0%	1,907	100.0%	1,559	100.0%
Outcome						
Adopted	726	29.2%	475	24.9%	451	28.9%
Returned to Owner	901	36.2%	540	28.3%	365	23.4%
Transferred	107	4.3%	221	11.6%	302	19.4%
Euthanized	738	29.6%	588	30.8%	438	28.1%
Cats						
Intake	2,735 ⁴	100.0%	2,473	100.0%	2,139	100.0%
Outcome						
Adopted	479	17.5%	331	13.4%	342	16.0%
Returned to Owner	264	9.7%	140	5.7%	129	6.0%
Transferred	22	0.8%	-	0.0%	60	2.8%
Euthanized	2,042	74.7%	2,027	82.0%	1,607	75.1%

² It should be noted that the total intake and outcome figures may not be equal within the same fiscal year because of timing issues at the start and end dates. For example, an animal that came in on June 28, 2014, and was adopted on July 5, 2015, would appear in the 2014 intake and 2015 outcome figures.

³ Includes 902 owner surrenders not previously reported to the County.

⁴ Includes 248 owner surrenders not previously reported to the County.

There is currently no government institution or animal organization responsible for tabulating national statistics, and publicly available statistics vary considerably. Shelter Animals Count, a non-profit organization sponsored by the American Society for the Prevention of Cruelty to Animals (“ASPCA”), The Humane Society of the United States (“HSUS”), Maddie’s Fund, PetSmart Charities, Petco Foundation and Best Friends, has begun the process of creating a database populated by current shelter data. However, data is not available to the public as of the date of this report.

ASPCA provides the following national estimates:

	<u>Dogs</u>	<u>Cats</u>
Adopted	35%	37%
Returned to Owner	26%	5%
Euthanized	31%	41%

American Humane states euthanasia rates of 56% and 71% for dogs and cats, based on a 1997 National Council on Pet Population Study and Policy. Meanwhile, HSUS estimates that 70% of cats are euthanized in shelters.

KHS’ dog adoption and euthanasia and dog and cat returned to owner rates trend better than ASPCA’s national estimates. KHS’ cat adoption and euthanasia rates trend worse than ASPCA’s national estimates. However, KHS’ cat euthanasia rate is in line with HSUS’ euthanasia rate.

It is important to note that figures vary from state to state and from city to city. This is especially true with a community as unique as Kaua’i, which is geographically isolated with a relatively high transient population.

KHS’ total animal intake has also decreased by approximately 16% year over year from FY 2013 through FY 2015. This could be viewed as either a positive (animal control efforts have worked and there are less strays) or a negative (less people turning in animals to KHS).

We attempted to substantiate KHS’ animal statistics that it reported to the County by requesting data that supported these statistics. When we requested support for the animal statistics, KHS provided multiple variations of the Animal Outcome Reports from PetPoint, none of which agreed to the statistics submitted to the County. We recalculated the animal statistics based on the Animal Outcome Reports, and noted that FY 2014 figures were significantly different (up to 19.1%) from those submitted to the County. KHS was unable to provide any explanations as to why the Animal Outcome Reports did not support the statistics it had reported to the County.

As variances in FY 2013 and FY 2015 were 1% or less, only FY 2014 variances are shown in the table below:

	FY 2014			
	Reported to County	Spire Recalc.	Variance Over/ (Under) stated	Percent Variance
All Animals				
Intake	4,380	4,357	23	0.5%
Outcome				
Adopted	806	774	32	4.0%
Returned to Owner	680	567	113	16.6%
Transferred	221	262	(41)	-18.6%
Euthanized	2,615	2,714	(99)	-3.8%
Dogs				
Intake	1,907	1,890	17	0.9%
Outcome				
Adopted	478	454	24	5.0%
Returned to Owner	540	437	103	19.1%
Transferred	221	262	(41)	-18.6%
Euthanized	588	662	(74)	-12.6%
Cats				
Intake	2,473	2,467	6	0.2%
Outcome				
Adopted	331	320	11	3.3%
Returned to Owner	140	130	10	7.1%
Transferred	-	-	-	0.0%
Euthanized	2,027	2,052	(25)	-1.2%

KHS' Animal Outcome Reports from PetPoint show fewer adoption and returned to owner cases, and more euthanasia cases, than what was reported to the County.

The following table presents the animal statistics based on the Animal Outcome Reports:

	FY 2013		FY 2014		FY 2015	
	Count	Percent of Intake	Count	Percent of Intake	Count	Percent of Intake
All Animals						
Intake	5,185	100.0%	4,357	100.0%	3,674	100.0%
Outcome						
Adopted	1,203	23.2%	774	17.8%	793	21.6%
Returned to Owner	1,160	22.4%	567	13.0%	490	13.3%
Transferred	129	2.5%	262	6.0%	362	9.9%
Euthanized	2,779	53.6%	2,714	62.3%	2,045	55.7%
Dogs						
Intake	2,477	100.0%	1,890	100.0%	1,539	100.0%
Outcome						
Adopted	725	29.3%	454	24.0%	451	29.3%
Returned to Owner	897	36.2%	437	23.1%	362	23.5%
Transferred	107	4.3%	262	13.9%	302	19.6%
Euthanized	737	29.8%	662	35.0%	441	28.7%
Cats						
Intake	2,708	100.0%	2,467	100.0%	2,135	100.0%
Outcome						
Adopted	478	17.7%	320	13.0%	342	16.0%
Returned to Owner	263	9.7%	130	5.3%	128	6.0%
Transferred	22	0.8%	-	0.0%	60	2.8%
Euthanized	2,042	75.4%	2,052	83.2%	1,604	75.1%

The biggest percentage changes as a result of using the Animal Outcome Reports are related to FY 2014 dog adoptions (decrease from 24.9% to 24.0%), dog returned to owner (decrease from 28.3% to 23.1%), dog transfers (increase from 11.6% to 13.9%) and dog euthanasia (increase from 30.8% to 35.0%).

Recommendation: Section 6-3.3 of the KCC allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds. As such, KHS should maintain supporting documentation for any information provided to the County. This would be in KHS' best interest, as KHS would be able to provide accurate and timely answers to any inquiries from the County on its performance.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Premature Euthanasia.

HRS and the KCC both require minimum hold periods for both licensed and unlicensed cats and dogs. Dogs are the only type of animal specifically identified by HRS that are permitted to be euthanized before expiration of their hold period if they are too heavily diseased or pose an endangerment to other animals or humans.

However, during our planning and research phase, we noted KHS implemented a SOP permitting immediate euthanasia of unweaned kittens weighing less than one pound. We inquired about this policy during our interviews and the Executive Director explained these kittens require nearly 24-hour care and are highly susceptible to disease with a low survival rate. After additional research, we discovered this practice is not uncommon as unweaned kittens require intense resources. It does, however, violate a strict reading of HRS and KCC.

Of our total sample of 45 euthanasia cases, 15 were euthanized in accordance with their statutory hold periods, and 30 were euthanized before the animal's statutory hold period expired.

Of the 30, one was a dog euthanized for legitimate causes permitted by HRS and KCC (medical contagious). Another 26 were cats that, per HRS and KCC, are not permitted to be euthanized prior to the expiration of their 48 hour hold period. Reasons for the euthanasia included behavior, unweaned, lack of space, medical treatable, medical untreatable, temperament, feral and physical condition.

The remaining three were dogs that, despite their issues, could have potentially been adopted given sufficient money, space, time and staff according to KHS' SOP *Reasons for Euthanasia*. Reasons for euthanasia included kennel cough, physical condition and unweaned. We also noted one dog that, while it was euthanized after the 48-hour hold period, was euthanized with a given reason of lack of space. A prior hold placed on the animal was lifted by the person performing the euthanasia without any further memo in the animal's file.

Segregation of duties is a key aspect of preventing fraud, waste and abuse. The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”)⁵ defines segregation of duties as dividing or allocating tasks among various individuals making it possible to reduce the risks of error and fraud. By separating the authorization, record keeping and custody functions, an entity is able to exert confidence its controls are working effectively. We noted a lack of segregation of duties between the person who approves, and the person who performs, the euthanasia. This resulted in the same person authorizing and performing 25 of the 45 euthanasia cases.

PetPoint requires separate sign-offs for the person who approves, and the person how performs, the euthanasia. Prior to the use of PetPoint, euthanasia documentation was maintained in hardcopy files. It appears that the process at that time only required one sign-off. However, the documentation was poor and KHS was unable to distinguish between the person who approved and the person who performed the euthanasia.

Further, with no IT department or personnel, there is no monitoring or administration of IT controls. While we observed most personnel had limited access between modules in PetPoint and QB, it appeared easy for someone to override these controls at any point in time.

Recommendation: The fact that both HRS and KCC do not specifically provide for cats to be euthanized before expiration of their hold period for any reason puts KHS in a precarious situation. While KHS’ policy of euthanizing unweaned kittens may be a common industry practice, it is not specifically allowed under the KCC.

The County should consider revising KCC to include euthanasia of all animals prior to the expiration of their hold period. As part of the revision process, the County should consult with KHS and other animal shelter organizations to review the practicality of euthanasia in cases where costs of maintaining the animal might outweigh the benefits. Until these adjustments are made, we recommend KHS revise its euthanasia policy paying particular attention to its policy surrounding the euthanasia of unweaned kittens. These policies should be re-written to match current legislation.

⁵ COSO is a joint initiative of the American Accounting Association, American Institute of CPAs, Financial Executives International, The Association of Accountants and Financial Professionals in Business and the Institute of Internal Auditors, that provides thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

In order to conform with best practices regarding segregation of duties, KHS should mandate that the person who schedules and approves euthanasia in PetPoint differs from the person who performs it. This will segregate the authorization and custody functions in the euthanasia process so someone cannot immediately euthanize an animal after they approve it without a secondary review.

KHS should also augment their euthanasia documentation. This holds especially true if euthanasia occurs prior to expiration of the applicable statutory hold period. We noted for the five euthanized dogs with adoption potential, there was no further substantiation for their euthanasia beyond the reason selected from a drop-down menu (e.g. kennel cough, space, physical condition, behavior).

We further recommend KHS consider hiring or contracting an IT specialist to act as an administrator of access rights and controls. The specialist would not only have custody and admin rights over PetPoint and QB but all procedural and administrative documents stored on KHS' hard drives including SOPs. This would keep the custody function separate from the authorization and record keeping functions while simultaneously ensuring edit rights are at appropriate levels for each employee.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

The County's contracts with KHS do not provide any guidance on how KHS' operating costs should be allocated to the County. KHS is therefore allowed to allocate costs in whatever methodology it deems appropriate, with what appears to be limited to no oversight or approval by the County.

In addition, the contracts state, "The Society shall submit quarterly program and financial reports," and then list various requirements to be included in the reports. The contracts later state, "...such reports shall include a program status summary and program data summary, a summary of participant characteristics, and a narrative report" but provide no further explanation or examples of what this means. We interpreted the contract to mean these summaries and narrative report were meant to be grouped as the "program report" while the remainder of the reporting requirements were supposed to be grouped as the "financial reports." Although we received assurance from the Director of Finance that KHS had met its reporting obligations, we noted the content of each reporting package was fairly inconsistent and did not regularly meet contract specifications.

We further believe the County could have monitored KHS' performance more closely. This was made evident when the County was unable to produce 4 of the 26 reports they were supposed to have received. Though we were ultimately able to obtain the missing reports from KHS, of the reports submitted, there were 54 instances of missing information specifically required by the contract. In total, 19 of the 26 submissions sent to the County were missing at least one reporting requirement from the contract.

Almost all reporting periods were missing either the fiscal year to date or prior year to date financial information as well as the narrative report and the capital budget for the following fiscal year. We also noted the 2013 third and fourth quarter financial and program reports and audited financial statements from 2013 were all missing in their entirety.

Reports must further be submitted within a specific time period. After reviewing proof of submission, we were unable to confirm the timely submission of nine of the 26 reports.

Recommendation: The County should consider revising its contracts with KHS to clearly define performance obligations and reporting requirements to clarify the County's role and oversight over KHS. The contract should not just "allow...full access to records" but require KHS to substantiate allocation methodologies, submitted financial reports and animal statistics or, at a minimum, require supporting documentation to be readily available upon request. We recommend the County proactively exercise its oversight rights and monitor KHS performance more closely to hold KHS to a higher level of accountability.

Finding 6. KHS' Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

We analyzed KHS' financial statements and how expenses are split between County and non-County related services. Notwithstanding the difficulties in substantiating how KHS allocates costs to the County, KHS has reported net operating losses related to the County contract of \$493,694, \$170,668 and \$78,504 for FY 2013, FY 2014 and FY 2015, respectively, as shown below:

	FY 2013	FY 2014	FY 2015
County Grant	\$ 595,000	\$ 695,000	\$ 760,000
Program Revenue (Licenses)	-	55,090	102,111
Total Revenue	595,000	750,090	862,111
Animal Food	80,307	29,745	19,003
Bank Charges (Credit Card Fees)	-	39	6,038
Insurance	20,009	7,000	16,993
Equipment and Leases	7,302	16,193	14,270
Licenses, Permits & Fees	1,060	1,031	1,189
Meetings/Seminars	332	558	630
Payroll, Payroll Expenses & Benefits	695,769	675,036	683,795
Postage & Shipping	1,904	466	2,873
Printing	3,071	301	1,191
Professional Services	13,960	14,109	27,131
Property Tax	-	-	38
Rent	1,890	1,875	1,875
Repairs & Maintenance	34,160	16,063	20,576
Supplies	120,941	62,205	45,272
Travel	-	5	9
Uniforms	1,072	1,612	1,252
Utilities	75,807	63,668	62,111
Vehicle	31,110	30,852	36,369
Total Expenses	1,088,694	920,758	940,615
Net Income/(Loss)	\$ (493,694)	\$ (170,668)	\$ (78,504)

The majority of the expenses allocated to the County are for personnel costs, which represent 117%, 90% and 79% of total program revenue in FY 2013, FY 2014 and FY 2015, respectively. KHS has been able to reduce its operating loss primarily through reductions in animal food and supplies.

The County's contract with KHS states that "...any and all costs, expenses, fees and liabilities incurred by [KHS] which exceed amounts granted by the County shall be the sole responsibility, liability, and obligation of [KHS], and not the County." As such, KHS is reporting that its donations and revenue from other services such as boarding and quarantine subsidize its animal control program.

However, as discussed earlier in this report, inconsistencies in how KHS allocates expenses to the County remains a fundamental roadblock in conclusively determining whether the County grant is sufficient to cover the animal control program. KHS does not have a consistent allocation methodology, and the methodologies that it does use are applied inconsistently and are not supported by any auditable documentation.

While it is feasible that the County could hire its own Field Service Officers, who have a combined base salary cost of approximately \$127,000, there would also be costs associated with dispatch/call center personnel and constant coordination with KHS to determine capacity and timing. As personnel costs make up the majority of the County-allocated expenses, the County would have to negotiate clear allocation methodologies for administrative and animal care personnel, even if the County took on some of the animal care functions.

Recommendation: The County should fully understand KHS' allocation methodology before evaluating whether it could realize cost savings by performing the contracted services in-house. Once the County fully understands the costs associated with the animal control program, it should then conduct a separate feasibility study to determine if it would be cost effective to move a portion of the animal control services under County control.

AUDITEE RESPONSE

KHS was provided an opportunity to respond to our findings and recommendations. KHS' response is included as Attachment 1. KHS did not disagree with any of our findings except for one, and provided comments on how it has addressed, or plans to address, our recommendations.

In general, KHS management and board believe that the updated procedures and systems implemented in FY2013 and FY2014 have resulted in a significantly improved control structure for FY2015 and beyond. KHS states that a new Executive Director (ED) began her tenure in March 2013 and began improvements to policies and procedures pertaining to operations and financial management. KHS also cites the audit team's lack of experience with animal welfare organization procedures and states that while the lack does not invalidate the results of this audit, it created communication and procedural challenges.

Although the auditee is confident that the audit team kept an objective viewpoint, it feels the team's lack of knowledge of animal control procedures may have impacted some of the findings of this audit.

Auditor's Comments: Our audit period spanned from July 1, 2012 through June 30, 2015 ("Period Under Scope"). As previously disclosed, we were forced to perform testing procedures based on current practices as prior SOPs were unavailable and key personnel were not employed at KHS during 2013. For this reason, we believe that our findings are appropriate, even under current conditions.

We did not modify our findings in response to KHS' contention that the audit team was not familiar with animal welfare organizations and animal control procedures, because KHS agreed with all but one of our findings, and appears prepared to address our recommendations. Our work is dictated by professional standards and our findings and recommendations require substantiation based on fact. We now address the Auditee's response to each of the findings.

Finding 1. County Funds Were Not Solely Used for County-Related Services.

Auditee's Response: The Auditee does not disagree with this finding, but contends that the fee included in the County contract is agreed upon at the beginning of the year and is not a strict "reimbursement" for services provided. The Auditee further states that it believes the reporting provided to the County by KHS regarding funds spent supporting the contract is informational in nature and does not directly impact the funds provided to KHS, and the incidents noted had only a small impact, and may have been offset by other expenses.

KHS disagrees that a single percentage being applied across the board is an appropriate allocation methodology, but is willing to work with the County to determine a satisfactory methodology (e.g., agreed-upon allocation percentages by department) that can be regularly evaluated for consistency and updated/revised as needed. KHS states that it is currently conducting a detailed timekeeping audit assessing actual time in each department that is allocated to County contract work.

Auditor's Comments:

The contract between KHS and the County clearly states that funds provided under the contract "shall be used by the Society only for those purposes specifically described in H.R.S. Sections 143-15 and 143-16, and shall not be used by the Society to fund any employment positions which, either in whole or in part, perform or discharge any service not specifically described in H.R.S. Sections 143-15 and 143-16." Further, "County funding of the Society's expenses directly related to the scope of services required for County to meet its statutory obligations under H.R.S. Sections 143-15 and 143-16 shall be limited to the amounts granted by the County, and any and all costs, expenses, fees, and liabilities incurred by the Society which exceed amounts granted by the County shall be the sole responsibility, liability, and obligation of the Society, and not the County."

The contract fee is based on a budget presented by KHS to the County before a contract is finalized. The budget shows expenses KHS expects to incur for County-related services over the upcoming fiscal year. When the County agrees to a contract fee based on the budgeted County-related expenses, it is essentially agreeing to pre-fund KHS' expenses based on its representation that those same expenses are fully supportable as County-related. To imply that the reporting of monies that were actually expended is merely informational and does not impact the funds provided to KHS would ignore the purpose of the reporting, which is to substantiate how KHS used the funds to meet the requirements of its contract.

As KHS mentions, the Period Under Scope covered a transitional period not only in terms of leadership but operations as well. We consequently established an expectation that discrepancies would decrease between fiscal years 2012 and 2015 as revised policies were implemented. Despite KHS' claim that improvements were implemented by fiscal year 2015, we observed similar findings across all fiscal years and believe KHS did not adequately enforce the new policies after adoption. We recommend a follow-up audit to determine post-transition compliance.

We continued to note County funds were used for services and expenses not related to the Contract through fiscal year 2015. The most readily evident example is the Field Service Officers who, based on their Daily Activity Reports, did not spend 100% of their time on County-related activities despite having 100% of their salary and benefits paid using County funds.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

Auditee's Response: KHS does not disagree with this finding. KHS states that it recognized that the SOPs in place were limited in early 2013, and that when the Executive Director began her tenure in March 2013 KHS began the process of revising, updating and implementing the SOPs. The bulk of major revisions were implemented by FY2015. All departments have printed copies of the current SOPs and are updated with any changes in SOPs. KHS states that if the County feels that an increase in documentation or reporting is necessary, it welcomes the opportunity to work collaboratively with the County to meet its reporting and documentation needs.

Auditor's Comments: We commend KHS' willingness to work with the County to develop adequate reporting and documentation. However, even if changes were being made during the Period Under Scope, this does not change the fact that SOPs for this Period were not available for our review.

Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

Auditee's Response: KHS states that it began using PetPoint software in FY 2015 as the sole system for recording animal records and began reporting animal statistics in line with the Asilomar Accords. KHS states that changing to this methodology brought KHS in line with the bulk of animal welfare organizations in the country. KHS does not dispute this finding, but believes that the finding is a result of not understanding the distinctions between the methodologies used as well as an understanding of the factors impacting the national vs. local statistics.

KHS states it is willing to provide the statistics on animals serviced per the County contract or KHS as a whole, and welcomes the opportunity to provide further background on this process to ensure that the County is confident that the results reported are an accurate representation of the impact of the services provided.

KHS would like clarification regarding the concern that it might not "maintain exact supporting documentation." KHS states annual financial audit requires supporting documentation and this issue has never arisen during this audit. KHS welcomes the opportunity to provide the County with whatever detail it deems necessary either directly or through its annual financial statement auditors.

Auditor's Comments: KHS' efforts to improve its reporting capabilities is a positive step in the right direction. However, it does not change the finding that KHS could not produce supporting data that would substantiate the animal statistics reported to the County. Even after inquiring about differences, we were ultimately unable to recalculate the statistics because KHS did not provide data, particularly for fiscal year 2014. KHS' argument that its maintenance of supporting documentation over animal statistics reporting has never arisen during its financial statement audit is based on a misunderstanding of the purpose of a financial statement audit. A financial statement audit provides reasonable assurance that KHS' financial statements are free from material misstatement. It does not include an examination of animal records and statistics.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Pre-Mature Euthanasia.

Auditee's Response: KHS disagrees with this finding, because it believes that its procedures have been in compliance with all the various statutes both at the State and County level. KHS states it requested a change in the Kaua'i County Code via the Council in January 2016.

KHS agrees having two people sign off on euthanasia is a reasonable practice. KHS is reviewing other organizations of its size to assess best practices in this area and will review its current processes and procedures as appropriate.

Auditor's Comments: We disagree with KHS' assessment that its procedures have "been in compliance with all of the various statutes both at the State and County level." The HRS and County Code do not allow for the early euthanasia of cats and dogs other than for "dogs running at large...so obviously diseased as to be a menace to the health of persons or animals" and "all dogs taken into custody of the animal control officer which by reason of age, disease, or other causes, are unfit for further use or are dangerous to keep impounded..." As noted in the discussion of this finding, we discovered evidence that KHS has policies and practices in place that would appear to place KHS in violation of State and County statutes. KHS' requested change of the Kaua'i County Code further supports this finding.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

Auditee's Response: KHS does not dispute this finding, and states it welcomes the opportunity to work collaboratively with the County on contract and/or verbiage changes to ensure clarity of interpretation.

Auditor's Comments: KHS' willingness to work with the County to address this finding will greatly assist in establishing a clear understanding of the requirements of the contract by both the County and KHS. The lack of performance standards or metrics within the contract creates difficulty when evaluating KHS' performance. The County should explore options for clearer contract language using the following questions:

1. What level of service should the County receive in consideration of the funds provided to KHS, and how should this level of service be measured?
2. Are the current reporting requirements enough for the County to evaluate whether KHS is performing its duties?

Finding 6. KHS' Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

Auditee's Response: KHS states it welcomes the opportunity to work with the County to develop a transparent and efficient allocation methodology (e.g., establishing an agreed-upon percentage allocation by department) to meet the needs of the County. Although KHS believes it is the most effective organization to provide these services, it welcomes the feedback provided through this audit. KHS states it remains committed to efficiently and transparently providing services and reporting under the County animal control contract and appreciates the opportunity to work with the County and its residents to provide these services.

Auditor's Comments: Again, KHS' willingness to work with the County to address this finding will provide the County with sufficient data to analyze whether the contract with KHS is the most efficient and effective way for the County to deliver animal control services.

Kauai Humane Society



January 5, 2017

Mr. Tyler Kimura
Spire Hawaii LLP
55 Merchant Street, Suite 2130
Honolulu, HI 96813

Re: Responses to Kauai Humane Society Audit

Dear Mr. Kimura,

Thank you for allowing us to respond to issues raised in the audit by the County of Kauai of Kauai Humane Society's (KHS) contracted service of animal control. KHS is prepared and willing to go into detail on each of the specific incidents and suggestions the auditors indicate but for efficiency, please find a summary below.

In the pre-audit interview, KHS pointed out that auditing records from FY2012-FY2015 would indicate that the policies and procedures were updated and improved over this period. A new Executive Director (ED) began her tenure in March 2013 and KHS began reviewing and updating policies and procedures pertaining to operations and financial management at that time. Many of the issues noted in the audit occurred prior to or at the very beginning of this ED's tenure and the implementation of revised procedures. Similarly, budgeting and accounting systems were reviewed and updated in FY2014. Due to changes in accounting and animal statistic software used, the results comparing FY2014 and prior years reflect these changes. A detailed understanding of the impact of these modifications and improvements is required to ensure an accurate comparison of these results. **KHS management and board believe that the updated procedures and systems implemented in FY2013 and FY2014 have resulted in a significantly improved control structure for FY2015 and beyond.**

In the pre-audit interview it became clear that the auditor team had little or no previous experience auditing an animal welfare organization nor a working knowledge of the work performed and procedures of such an organization. While this does not invalidate the results of this audit it did create communication and procedural challenges. Although we are confident that the audit team kept an objective viewpoint, the team's lack of knowledge of animal control procedures may have impacted some of the findings of this audit.

Finding 1. County Funds Were Not Solely Used for County-Related Services.

The incidents noted by the auditors were only applicable prior to FY2014 and did not reflect the staffing and procedural changes made beginning FY2014. We do not believe that the incidents noted by auditors lead to the conclusion that "County funds were not solely used for County-related services". The fee included in the County contract is agreed upon at the beginning of the year and is not a strict "reimbursement" for services provided. The reporting provided to the County by KHS regarding funds spent supporting the contract is informational in nature and does not directly impact the funds provided to KHS. Additionally, while the incidents noted may have had a small impact on the reporting provided we believe that other expenses may have existed which offset the amounts reported prior to FY2014. With the review performed in FY2014 by

KHS we believe the allocation methodology is significantly improved and the reporting for FY2015 and beyond are reflective of the allocation of resources to support the County contract.

KHS disagrees that a single percentage being applied across the board is appropriate but understands that a detailed process of allocating each invoice between KHS and the County may have seemed too detailed by the audit team. KHS felt that this represented the most accurate allocation methodology for the contract. However, KHS welcomes the opportunity to work with the County to determine a satisfactory methodology (e.g., agreed-upon allocation percentages by department) that can be regularly evaluated for consistency and updated/revised as needed. KHS is currently conducting a detailed timekeeping audit assessing actual time in each department that is allocated to County contract work.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

In early 2013 KHS recognized that the Standard Operating Procedures (SOPs) in place were limited. When the Executive Director began her tenure in March 2013 KHS began the process of revising, updating and implementing the SOPs. The bulk of major revisions were implemented by FY2015. All departments have printed copies of the current SOPs and are updated with any changes in SOPs.

It is not clear whether the narrative associated with each monthly budget was evaluated by the auditors. This information provides narrative on each line item and the methodology for establishing the budgeted numbers. If the County feels that an increase in documentation or reporting is necessary KHS welcomes the opportunity to work collaboratively with the County to meet its reporting and documentation needs.

Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

In FY2015 KHS began using PetPoint software as the sole system for recording animal records and began reporting animal statistics in line with the Asilomar Accords. This nationally recognized methodology was a result of a meeting of 20 animal welfare industry leaders to facilitate the data collection process and assure consistent reporting across agencies. Changing to this methodology brought KHS in line with the bulk of animal welfare organizations in the country. We believe this finding is a result of not understanding the distinctions between the methodologies used as well as an understanding of the factors impacting national vs. local statistics.

Reports on animal statistics provided to the County pertained specifically to intake and animal care for strays resulting from the service provided under the terms of the contract. Overall intake and animal care would also include animals surrendered by owners to KHS. KHS is willing to provide the statistics on animals serviced per the County contract or KHS as a whole. Limitations in the reporting capabilities of PetPoint result in greater data analysis to provide the County with greater reporting detail. We welcome the opportunity to provide further background on this process to ensure that the County is confident that the results reported are an accurate representation of the impact of the services provided.

KHS would like clarification regarding the concern that it might not “maintain exact supporting documentation”. KHS’s annual financial audit requires supporting documentation and this issue has never arisen during this audit. We welcome the opportunity to provide the County with whatever detail it deems necessary either directly or through its annual financial statement auditors.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Premature Euthanasia.

KHS believes that its procedures have been in compliance with all of the various statutes both at the State and County level. In line with your recommendation, KHS had requested a change in the Kauai County Code via the Council in January 2016.

KHS appreciates the feedback regarding the segregation of duties and agrees having two people sign off on euthanasia is a reasonable practice. With an organization of KHS’ size one of those signors might also be the individual performing the euthanasia. Because of this finding KHS is reviewing other organizations of its size to assess best practices in this area and will review its current processes and procedures as appropriate.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

KHS welcomes the opportunity to work collaboratively with the County on contract and/or ordinance verbiage changes to ensure clarity of interpretation.

Finding 6. KHS’ Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

As noted above the narrative of each line of the budget should be revisited. KHS welcomes the opportunity to work with the County to develop a transparent and efficient allocation methodology (e.g., establishing an agreed-upon percentage allocation by department) to meet the needs of the County. Although KHS believes it is the most effective organization to provide these services we welcome the feedback provided through this audit. KHS remains committed to efficiently and transparently providing services and reporting under the County animal control contract and we appreciate the opportunity to work with the County and its residents to provide these services.

Sincerely,



Emily E. Larocque
President, Board of Directors
Kauai Humane Society



Scott Pisani
Executive Director
Kauai Humane Society

cc: Bernard P. Carvalho Jr., Mayor
Ken Shimonishi, Director of Finance
Mel Rapozo, Council Chair

Follow-Up Audit of County Hiring Practices



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 18-01

PREFACE

This follow-up performance audit of the County of Kaua'i's Hiring Practices was designed to examine the County's implementation of recommendations made in 2015 regarding hiring practices. Spire Hawaii LLP ("Spire" or "we") conducted this follow-up audit, as well as the 2015 audit, for the Office of the County Auditor.

We would like to thank all who contributed data to this report, especially the County Department of Human Resources, the Department of Public Works, and the Department of Parks and Recreation.

TABLE OF CONTENTS

PREFACE _____	1
EXECUTIVE SUMMARY _____	3
CHAPTER 1 _____	6
Introduction _____	6
Audit Methodology _____	6
CHAPTER 2 _____	8
Audit Findings and Recommendations _____	8
Finding 1. DHR Has Improved Its Processes but Has Not Completed Comprehensive Recruitment Policies. _____	8
Finding 2. Documentation of Personnel Actions Has Improved but Opportunities for Improvement Still Exist. _____	13
Finding 3. Lack of Adequate Documentation Proving Policies and Legal Requirements Have Been Followed Regarding Excluded Managerial Positions Creates Risk for the County. _____	14
AUDITEE RESPONSE _____	19

Appendices 1-3 – Job Description Examples

Attachment 1 – Auditee Response

EXECUTIVE SUMMARY

This report presents the results of a follow-up audit of the County of Kaua'i's implementation of recommendations made in 2015 regarding hiring practices. Follow-up audits provide the necessary oversight of the County's progress toward implementing audit recommendations, which are intended to improve government accountability and efficiency.

A performance audit of the County's hiring practices from January 1, 2009, to December 31, 2013 was conducted in 2015 ("Hiring Audit").¹ The audit was designed to answer the following questions:

- Is the County in compliance with applicable rules and regulations related to the hiring of civil service and exempt personnel?
- Does the County have sufficient controls in place to ensure fair, uniform, and transparent selection of the best qualified employee for the position?

The audit resulted in three findings and eight recommendations, which described the County's path to developing compliant, clear, and well-communicated policies, processes, and procedures governing the recruitment and hiring process. On behalf of the County, the Department of Personnel Services, now known as the Department of Human Resources ("DHR"), agreed to the findings and recommendations.

We found that after almost three years, the conditions described in the findings have not substantially changed because the County has not fully implemented five of the eight recommendations. Although the County, through the initiative of DHR, has centralized recordkeeping and reassessed certain hiring processes, it has not comprehensively reviewed and modified compliance with best practices and legal and collective bargaining requirements as described in recommendations 1., 2., 4., and 7. As a result, the County still lacks the comprehensive policies, procedures, and monitoring necessary to ensure compliance with Hawai'i Revised Statutes ("HRS") and County requirements when hiring and conducting promotions, transfers, and reallocations.

¹ The audit report was entitled *Audit of County Hiring Practices*, Report No. 15-01. This report can be found through the following link: <http://www.kauai.gov/Government/County-Council/Office-of-the-County-Auditor/Reports>.

RECOMMENDATION	STATUS
1. DHR should reassess current procedures and controls to ensure compliance with the HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations.	PARTIALLY IMPLEMENTED
2. Internal policies should be reviewed for best practices, clearly written, regularly communicated to DHR staff, and held to the same standard of authority as HRS.	NOT IMPLEMENTED
3. DHR should monitor the appointing authority to ensure all procedures are sufficiently followed.	IMPLEMENTED
4. DHR should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County.	PARTIALLY IMPLEMENTED
5. All documents should be aggregated and maintained in a single, secured file for each employee.	IMPLEMENTED
6. The files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates.	IMPLEMENTED
7. DHR should consult with the County Attorney to implement a comprehensive policy that ensures compliance with document retention and maintenance requirements at the federal, state, and county levels.	PARTIALLY IMPLEMENTED
8. DHR should ensure sufficient controls and procedures are in place for all types of personnel actions, in particular for those that allow civil service requirements to be bypassed as these subjects the County to the greatest amount of risk.	NOT IMPLEMENTED

Additional actions are needed to fully implement the prior recommendations. To ensure the County's efforts to comply with requirements governing the hiring process, it should fully address the remaining five recommendations from the 2015 Hiring Audit. The auditee's response, included as Attachment 1, was considered in finalizing this report and is discussed in greater detail on page 19.

CHAPTER 1

Introduction

Follow-up audits monitor the County's implementation of audit recommendations. Audit recommendations, if followed, are intended to result in accountability and transparency, reduced costs, increased revenues, strengthened controls and safeguards, and improved services. These benefits can only be realized if audit recommendations are in fact implemented. Monitoring the County's implementation enables the public and policymakers to stay informed of the County's progress and to understand what is needed for full implementation.

Audit Methodology

The Hiring Audit examined County policies, procedures, and practices during recruiting and hiring, and found the County did not consistently adhere to HRS and County policies when hiring and conducting promotions, transfers, and reallocations. This follow-up audit reviewed the changes made by the County to address the findings and recommendations and whether the changes addressed the audit findings.

We issued a written survey to DHR to ascertain whether the audit recommendations were implemented. Because of the limited scope of the follow-up audit, we narrowed our testing to personnel activity from January 1, 2017 to December 31, 2017, in the largest departments, the Department of Public Works ("DPW") and Department of Parks and Recreation ("Parks").² We issued questionnaires to DPW and Parks regarding civil service hires, exempt hires, exempt hires for personal service contracts, temporary hires, reallocations, and transfers. We sampled civil service hires and reallocations and utilized substantively the same procedures from the Hiring Audit to test for compliance and the implementation of internal controls.³

² The Water, Police and Fire Departments were not included in the Hiring Audit or this follow-up audit.

³ The documents and reports were listed on pages 9 to 11 of Report No. 15-01.

For the purposes of evaluating achievement, we used the following definitions:

IMPLEMENTED – where the department or agency provided sufficient and appropriate evidence to support all elements of the recommendation.

PARTIALLY IMPLEMENTED – where some evidence was provided but not all elements of the recommendation were addressed.

NOT IMPLEMENTED – where evidence did not support meaningful movement towards implementation and/or where no evidence was provided.

We conducted this follow-up audit in accordance with generally accepted government auditing standards and the County Audit Manual, where practicable. Divergence from GAGAS and the County Audit Manual was required in the audit review process, because the County Auditor position is currently vacant. Information deemed confidential under the State open records law (HRS Chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices (OIP) Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, “OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors.” Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the State collective bargaining law (HRS Chapter 76).

CHAPTER 2

Audit Findings and Recommendations

Finding 1. DHR Has Improved Its Processes but Has Not Completed Comprehensive Recruitment Policies.

RECOMMENDATIONS AND STATUS:

RECOMMENDATION	STATUS
1. DHR should reassess current procedures and controls to ensure compliance with the HRS and County policy to establish fair and consistent hiring, promotions, transfers, and reallocations.	PARTIALLY IMPLEMENTED
2. Internal policies should be reviewed for best practices, clearly written, regularly communicated to DHR staff, and held to the same standard of authority as HRS.	NOT IMPLEMENTED
3. DHR should monitor the appointing authority to ensure all procedures are sufficiently followed.	IMPLEMENTED

This finding pointed out that the County did not consistently adhere to HRS and County policies when hiring and conducting promotions, transfers, and reallocations because it lacked compliant, clear, and well-communicated policies, processes and procedures, and effective monitoring of compliance.

In response, DHR states that it ensures continued compliance and internal controls by tracking bills during the legislative session and by participating in collective bargaining negotiations and arbitrations. DHR states policy reviews and changes take place during weekly staff meetings and monthly recruitment divisional meetings. Minutes are taken at the meetings, the status of past follow-up topics are discussed, and future follow-up tasks are identified. DHR provides a list of the changes it has implemented in response to the audit:

- Changed testing admissions procedures (need for admission ticket, use of phone, etc.)
 - Prior to this change, candidates who did not bring a physical copy of their admission ticket would be denied immediately. This was potentially seen as unfair for candidates who had travelled to Kaua'i for the interview. Now, candidates are allowed to show the admission ticket on their phone if they don't have the hard copy.
- Clarified “progressively responsible” positions – ensure consistency in review
 - The term “progressively responsible” has historically been used to describe minimum qualifications for candidates. For example, “a candidate’s work history has shown progressively responsible duties.” DHR is in the process of specifically defining experience in its Classification specifications. For example, pegging experience to specific years of supervision would reduce some of the subjectivity of reviewers determining what experience qualifies as “progressively responsible.”
- Reviewed all Section 3 hires weekly to ensure compliance
 - A Section 3 hire is a special second hire on an existing position number. These are utilized in special, unique situations such as succession planning, person out with an injury or on leave, etc.
 - DHR now reviews all Section 3 hires on a weekly basis to make sure the positions are filled appropriately. For example, they monitor if the injured person is returning to work, etc., to ensure these special hires do not overstay their intended hiring.
- Reviewed interview form to check for discrepancies and ensure correct selection based on suitability and relatively equal standards
 - DHR now reviews the interview forms completed by the departments to ensure the correct selection was made based on suitability and relatively equal standards. This includes adding information regarding total interview points available so the five percent “relatively equal rule” can be assessed.
- Reviewed interview form to ensure diversification of interview panel
 - DHR also reviews interview forms to ensure diversification of interview panel (e.g., ensuring a mix of gender and ethnicities are on the panel).

- Created chart for comparable levels across bargaining units (“BU”) – Standardization for Return to Work applicants
 - DHR created a chart for comparable levels across BUs to ensure Return to Work applicants are properly placed when returning from an injury and are not in line for an effective promotion because they returned to work in a different BU.
- Clarified use of internal vs. intra-department recruitments
 - DHR clarified the definitions of internal, intra, and inter-department recruitments, and ultimately decided “internal” meant the same as “intra.”
- Created one location to receive job applications to eliminate confusion between internal/external applicants
 - Previously, there were separate locations for application submission based on whether the applicant were internal or external users. Users were sometimes disqualified for submitting applications in the wrong location. To prevent such technicalities from undermining the recruitment process, DHR changed the system so only one location receives applications.

DHR is to be commended for making these changes, which improve consistency and compliance. In doing so, they have made significant progress toward developing a more structured and compliant recruitment system.

However, challenges remain. We found no evidence that County policies, processes, and procedures have been *systematically* reviewed and revised to ensure compliance with legal and collective bargaining requirements concerning recruitment and hiring. For example, while DHR did issue the NeoGov Insight Policy in 2015, a comprehensive County Recruitment Manual remains in draft form since 2014. The DHR Director said she hopes to have it issued this year.

Further, in reviewing DHR meeting minutes, it appears that while DHR tackles a number of issues on a weekly basis, the focus appears to be more on “putting out fires” rather than completing comprehensive policies. For example, the Rules of the Director have not been updated since 2015 and still reference the Department of Personnel Services. The Internal Departmental Competitive Recruitment Policy dated November 29, 2011 has not been updated, even though DHR has since eliminated the use of the term “internal” when doing intra-departmental hiring.

Weaknesses in policies and procedures and the County's centralized approach to recruitment and hiring may be the source of potential risk including lawsuits against the County caused by improper hiring. The County should consider deploying resources to engage in a transparent process to comprehensively review and document personnel policies and procedures to ensure decisions are legally compliant, adequately documented, and transparent. A merit-based hiring and promotions system is necessary for efficient government operations. Consistent and compliant recruitment and hiring will maintain and strengthen the merit system. DHR is required to administer a civil service system that is based on the merit principle pursuant to HRS Chapter 76.

As such, because DHR has begun to reassess its procedures but has not yet completed revisions to its internal policies, we concluded that recommendation 1 was partially implemented and recommendation 2 was not implemented.

Best practices for maintaining internal controls in recruiting and hiring involve 1) a process to build and maintain knowledge of relevant employment laws through regular legal and regulatory reviews, 2) legally compliant policies and procedures, and 3) a solid training program for management and staff on policies and procedures and legal obligations of employers. The County's review process for hiring, as described by DHR, falls short because it is internal to DHR, reactive and not systematic, and may overlook changes, especially in federal law and best practices. Additionally, while DHR did conduct training over the use of NeoGov, there is no evidence of systematic training of employees involved in the hiring process.

To address these shortfalls, DHR could consider developing additional written or "how to" guidelines for each step of the hiring process. These could include standard operating procedures for each step, exceptions, and documentation requirements for key decisions. In the process of developing the guidelines, deficiencies in the existing policies or processes could be identified and addressed. When the guidelines are developed, they could be used in a training program, so DHR and departmental staff are well-informed of the applicable requirements. Additional written guidelines and training will contribute to transparency. If policy and process requirements are widely discussed, non-DHR employees can understand the reasons for the requirements and changes. In addition, DHR should continue to familiarize themselves with HRS Chapter 76 and provide training (potentially through a contract with an expert in the field) on civil service law for themselves as well as other County departments.

Recommendation 3 stated that DHR should monitor the appointing authority to ensure all procedures are sufficiently followed. During the 2015 Hiring Audit, we found DHR monitoring was lacking, creating risk of non-compliance and inconsistency. For that reason, we recommended increased DHR monitoring as an internal control over the departments' recruitment and personnel activities.

According to its response, DHR said it took the following steps after the 2015 Hiring Audit was completed:

- Conducted a training for departmental liaisons on the expanded use of the NeoGov online recruiting system
- Funneled all initial recruitment and hiring decisions through NeoGov for all civil service and exempt hires to allow for documented approvals by department heads, the DHR staff and director, and the Mayor
- Required the Applicant Interview and Evaluation Summary form to be completed and attached to the NeoGov record when processing an applicant for hire
- Instituted an additional hire approval step so DHR recruitment staff reviews the Applicant Interview Evaluation Summary Sheet to ensure all applicants on the eligible list are contacted for an interview and the selected applicant either had the highest interview score or was relatively equal to the applicant with the highest interview score
- Required attachment of the Request for Services Exempt from Civil Service form to the NeoGov record to complete the full documentation of the hire record
- Assumed responsibility for completing all reference checks, except for KPD hires
- Assumed responsibility for reviewing and preparing the Personnel Action Form for hire processing, including appropriate salary level if outside the collective bargaining agreement starting rate⁴
- Assumed responsibility for contacting the selected applicant with a conditional offer of employment and schedules all necessary pre-employment requirements including drug tests, physicals, background checks (except KPD employees)

The changes made by DHR to utilize the NeoGov system to improve documentation in personnel processes and improve pre-employment compliance are the reasons we found recommendation 3 to be implemented.

DHR should continue to work with the departments to ensure that the new changes made by DHR do not go beyond monitoring. The hiring process should not be structured so that a single unit, either the hiring department or DHR, takes so much control that it loses independence, and the ability to monitor. In other words, DHR should not centralize too much authority in itself, and instead serve the important role of monitoring decisionmakers so they comply with civil service and other legal requirements.

⁴ We clarified with the DHR Director that although DHR stated that it assumed responsibility for reviewing and preparing the Personnel Action Form, DHR still confers with the appointing authority and receives approval from department heads prior to the finalization of personnel actions.

Finding 2. Documentation of Personnel Actions Has Improved but Opportunities for Improvement Still Exist.

RECOMMENDATIONS AND STATUS:

RECOMMENDATION	STATUS
4. DHR should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County.	PARTIALLY IMPLEMENTED
5. All documents should be aggregated and maintained in a single, secured file for each employee.	IMPLEMENTED
6. The files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates.	IMPLEMENTED
7. DHR should consult with the County Attorney to implement a comprehensive policy that ensures compliance with document retention and maintenance requirements at the federal, state, and county levels.	PARTIALLY IMPLEMENTED

In response to this audit finding, DHR cites the following improvements:

- Recruitment and hiring documentation is now filed through the NeoGov recruiting software, which allows for approvals to be documented electronically
- All employee files related to employment and pay and benefits are now centrally maintained at DHR in a single, secure file
- All past and current employee forms and documents are maintained as part of an employee's record
- Personnel files are kept for 30 years after an employee's separation date while other HR files are kept for seven years

We validated these remedial steps by testing supporting documentation for civil service hiring and reallocation procedures, noting all requested information was present. As such, we have concluded that recommendations 5 and 6 have been implemented.

However, as further discussed in recommendation 8, documentation related to the justification for certain reallocations to excluded managerial ("EM") positions could be improved in DHR's files. For this reason, we could not give full credit to the County for implementing recommendation 4.

DHR states it has consulted with the County Attorney but is still waiting for a comprehensive document retention and maintenance policy that complies with federal, state, and county requirements. In the meantime, DHR is utilizing the State of Hawaii Department of Accounting and General Services' document retention guidelines. As such, we found that recommendation 7 was partially implemented as the County policy is yet to be finalized.

Finding 3. Lack of Adequate Documentation Proving Policies and Legal Requirements Have Been Followed Regarding Excluded Managerial Positions Creates Risk for the County.

RECOMMENDATIONS AND STATUS:

RECOMMENDATION	STATUS
<p>8. DHR should ensure sufficient controls and procedures are in place for all types of personnel actions, in particular for those that allow civil service requirements to be bypassed as these subject the County to the greatest amount of risk.</p>	<p>NOT IMPLEMENTED</p>

DHR responds that:

- The County's compensation plan is updated on an annual basis
- All current job classes are reviewed at this time to ensure all new classifications have been included and abolished classes have been deleted
- In addition, positions designated as "Unskilled" are reviewed to ensure these positions remain in this category
- When new job classifications are established, a designation of "Skilled" or "Unskilled" is completed on the "Notice of Final Action" form that is routed to all jurisdictions
- All positions, including exempt positions must complete a County of Kaua'i exempt application form. Exempt hire selections now go through the NeoGov approval process with policies and procedures contained in the NeoGov Insight Policy 2015
- The County Charter minimum qualifications for department heads are vetted by DHR and are the only requirements
- In other jurisdictions, exempt hires are not screened for minimum qualifications unless specified by Charter or other authority
- The County requires all exempt hires to submit a job application form documenting their education, skills, and experience
- Exempt hires go through the same post-offer pre-employment screenings as do civil service employees

These are positive steps in improving the audit trail for personnel actions but do not go far enough to address audit recommendation 8. During fieldwork testing, we noted four positions that were reallocated from regular civil service positions to EM positions. EM positions are governed by HRS 89C *Public Officers and Employees Excluded from Collective Bargaining*. The purpose of HRS 89C is to grant appropriate authorities the necessary flexibility to adjust the wages, hours, benefits, and other terms and conditions of employment for the respective excluded public officers and employees.

The intent of HRS Chapter 89C was to ensure individuals who held these EM positions would have treatment comparable to bargaining unit employees when it came to adjusting their wages, hours, benefits, or other terms and conditions of employment. However, despite the fact that they do not have bargaining unit representation, EM positions have become desirable in many cases because of higher salary levels and a less rigorous process for setting job qualifications and pay.

We identified two fundamental problems with the EM position process:

1. The lack of comprehensive policies and procedures over documentation of the EM process make it a potential avenue for abuse. For example, the existing classification and pricing policies do not provide clear standards or benchmarks that would aid in clearly identifying and deciding whether and when to change a position from a BU civil service position to an EM civil service position. In addition, the lack of comprehensive policies surrounding EM positions creates the risk that they could be used to place pre-identified employees in favorable positions, and makes it difficult to prove without question that the selection process for the EM positions comply with merit principles. This increases County risk.
2. This potential for abuse is heightened because DHR does not maintain adequate documentation over the reallocations it has performed. DHR states it determines the EM level to reallocate positions based on State-wide classification guidelines but it does not include any further documentation, correspondence, or other justification within the position files.

When asked about individual reallocations to EM positions in our testing sample, the DHR Director was able to recall the particular circumstances for each action. The DHR Director knew the name of the employee and generally what happened with the position, including prior position descriptions and classifications.

However, the DHR Director stated there is no documentation kept within employee files because it is a position action and not an employee action, and it is unlikely there is any other documentation regarding the decision to reallocate positions to EM. While there may be some email correspondence, the DHR Director said the decision-making process is often done verbally. Reallocations are approved by the respective department head, the Mayor, and the DHR Director.⁵

We recommend that appropriate documentation is maintained over the decision-making and review process involving EM positions, as relying on oral history is poor practice and is difficult, if not impossible, to substantiate. This practice once again puts the County at risk for discrimination and equal employment opportunity complaints or lawsuits.

During testing, we noted the reasons for the reallocation requests were lacking for all but one of the four EM reallocations in our sample. For example:

1. One of the reallocations involved a change from a SR-26 Principal Project Manager position in DPW to an EM-05 Executive Assistant to the Mayor in April 2017. There is insufficient documentation to support the new position title, because the position appears to be for a secondary deputy in DPW. See Appendix 1 for the job descriptions of the SR-26 and EM-05 positions.
2. Another reallocation in January 2017 changed a SR-24 to an EM-03 with a 27 percent salary increase. The DHR Director explained that the prior incumbent held the position at an EM-03 but the new hire did not meet the minimum qualifications related to the administrative experience of an EM-03, so the position was changed to a SR-24. Once the new hire met the administrative experience requirements of an EM-03 (by performing at the administrative level provided by the SR-24 position), the position was reallocated back to an EM-03. The Record of Classification Request and Action form only provided the following reason for the request: "Reallocating position." See Appendix 2 for the job descriptions of the SR-24 and EM-05 positions.
3. A third reallocation in July 2017 changed a SR-24 to an EM-03 with a 10 percent salary increase. The Record of Classification Request and Action form only provided the following reason for the request: "Changes in duties/responsibilities." See Appendix 3 for the job descriptions of the SR-24 and EM-03 positions.

⁵ We noted that each of the four EM reallocations was approved by the relevant department head, the Mayor, and DHR Director. However, the details of the approval process are unclear, as we noted that for two of the EM reallocations, the DHR Director approved the reallocation one or two minutes after the Mayor's approval. The Mayor approved a separate EM reallocation requisition at 3:45 a.m.

This recommendation states that to decrease County risk, DHR should ensure “sufficient controls and procedures are in place for all types of personnel actions, in particular for those that allow civil service requirements to be bypassed.” Without clear, complete documentation and substantiation of personnel actions, DHR will have difficulty defending itself from suspicions of wrongdoing in the recruitment process. Put another way, without appropriate documentation of personnel actions, it is difficult to prove wrongdoing hasn’t occurred.

The reallocation process in example 2 above appears to be for the purpose of allowing the employee to gain the necessary administrative experience. Documentation to establish a valid purpose for the reallocation could avoid the action being seen as preferential treatment by the DHR and the respective department head, subjecting the County to criticism or risk.

A requirement to maintain clear and complete documentation for all personnel actions creates an internal control environment that prevents the circumvention of procedures and discourages abuse of authority. While DHR has begun to make changes to its recruitment processes, we recommend DHR implement stronger documentation requirements to ensure personnel and position records are complete and all personnel actions are appropriately justified.

In addition, we inquired about the County’s Vacancy Review Committee (“VRC”) which was formed in 2014 by the Mayor to evaluate and review all vacant positions as a result of both anticipated and non-anticipated attrition, with the goals of:

1. Reducing the size of government, where appropriate;
2. Re-describing vacant positions to create efficiencies; and
3. Serving as a sounding board to explore organizational, personnel, and technological alternatives.

The VRC was composed of the DHR Director, the Assistant Chief Procurement Officer (“ACPO”), a Civil Service Commissioner, the Director of Finance, and the Managing Director as an ex-officio member who would break ties in voting.

The VRC met 13 times in fiscal year (“FY”) 2015, 24 times in FY 2016, seven times in FY 2017, and once so far in FY 2018. During the height of the VRC’s activity, the VRC reported to have made changes to positions that resulted in approximately \$1,168,000 in financial savings. According to the DHR Director, the ACPO would review requisitions to fill various vacant positions, and confer with the Mayor to decide whether to convene the VRC. The DHR Director stated that the VRC rarely meets anymore, but the ACPO still does an initial review of requisitions and with the Mayor’s consultation, decides whether to convene the VRC.

While this process created an additional step in the hiring process, it also enabled a small group of administrators to exert control over position vacancies and personnel decisions opening the County up to risk and possible lawsuits.

While we did not analyze the VRC's decisions, the underlying risk is ensuring that the VRC is composed of administrators who will provide objective insight on the vacancy decisions by appropriately balancing the needs of the departments with the desire to reduce personnel costs.

The DHR failed to recognize that the membership of the VRC created a situation where the County could be faced with significant liability. The fact that a member of the Civil Service Commission, the DHR Director, the ACPO, and Director of Finance served and participated on the VRC is of great concern.

When a civil service employee of the County feels that a violation occurred with regard to their rights as an employee, they are entitled pursuant to HRS Chapter 76, to file an Internal Complaint. This Internal Complaint process involves the respective department head (which could be one of the members of the VRC) as well as the DHR Director. If the Internal Complaint is not resolved to the satisfaction of the employee, the employee can appeal to the Civil Service Commission. The Civil Service Commission also hears and decides on matters from the general public who have applied for vacant positions, etc.

Since some individuals that sit on the VRC hold key positions in the personnel system of the County (such as the DHR Director, department head and Civil Service Commission member), they could be seen as having a conflict, as they could have possibly decided on a matter (on the VRC) and then in their official other capacities, would have to decide on the same matter again.

The County should reevaluate the use and composition of the VRC to ensure personnel actions are free from actual, potential or perceived conflicts of interest.⁶

⁶ The County of Hawai'i disbanded a comparable version of the VRC, the Staffing Review Committee, because of the "perceived or actual hiring practices that promoted preferential treatment to certain identified applicants." *County of Hawai'i's Department of Human Resources Hiring Practices*, Report No. 2017-03, September 7, 2017. We did not review the VRC actions and therefore cannot state whether preferential treatment was an issue. However, the County of Hawai'i's experience identifies an additional source of risk from utilizing such committees.

AUDITEE RESPONSE

The County Administration, as auditee, was provided an opportunity to respond to our findings and recommendations. The Administration's response is included as Attachment 1.

The Administration generally disagreed with our findings, and raised concerns about the overall integrity, fairness and intent of the audit process. Not only do its points indicate a basic misunderstanding of the audit scope, process and findings, it is counter-productive to addressing the risks raised in the report.

The Administration's primary points of contention are related to the findings over EM reallocations and the VRC. We address the Administration's concerns over the EM reallocations first.

The Administration questioned why EM reallocations were included in the follow-up audit because they are not a hiring practice and were not a finding from the Hiring Audit. The Administration attempts to paint a picture that EM reallocations were scoped into the report only after findings over unskilled labor or exempt positions could not be found. This is simply not true.

The original audit covered civil service hires, exempt hires, transfers and **reallocations** [emphasis added]. Reallocations were reviewed, because they involve hiring and employee placement as required by collective bargaining laws and County policies. As stated in the 2015 Hiring Audit Report, reallocations involving vacant positions require a recruitment process (hiring) for the newly reallocated position. Additionally, if the position is already filled, DPS reassesses whether the incumbent meets the minimum requirements of the updated position.⁷

Inclusion of reallocations in the follow-up audit was stated in the kickoff meeting with DHR on January 11, 2018, and reiterated in an email on January 16, 2018, which transmitted the Follow-Up Audit Questionnaires to DPW and Parks. Further, on February 14, 2018, the DHR Director was sent an Excel document identifying the positions to be sampled and the information to be reviewed in the sampling. No objections to the inclusion of reallocations were noted after these communications, during fieldwork when we discussed the sampled EM reallocations in detail, or in the exit teleconference on April 18, 2018. The first objection was received in an email from DHR Director on May 3, 2018, upon receipt of the draft report.

⁷ *Hiring Audit Report*, page 7.

Further, the original audit was designed to answer the following questions:

- Is the County in compliance with applicable rules and regulations related to the hiring of civil service and exempt personnel? And,
- Does the County have sufficient controls in place to ensure fair, uniform and transparent selection of the best qualified employee for the position?

Under these questions, all categories of County employees in the audited departments were within the audit scope, including EM employees. The purpose of the follow-up audit was to determine whether the findings of the original audit still exist, and the extent to which audit recommendations were implemented. To this end, the same process used in the original audit covering civil service hires, exempt hires, exempt personal service hires, temporary hires, and reallocations was used to identify and test compliance.⁸

The contested finding in the follow-up audit concerning EM employees is aligned with the findings in the original audit. In the original audit, we found that:

- Finding 2: The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements, internal policy and HRS. (Audit Report, page 4)

In the follow-up audit, we determined that the risk still existed, because there was little documentation to ensure compliance, and the Administration agreed that the documentation should be kept in the position file. The Administration points out that there are policies and procedures and that any documentation would be kept in the position file, not the personnel file. We agree and have updated language in the report.

The Administration spends most of its efforts disputing the inclusion of EM reallocations in this follow-up audit, but does not address or dispute the overall finding that the lack of documentation over the EM reallocation process poses a risk to the County.

The classification and pricing policies over EM positions require that one of the following criteria is met for EM positions:

⁸ The difference in employee coverage between the original and follow up audits was that the original audit covered employees in all departments (excluding the police, fire, and water departments), the follow-up audit was limited to employees of the two largest departments, DPW and Parks. In addition, transfers were not reviewed, as they would have been covered in either the civil service hiring or exempt transaction counts.

- Is a division head or an assistant division head;
- Is at or near the top of an ongoing, complex agency or major program and formulates or determines policy for that agency or program;
- Directs the work of a major program or agency or a major subdivision thereof with considerable discretion to determine means, methods and personnel by which the agency or program policy is to be carried out;
- Is a central agency position involved in the preparation for and conduct of negotiations or has a major role in the administration of agreements or in personnel administration or meets and confers with union representatives as required under HRS §89-9(c), provided that, such role is not routine or clerical in nature and requires the exercise of independent judgment.

While these criteria provide a framework to identify EM positions, they are nonetheless open to broad interpretation and subjectivity. This is the crux of our finding that proper documentation of compliance with these criteria justifying EM reallocations is needed to reduce risk to the County.

This may be a potentially significant issue since there are over 25 EM positions in the County in Fiscal Year 2018, without even including the Water, Police and Fire departments.

Regarding the VRC, the Administration takes the position that the VRC is not a part of the hiring process because its intent was to:

1. Eliminate vacant positions for possible cost savings;
2. Possibly re-describe remaining positions to absorb the duties of the eliminated position;
3. Re-describe a vacant position to a new position that was needed by the Department and therefore eliminate the need to create a new position;
or,
4. Fill the position as described due to the needs of the Department.

However, this is a very narrow view. The VRC was convened when Departments submitted requisitions to fill the vacant positions. In order to realize any cost savings, that means that a position was eliminated, re-described, or transferred to a different department upon receiving the request to fill. Eliminating vacant positions, or even re-describing vacant positions, may take away promotional opportunities for current civil servants. Further, re-describing positions to absorb the duties of the eliminated position could, and quite possibly would, put an undue burden on existing civil servants. These situations would create an opportunity for existing civil servants to grieve. This is consistent with the statements in the audit report about risk, conflicts and lawsuits.

While we did not investigate whether any of the eliminations of vacant positions resulted in a reorganization that would have required Union consultation, any such occurrence would pose additional risk to the County.

Finally, DHR takes issue with items that were discussed in the April 18, 2018 exit meeting and revised prior to the draft report. For example, at the exit meeting, we stated that recommendation number 3 was partially implemented. However, upon receiving clarification over DHR's initial response that they had properly conferred with the appointing authority and received approval from department heads prior to the finalization of personnel actions, we changed the finding to implemented. Likewise, we revised our initial assessment of the VRC upon receiving clarification from DHR over the review process of requisitions. It is unclear why the Administration felt the need to include these discussions in their response when they were already changed in the draft report.

Also, the Administration takes issue that it was not commended for providing us with all the information we requested for testing, showing significant improvement over the 64 instances of missing information from the original audit. Recommendations 5 and 6 were determined to be fully implemented, so again, it is unclear why this was a "serious concern" of the Administration.

In summary, we incorporated DHR's comments when supported by adequate evidence. Although DHR disputes our characterization of their progress implementing the recommendations of the 2015 Hiring Audit, there is no substantial challenge to the main findings of this audit; that the lack of systematic and comprehensive policies, procedures, and documentation may increase risk for the County. We encourage the Administration to continue its implementation efforts to address all audit findings.

DEPARTMENT OF PERSONNEL SERVICES
COUNTY OF KAUAIPRINCIPAL PROJECT MANAGER
SR-26, BU-13

2.325

Duties Summary:

Serves as principal manager over capital construction, renovation or maintenance projects for an assigned department; directs, administers and coordinates work performed for major projects; and performs other related duties as required.

Distinguishing Characteristics:

The Principal Project Manager is distinguished by its responsibility to plan, monitor, budget, schedule and coordinate highly complex and/or sensitive capital projects, longer in duration and more costly to complete than those managed by the lower level.

Examples of Duties: *(The following are examples of duties and are not necessarily descriptive of any one position in this class. The omission of specific duties statements does not preclude management from assigning such duties if such duties are a logical assignment for the position.)*

- Performs contract administration on engineering, planning and/or construction contracts for renovation, maintenance and other County projects from inception, design, award, construction and through the warranty period;
- Directs and may evaluate assigned professional and paraprofessional technical staff;
- Provides direction, guidance and assistance to employees, contractors and work groups;
- Coordinates daily work activities;
- Organizes, prioritizes and assigns work;
- Monitors status of work in progress and inspects completed work;
- Ensures compliance with Federal, State and County codes;
- Assists with development of project scopes, budgets and schedules and implementation of such;
- Monitors expenditures to ensure compliance with approved budget;

- Provides technical advice, information and assistance with issues related to assigned projects;
- Prepares reports, analyses and records;
- Assists with development and implementation of departmental policies and procedures;
- Coordinates process for bidding and contracting of services;
- Prepares Requests for Proposal (RFPs);
- Prepares bid packages;
- Conducts pre-bid and pre-construction meetings;
- Issues addendums to clarify questionable issues;
- Participates in negotiations of scope of services and fees for service agreements;
- Makes recommendation for selection of vendors and awarding of contracts;
- Compiles contract language, including specifications package;
- Coordinates acquisition and/or maintenance of required permitting;
- Researches code requirements and coordinates efforts between multiple departments and/or consultants; and
- Operates a motor vehicle, personal computer and other equipment as necessary, including use of computer applications.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in project management, engineering, construction administration or a related field; supplemented by four (4) years of experience that demonstrated competency in project management, budget administration, contract administration, and responsible experience in the specific area of assignment.

License Requirement: Possession of a valid motor vehicle operator's license (Hawai'i Type 3 or equivalent).

Knowledge of: project management principles, techniques and tools; cost

benefits analysis, planning and budgeting techniques; engineering principles and practices; public administration and management principles, including general administration, human resources management and fiscal management and accounting; Federal, State, and local regulatory codes related to activities and operations of the assigned area; contract negotiations and administration; current technology and trends in the profession.

Ability to: coordinate, manage and track multiple project activities on several projects concurrently; utilize computer-based project management tools; manage multi-disciplinary project teams; assign, monitor, supervise and evaluate staff work performed; anticipate and evaluate project risks, identify mitigating factors, and resolve problems; communicate effectively both orally and in writing; establish and maintain effective working relations and communications with others; analyze and project consequences of decisions and/or recommendations.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

This is an amendment to the specification for the class, PRINCIPAL PROJECT MANAGER, which was approved on December 1, 2009, amended on December 30, 2009 and effective on December 29, 2009, and is to be substituted for that specification.

APPROVED: NOV 19 2013
(Date)


THOMAS T. TAKATSUKI
Acting Director of Personnel Services

DEPARTMENT OF PERSONNEL SERVICES
COUNTY OF KAUAI

EXECUTIVE ASSISTANT TO THE MAYOR
EM-5

15A2060

Duties Summary:

Provides top-level staff and executive assistance to the Mayor in matters affecting the County; renders executive direction and control over functions and programs as assigned by the Mayor; and performs other related duties as required.

Distinguishing Characteristics:

This class is distinguished by its responsibility for providing top-level staff and executive assistance to the Mayor and for rendering executive direction and control over functions and programs as assigned by the Mayor.

Examples of Duties: *(The following are examples of duties and are not necessarily descriptive of any one position in this class. The omission of specific duties statements does not preclude management from assigning such duties if such duties are a logical assignment for the position.)*

- Reviews materials, reports, policies, resolutions, records and other communications relating to the general administrative matters and makes recommendations for their disposition based upon the knowledge of the policies of the Mayor;
- Advises the Mayor by providing pertinent information or pointing out workable solutions;
- Reviews and recommends reduction or addition of specific programs based upon the knowledge of the Administration's goals;
- Conducts administrative investigations and management, legislative or other highly specialized studies and makes appropriate reports and recommendations;
- Prepares administrative directives and memoranda in behalf of the Mayor;
- Prepares testimonies, reports and testifies before legislative committees;
- Obtains information and progress reports of assigned departmental programs and activities from executive agencies of the County, State and Federal governments as required;

- Serves on various administrative committees as assigned by the Mayor and represents the Mayor before civic, community and other public groups to explain county programs and goals;
- Supervises the functions and activities as assigned by the Mayor;
- Prepares public statements, press releases and speeches for the Mayor;
- Prepares drafts, analyses and comments on proposed bills and other reports for the legislature or the Council;
- Reviews legal decisions, opinions, rules and of the County Attorney and keeps the Mayor informed of their significance and effect in administrative and legislative matters;
- Coordinates the activities between the Administration, Council and departments of the County and with other governmental jurisdictions and their departments as assigned by the Mayor; and
- Supervises assigned employees.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in the field of public or business administration, economics or a related field and six (6) years of responsible administrative experience in government or in private business.

Knowledge of: governmental organization and functions; principles and practices of public administration, organization and management; principles and practices of public relations; research methods and techniques; administrative analyses; governmental finance administration and budgeting; report writing; public speaking, statutes and ordinances relating to government functions and operations; pertinent Federal laws and regulations.

Ability to: conduct studies on and prepare top-level management recommendations relating to operations, organizations, administrative standards, finance administration and budgeting; obtain, analyze and evaluate facts; prepare reports; make sound management decisions; coordinate varied and complex work programs; analyze legal decisions, interpretations and directives; deal tactfully and effectively with other governmental officials and the public.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

This is an amendment to the specification for the class EXECUTIVE ASSISTANT TO THE MAYOR, which was approved on November 29, 1999, and is to be substituted for that specification.

APPROVED: NOV 14 2013
(Date)


THOMAS T. TAKATSUKI
Acting Director of Personnel Services

DEPARTMENT OF PERSONNEL SERVICES
COUNTY OF KAUAIPARK MAINTENANCE OPERATIONS CHIEF
SR-24, BU-13

2.333

Duties Summary:

Develops plans, schedules, coordinates, and directs the general maintenance and beautification operations and work activities for all County park facilities and other County grounds and landscaped areas through subordinate supervisors; and performs other related duties as required.

Distinguishing Characteristics:

This class is distinguished by its responsibility for the most difficult and complex types of park grounds maintenance and beautification operational activities for the County of Kauai, including planning and scheduling of projects involving large scale mowing, resodding, rebuilding of playing fields, and chemical treatment and field testing of grasses and plants.

Examples of Duties: *(The following are examples of duties and are not necessarily descriptive of any one position in this class. The omission of specific duties statements does not preclude management from assigning such duties if such duties are a logical assignment for the position.)*

- Develops and directs program operations and procedures for improvement and maintenance of parks, playground, recreational, and County grounds and landscaped areas;
- Oversees and directs, through subordinate supervisors, landscaping and beautification work activities involving park facilities such as construction of fences, sprinkler systems, and projects for play areas, grassed areas, medial strips and triangles, and other grounds and landscaped areas;
- Formulates work policies and procedures for personnel, facilities, equipment operation, and chemical treatment processes and standards;
- Oversees and directs field testing of grasses and plants for use in parks and recreation areas and the scheduling of large scale mowing, resodding, rebuilding of playing fields, and chemical treatment activities;
- Determines priorities and schedules for capital improvement projects (CIPs);
- Plans schedules, and coordinates with other departmental divisions and organizations for the repair and maintenance of grounds, through landscaping, soil improvement, general care, and beautification of grounds, facilities, and

equipment;

- Supervises, plans and coordinates an ongoing safety and preventive maintenance program to prevent accidents and ensure proper use and care of equipment and tools through training and supervision;
- Perform a variety of general administrative and community relations assignments;
- Evaluates staffing and equipment needs for park areas, and provides justification and specifications with recommendations for staffing and equipment;
- Prepares operating budgets relating to parks maintenance and improvement activities by preparing budget estimates for district operations;
- Participates in development of park facilities by attending pre-planning meetings with staff planners and engineers, reviewing preliminary plans and development designs;
- Reviews designs, plans, and specifications of structures to determine maintenance requirements and plan accordingly;
- Develops guidelines and sets schedules for preventive maintenance program;
- Develops new methods and techniques for grounds and facility maintenance;
- Prepare activity reports; establishes and maintains effective relations with the public and community groups;
- Receives and takes corrective action or makes appropriate recommendations and resolves complaints on park maintenance;
- Attends meetings with community groups and organizations and informs the public of maintenance programs and activities serving as liaison between management and park districts in matters relating to the beautification and maintenance of parks and recreational areas of the County; and
- Coordinates the use of temporary work forces such as prison workforce, Alu Like, student hires, and other temporary employees as needed.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in agriculture, horticulture, public administration, or a related field and four (4) years of supervisory experience demonstrating technical competence in soil and turf management, chemical treatment, and landscaping in the care, maintenance,

and beautification of parks or landscaped areas.

License Requirement: Possession of a valid motor vehicle operator's license (Hawai'i Type 3 or equivalent).

Knowledge of: the principles and practices of supervision and administration; principles and practices, tools, and techniques of grounds maintenance; methods and techniques of re-sodding and rebuilding large fields; basic principles and methods of eradication and control of plant pests and diseases; grounds maintenance tools and equipment; budget preparation; public relations; occupational hazards and safety practices.

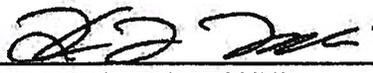
Ability to: plan, supervise, and coordinate various functions of beautification and parks maintenance programs; evaluate operations and activities; prepare and justify budget estimates; initiate and maintain effective relationship with the public; give clear and concise oral and written instructions; prepare reports and correspondence.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

This an amendment of to the specification for the class, PARK MAINTENANCE OPERATIONS CHIEF, which was titled BEAUTIFICATION AND PARKS MAINTENANCE CHIEF and approved on March 1, 1997, retiled to PARK MAINTENANCE CHIEF, renumbered on February 27, 2007 and is to be substituted for that specification.

APPROVED: DEC 09 2013
(Date)


THOMAS T. TAKATSUKI
Acting Director of Personnel Services

DEPARTMENT OF PERSONNEL SERVICES
COUNTY OF KAUAI

PARK MAINTENANCE ADMINISTRATOR

15A2159

Duties Summary:

Plans, organizes and directs activities involving the construction, maintenance, repair and improvement of parks, playgrounds, recreational facilities and civic complexes within the County of Kauai; plans, organizes and directs a program involving the beautification of parks, playgrounds, recreational and landscaped areas of the County; and performs other related duties as required.

Distinguishing Characteristics:

This class is distinguished by its responsibility for planning, directing and coordinating activities relating to the construction, maintenance, repair, improvement and beautification of public parks and recreational areas and facilities.

Examples of Duties:

Plans, directs and coordinates work involving the construction, maintenance, repair and improvement of parks, playgrounds and recreational areas; directs the development, operation, maintenance and improvement of sports and civic complexes, community park areas and other park and recreation equipment and structures; participates in determining long-range objectives and programs for the department and directs the execution of approved programs and projects; checks designs, plans and specifications of structures in relation to the maintenance requirements of such structures; inspects ongoing construction of buildings, sprinkler systems, fences and other structures for compliance to plans and specifications; plans, directs and coordinates the County beautification program to landscape and beautify all County properties; reviews and approves plans for landscaping, soil improvement and the general care and beautification of grounds and premises of existing parks and recreational areas; formulates procedures for the enforcement of park rules and regulations and for the protection of parks and

recreational areas; formulates policies relating to operational procedures, personnel, facilities and equipment; authorizes and approves requisitions and purchases of materials, equipment and supplies; plans and coordinates purchasing, repair and maintenance services for tools and equipment; interviews and selects program personnel; represents the Director at meetings, conferences and inspections pertaining to the maintenance of parks and recreation areas and facilities; prepares and administers the budget; prepares reports and correspondence; resolves complaints by the public; organizes and conducts orientation and training programs.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in business administration, public administration, horticulture or a related field and two (2) years of administrative experience in construction and/or maintenance activities.

Knowledge of: principles and practices of supervision and public park administration; local community parks and recreation standards, needs and problems; the layout and construction of parks, playgrounds and recreational areas; basic principles of landscaping; basic methods, equipment and materials used in construction trades; occupational hazards and safety practices; principles of budget preparation; public relations; report writing.

Ability to: formulate long-range objectives; plan, assign, schedule, review and coordinate the work of a large number of employees; prepare and justify budget estimates; interpret and explain laws, policies, procedures, rules and regulations; read and understand the basic features of engineering and architectural plans, designs and specifications; supervise the use of herbicides, insecticides and fertilizers; initiate and maintain an effective public relations program; speak effectively before community groups; give clear and concise oral and written instructions; prepare correspondence and reports; deal tactfully and effectively with the public.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

* * * * *

This is the first specification approved for the new class PARK MAINTENANCE ADMINISTRATOR.

APPROVED:

JUN 16 2010

Date


MALCOLM C. FERNANDEZ

Director of Personnel Services

DEPARTMENT OF PERSONNEL SERVICES
COUNTY OF KAUAI

FACILITIES MAINTENANCE COORDINATOR
SR-24, BU-13

2.304

Duties Summary:

Plans, directs, and coordinates the repair, renovation, and maintenance of County buildings, equipment, and facilities; coordinates the custodial services program; manages and oversees maintenance and custodial staff through subordinate supervisors; and performs other related duties as required.

Distinguishing Characteristics:

This class is distinguished by its responsibility for preparing plans, specifications, and proposals to construct, renovate, and repair County buildings, equipment, and facilities, as well as planning, coordinating and overseeing maintenance and custodial services. Programs often include the management of a wide variety of trades specialties involved in designated capital improvement projects.

Examples of Duties:

- Plans, directs, and coordinates the work of subordinates in a wide variety of trades for the construction, renovation, repair, and maintenance, including custodial services for public buildings, related facilities, and equipment;
- Reviews, develops, and establishes policies, plans, and procedures for the management and control of facilities maintenance;
- Coordinates work activities for maintenance and custodial services programs;
- Develops and executes a preventive maintenance and quality control program;
- Recommends changes in priorities and re-adjusts work priorities to include daily emergency requests;
- Prepares estimates of costs, time, and manpower, monitoring the accuracy of estimates;
- Prepares the annual budget with justifications for the section;
- Prepares specifications, proposals, and requisitions for equipment, tools, and building, plumbing, and electrical materials;
- Inspects work projects to monitor progress and to determine conformance to

plans, schedules, and anticipated costs;

- Analyzes and evaluates operation and maintenance functions and implements or recommends new or improved practices;
- Studies personnel requirements and recommends solutions to maximize operational efficiency;
- Receives and resolves complaints relating to the building and equipment maintenance program;
- Prepares budgets for contractual work;
- Develops, prepares, and negotiates architectural and engineering contracts for design services;
- May identify, develop, and prepare plans, specifications, and proposals for all service contracts necessary to maintain County facilities and equipment and for designated capital improvement projects;
- Manages contracts to assure compliance with plans, specifications, and County procedures;
- Insures proper application of collective bargaining agreements to section personnel;
- Organizes, directs, and monitors training and safety programs for maintenance personnel; and
- Performs other related duties as required.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in architecture, civil engineering, structural engineering or a related field and three (3) years of responsible supervisory experience in a variety of construction and/or maintenance and repair of commercial, industrial or public buildings or structures.

License Requirement: Possession of a valid motor vehicle operator's license (Hawai'i Type 3 or equivalent).

Knowledge of: principles and practices of supervision and administration; practices, methods, tools, materials and equipment used in the various trades; principles and practices of architecture or engineering; general knowledge of applicable building, electrical, fire, zoning, and related State and Federal codes and regulations; budget preparation;

departmental policies and procedures; occupational hazards and safety principles and practices.

Ability to: plan, organize, direct, and coordinate maintenance and custodial activities, including the performance of building and equipment maintenance, alteration, and repair; plan and assign maintenance operations; mobilize personnel and equipment; read and understand plans, specifications, and work orders, planning the method of accomplishing repairs or replacements; inspect and evaluate maintenance workmanship and production; estimate costs and quantities of labor, materials and equipment requirements for work program; develop and formulate policies and procedures; prepare operational reports, budget forecasts, and program expenditure plans, establish and maintain effective working relationships with others.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

This is an amendment to the specification for the class, FACILITIES MAINTENANCE COORDINATOR, which was approved on August 7, 1995, and is to be substituted for that specification.

APPROVED: SEP 16 2013
(Date)


THOMAS T. TAKATSUKI
Acting Director of Personnel Services

DEPARTMENT OF HUMAN RESOURCES
COUNTY OF KAUAI

FACILITIES MAINTENANCE ADMINISTRATOR
EM-03

15A2119

Duties Summary:

Plans, organizes and directs all activities involving the construction, repair and maintenance of buildings and facilities for the County of Kauai; oversees the custodial services program; and performs other related duties as required.

Distinguishing Characteristics:

This class is distinguished by its responsibility for the overall management of the Facilities Maintenance Division by planning and directing the activities related to the construction, maintenance and repair of the County buildings, equipment and facilities, as well as the custodial services program.

Examples of Duties: *(The following are examples of duties and are not necessarily descriptive of any one position in this class. The omission of specific duties statements does not preclude management from assigning such duties if such duties are a logical assignment for the position.)*

- Plans, organizes, directs, and administers the facilities maintenance program for the public buildings and facilities within the County;
- Plans and directs work, through subordinate supervisors, that involves the construction, renovation, repair, and maintenance, including custodial services for County buildings, equipment, and facilities;
- Formulates policies relating to operational procedures, personnel, facilities and equipment for the division;
- Participates in the review and approval of awards, inspections, and final payments of construction and service contracts;
- Prepares sketches, reviews plans and specifications and make estimates on new constructions, renovations, and repairs;
- Plans, directs and coordinates the preventive maintenance and quality control program;
- Inspects facilities for existing conditions and plans for the maintenance and/or improvement;
- Participates in determining the long-range objectives relating to County facilities;

- Writes contract specifications, recommends contractor's bid for awards, and coordinates bidding process;
- Establishes assignment priorities and completion dates for various alterations maintenance, or repair projects based on workload and staffing resources;
- Prepares and administers the annual budget of the division; justifies budget needs and maintains fiscal responsibility for budget throughout the year;
- Plans and coordinates purchasing, repair and maintenance services for tools and equipment;
- Authorizes and approves requisitions and purchases of materials, equipment and supplies;
- Recommends all personnel actions including hiring, promotion, reallocations, disciplinary actions, and terminations;
- Organizes, directs and monitors training and safety programs for the division;
- Attends meetings with community groups and organizations and informs the public of maintenance programs and activities serving as liaison between management and the community in matters relating to the maintenance and repair of county facilities;
- Interviews and recommends selection of personnel for the division;
- Prepares reports and correspondence;
- Investigates, responds, and resolves complaints by the public;
- Performs other related duties as required.

Minimum Qualification Requirements for the Class:

Training and Experience: A combination of education and experience substantially equivalent to graduation from an accredited college or university with a baccalaureate degree in business administration, public administration or a related field and two (2) years of administrative experience in building construction and maintenance activities.

Knowledge of: principles and practices of administration and management; principles and practices of building construction and maintenance; laws, codes, ordinances and regulations governing building construction and maintenance work; basic methods, equipment and materials used in the various trades; budget preparation; public relations; report writing.

Ability to: plan, assign and direct the work of others; develop operating standard and procedures; interpret and explain laws, policies, procedures, rules and regulations; prepare and justify budget estimates; read and understand the basic features of engineering and architectural plans, designs and specifications; prepare clear and concise reports and correspondence; deal effectively with other governmental agencies and the public.

Health and Physical Condition Requirements:

Persons seeking appointment to positions in this class must meet the health and physical condition standards deemed necessary and proper for performance of the duties.

**This is the first specification approved for the new class FACILITIES
MAINTENANCE ADMINISTRATOR effective July 1, 2017.**

APPROVED: August 31, 2017
(Date)



JANINE M.Z. RAPOZO
Director of Human Resources

Bernard P. Carvalho Jr.
Mayor



Wallace G. Rezendes Jr.
Managing Director

OFFICE OF THE MAYOR
County of Kaua'i, State of Hawaii
4444 Rice Street, Suite 235, Līhu'e, Hawai'i 96766
TEL (808) 241-4900 FAX (808) 241-6877

May 24, 2018

Mr. Tyler Kimura, Partner
Spire Hawaii, LLP
700 Bishop Street, Suite 2001
Honolulu HI 96813

Re: Hiring Practices Follow-up Audit

Thank you for allowing the Kaua'i County administration to respond to the draft audit report. The Department of Human Resources (DHR) worked with you in good faith to provide all of the necessary information that you requested. The DHR pointed out some glaring errors with you during the exit meeting on April 18, 2018 and therefore requested further discussions prior to the draft report being released. Unfortunately, this did not occur even though all three (3) DHR staff heard your commitment to this additional review.

The administration was led to believe that the goal of this audit was to improve our County's hiring processes by reviewing whether or not the DHR had implemented any of the recommendations from the initial audit that was completed in 2015. Unfortunately, rather than addressing all of the initial recommendations, new findings were part of the draft audit and some of the original findings which were implemented or questioned by the DHR were ignored.

During the exit conference call, both you and Matt Kagawa were unable to answer many of the DHR's questions or provide guidance to the DHR on best practices on some of your findings that were requested. Without these answers, the DHR did not feel that some of the findings were necessarily risks that should be recorded.

Our administration was looking forward to reviewing your guidance on established best practices, and it is truly unfortunate that we now are questioning the intent, fairness, and overall integrity of this follow-up audit.

This cover letter shall be incorporated as part of the Auditee's response (attached) to the final Hiring Practices Follow-up Audit.

Sincerely,

Bernard P. Carvalho Jr.
Mayor

cc: Wallace G. Rezendes Jr., Managing Director
Janine M.Z. Rapozo, Director of Human Resources
Mel Rapozo, Chair, County Council
Ross Kagawa, Vice-Chair, County Council
Arthur Brun, Councilmember
Mason K. Chock, Councilmember
Arryl Kaneshiro, Councilmember
Derek S.K. Kawakami, Councilmember
JoAnn A. Yukimura, Councilmember

Auditee's Response:

Before we begin responding to each finding, the Kaua'i County Administration would like to call attention to several serious concerns regarding this "follow-up" audit.

- First, the auditor's report begins with a Preface that states, "This follow-up performance audit of the County of Kaua'i's Hiring Practices was designed to examine the County's implementation of recommendations made in 2015." Therefore, we were anticipating that this "follow-up" audit would revisit the 2015 findings and determine whether the DHR made the necessary strides to its internal processes and procedures to ensure that the County's hiring practices were fair and consistent.

The initial 2015 audit focused on "prevalent and pervasive issues" being "a lack of documentation". During the exit meeting, conducted through a conference call on April 18, 2018, HR Manager III Jill Niitani asked the Auditors whether there were any findings/omissions from the documents reviewed during this follow up audit. Mr. Kagawa noted that all of the documents were present. As such, Ms. Niitani asked if this important fact would be recognized in the follow up audit draft since it was such a significant finding in the initial audit. Mr. Kagawa noted that all documents requested were available and agreed that this would be included in the final draft audit report. Unfortunately, there is no mention that during this follow up audit, instead of sixty-four (64) instances of missing documentation that were reported in the initial audit, all documentation was available for all personnel actions that were reviewed. The fact that this was not included as a key finding (a.k.a., success) is quite suspect as to the intent of this audit.

- Secondly, in the initial 2015 audit, the auditors recommended that the DHR monitor the appointing authority to ensure all procedures are sufficiently followed pertaining to hiring and other related personnel actions. While the auditors credited the DHR with implementing this finding, the initial finding that was discussed during the April 18, 2018 exit meeting conference call was the following: *DHR has assumed responsibility for certain hiring and recruiting functions formerly performed by the departments. The internal control problem remains however. Instead of a lack of monitoring of the departments, there is now a lack of monitoring of DHR's actions to ensure compliance (i.e. just as there was no monitoring of the departments, there is no monitoring of DHR).*

As such, the DHR was confused as the auditors were now contradicting their own recommendation. The auditors were asked if they were aware of a best practice that would allow for the DHR to be monitored. There was no response provided by the auditors. Clearly, the auditors were unable to provide recommendations to the department. Instead, Mr. Kagawa stated that the problem would be that the DHR would now be able to hire a person without the hiring department's ability to check if the correct salary and other personnel transactions were accurate. Realizing the inaccuracies of his statement, the DHR asked Mr. Kagawa and Mr. Kimura if the payroll action form (PAF) that is completed by the department and the payroll certification form that must be signed by the department head were not sufficient ways for checks and balances to occur with hiring actions. Mr. Kagawa agreed that it was sufficient, yet this finding was still included in the final draft report.

- Thirdly, the audit report scrutinizes the County's Vacancy Review Committee (VRC). The perception made regarding the VRC display the auditors' complete lack of understanding with regards to critical components of the DHR. During the exit meeting conference call with the DHR, the VRC was discussed with the auditors due to their assessment that, "While the creation of the Vacancy Review Committee created an additional control to review the hiring process, it also allowed a procurement officer to substantially control the decision making ability over HR matters." During the call, the intent of the VRC was discussed with the auditors.

When compared to the County of Hawaii Staffing Review Committee (SRC), the DHR explained to the auditors that the Big Island's committee was very different from the VRC. The County of Kauai's VRC reviewed VACANT positions to recommend to me whether the position should be filled or re-described to best meet the needs of the department or the County as a whole. The review is done for "vacant" positions-there is no hiring recommendations made by the VRC. On the other hand, the Big Island's SRC:

- determined the method of recruitment (i.e., internal recruitment, external recruitment, etc.);
- determined the selection process (SRC to conduct selection or the department can conduct); and
- confirmed the selection process (approved person selected and date of hire through SRC representative signature).

The VRC does not participate in any of the above, is a precursor to even posting a position and can only recommendations to me about options for a vacant position. The intent of the VRC is to review if there were possible cost savings measures to either eliminate a vacant position and possibly re-describe remaining positions to absorb the duties of the eliminated position, re-describe a vacant position to a position that is needed by the department and therefore eliminate the need to create a new position, or fill the position as described due to the needs of the department. Therefore, the auditors conclusion that the membership of the VRC puts the County at risk due to possible conflicts due to complaints that may be filed by employees, and comparing it to the Big Island's SRC shows the overall lack of understanding and/or disregard by the auditors in the intent of the VRC, which was fully vetted and supported by the County Council. While this was fully explained to the auditors during the exit meeting, the VRC is still erroneously discussed in the draft report.

- Fourthly, the footnote on page 15 of the audit report is rather disturbing and unclear as to what is trying to be insinuated by the auditors. It states, "...the DHR Director approved the reallocation one or two minutes after the Mayor's approval. The Mayor approved a separate EM reallocation requisition at 3:45 a.m." The auditors did not pose any questions regarding this concern during the exit interview with the DHR, so we were quite surprised that they included this as part of the report. The Neogov system automatically generates an email to the next approver in the chain to ensure that an approver is aware that the requisition is in his/her queue for completion. It is not unusual for the DHR Director to immediately approve a requisition after I complete my approval

since an email is sent as a reminder that the requisition is ready for her approval. It is also not unusual for me to approve requisitions or work on other items at 3:45 a.m. My day is not limited to a set schedule and I often work well into the morning hours to get work done. I am disturbed that my efforts and dedication appear to be in question.

- Lastly, the initial 2015 audit stated that the DHR was “allowed to designate certain positions as ‘unskilled labor’ which permits the appointing authority to bypass the interview process during recruitment.” The auditors noted that there were “insufficient approval and monitoring controls surrounding the assignment of this designation, which potentially allows the interview process to be circumvented for all county positions.” If you review the initial audit, the finding was related to the department’s unskilled labor registration lists and the determination as to which positions were deemed “unskilled”. Based on this recommendation, the department revised internal procedures to ensure that all new classes that are created are designated as “skilled” or “unskilled” to ensure proper maintenance of the labor registration list.

In this follow-up audit, the DHR was questioned about exempt hires and subsequently explained to the auditors the difference between civil service and exempt employees. The auditors then commenced on a new trail with regards to Excluded Managerial (EM) positions. This is quite confusing as reallocations are classification issues and not hiring issues. No different from the classification of included bargaining unit (BU) positions, EM positions have a similar rigorous process for setting job qualifications and pay (see attached). There are written policies regarding clear standards or benchmarks that would aid in identifying and deciding whether and when to change a position from a BU to an EM.

The auditors’ contention that the DHR does not maintain documentation over the reallocations it has performed is not accurate. The auditors agreed that the documentation was present but the substance of the document needed to include more information and filed together. The DHR explained to the auditors that while the information was not necessarily on the reallocation documents, staff often work intimately with departments through emails and verbal conversations that are not recorded on the reallocation document. The DHR agreed that all of this information should be kept with the position file. However, unlike what the auditors recommend, these “position” files should not be part of an employee’s personnel file-the payroll certification that reallocates the incumbent to the position would be in an employee’s personnel file-not the position information.

Finding #	Recommendation from 2015 Audit	Status (per "Follow-up" Audit)	Auditee's Response
#1 - 1	DHR should reassess current procedures and controls to ensure compliance with the HRS and County policy to establish fair and consistent hiring, promotions, transfers and reallocations.	PARTIALLY IMPLEMENTED	DISAGREE. The DHR has reassessed current procedures and controls to ensure fair and consistent hiring processes. This is recognized in the report as the auditors do credit the department with many changes that have improved consistency and compliance.
#1 - 2	Internal policies should be reviewed for best practices, clearly written, regularly communicated to DHR staff, and held to the same standard of authority as HRS.	NOT IMPLEMENTED	DISAGREE. We believe that this recommendation has been partially implemented. The DHR has reviewed internal policies and believes its processes and procedures, which are regularly discussed and communicated internally, are held to the same standard of authority as HRS. The DHR has been working on reviewing all of the department's current policies, but does understand that revisions and the creation of additional policies will be needed. As previously stated, however, there have been numerous changes that have been made and are communicated to DHR staff on a regular basis including weekly staff meetings and monthly divisional meetings. The DHR will continue to work on reviewing, developing and finalizing various recruitment policies.
#1 - 3	DHR should monitor the appointing authority to ensure all procedures are sufficiently followed.	IMPLEMENTED	AGREE.
#2 - 4	DHR should maintain an audit trail of sufficient documentation to support all personnel activity during an employee's career with the County.	PARTIALLY IMPLEMENTED	DISAGREE. As reported by Mr. Kagawa, unlike the 2015 audit, this follow-up audit failed to identify any missing documentation of the related hiring actions that the DHR was asked to provide. With regards to the documentation for certain reallocations, the Director spoke with the auditors and it was agreed that while the documentation was present, additional information that may have occurred through verbal or email communication with HR staff and the departments should be memorialized with the position reallocation file for backup purposes. That being said, it is unclear as to why reallocations are being scrutinized as it was not a finding in the initial audit nor is it a hiring practice. In addition, with regards to reallocations, the auditors fail to realize that the reallocation from an incumbent from an "SR" (salary rating) to an "EM" (excluded managerial) does not exempt the incumbent from civil service. The draft report speaks of "regular civil service" to EM which does not make sense as the incumbent is still a civil servant. The EM designation represents the pricing of the position based on assigned duties and not the method by which the incumbent is being hired.
#2 - 5	All documents should be aggregated and maintained in a single, secured file for each employee.	IMPLEMENTED	AGREE.
#2 - 6	The files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates.	IMPLEMENTED	AGREE.

<p>#2 - 7</p>	<p>DHRS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with document retention and maintenance requirements at the federal, state, and county levels.</p>	<p>PARTIALLY IMPLEMENTED</p>	<p>PARTIALLY AGREE. While the DHR agrees with the recommendation, the department cannot agree with the Auditor's finding that this was only partially implemented. The DHR did consult with the County Attorney's office to implement a comprehensive policy that ensures compliance with document retention and maintenance requirements at the federal, state, and county levels. While the County Attorney's office has yet to finalize a County policy on document retention, the DHR informed the auditors that in the interim, the department is utilizing the State's document retention policy. Additionally, it is unclear as to whether the auditors are aware of existing rules and regulations by which the DHR (e.g., HRS 46-43, Resolution 2008-39), as well as other departments and agencies within the County, must adhere to.</p>
<p>#3 - 8</p>	<p>DHR should ensure sufficient controls and procedures are in place for all types of personnel actions, in particular for those that allow civil service requirements to be bypassed as these subjects the County to the greatest amount of risk.</p>	<p>NOT IMPLEMENTED</p>	<p>DISAGREE. The auditors initially asked the DHR to complete a survey to determine if recommendations were implemented. With regards to this recommendation, the following response was provided to the auditors:</p> <p><i>Implemented. HRS Chapter 76 requires the Director to create a recruitment and examination system for civil service employees based on the merit system. Conversely, the statute does not require merit-based hiring or similar procedures for exempt employees. It would appear logical that that is the reason for the exemption from civil service.</i></p> <p><i>The Kauai County Charter provides for minimum qualification requirements for department heads which are vetted through the HR Department. Unlike the City, that's as far as the Kauai County Charter goes.</i></p> <p><i>In checking with other jurisdictions, exempt hires are not screened for minimum qualifications unless specified by Charter or other authority.</i></p> <p><i>That being said, Kauai County requires all exempt hires to submit a job application form documenting their education, skills and experience.</i></p> <p><i>In addition, exempt hires go through the same post-offer pre-employment screenings as do civil service employees. For example, regardless of exempt hire status, those involving safety-sensitive positions are required to go through drug testing and possibly background checks based on the position, as would civil service hires.</i></p> <p>With regards to the testing (page 14):</p> <ol style="list-style-type: none"> 1. The record of Classification Request and Action form would not be in an employee file since the reallocation took place while the position was vacant. As such, the successful applicant was hired AFTER the position was already reallocated and therefore, the individual was NOT an incumbent when the reallocation action was completed. 2. Reallocation positions downward for recruitment purposes occurs quite frequently and in this case, occurred due to the difficulty in filling the position. It is not unusual for an incumbent to gain skills and be assigned more complex work as experience is gained and would therefore warrant a reallocation based on career progression. The statement that "waiting for someone to be promoted could be seen as preferential treatment" is inaccurate as a reallocation is NOT a promotion that would be open to others. The incumbent was recognized for performing at a higher level and thus, his new position duties placed him into a new classification—he was NOT promoted.

In conclusion, it was the Administration's understanding that the purpose of this follow-up performance audit of the County of Kauai's Hiring Practices was designed to examine the County's implementation of recommendations made in 2015 regarding hiring practices. This is what is stated in the Preface of the draft audit and what the DHR fully expected. While we acknowledge that policies have not been updated and/or implemented, the department has made great strides in their short existence as a fully functioning Human Resources Department yet was minimally recognized for these efforts.

The auditors' lack of understanding of the civil service hiring process and the classification of positions, excluded or otherwise leads to inaccurate information and presents the DHR in a negative light.

We were hopeful that the DHR would be recognized for all of their efforts in trying to implement the recommendations from the 2015 audit. Instead, it appeared that the auditors were quick to look for additional findings such as the classification of excluded positions and the existence of the Vacancy Review Committee-two items that are not even related to hiring. We are grateful, however, that despite the lack of recognition for their efforts, this audit validated that the DHR's current hiring procedures and processes are sufficient given the auditors' confirmation that there were no findings/omissions from the documents requested and reviewed.

CLASSIFICATION & PRICING

A4.303 EXCLUDED MANAGERIAL COMPENSATION PLAN

A4.303-1 General

Section 76-13.5, Hawaii Revised Statutes, authorizes the Director of Personnel Services to maintain a separate compensation plan for managerial white collar positions. For purposes of this plan, no position shall be designated as "managerial" unless and until it is excluded from collective bargaining coverage under Chapter 89, Hawaii Revised Statutes.

A4.303-2 Criteria for Position Coverage Under Excluded Managerial Compensation Plan

The following criteria were adopted by the Conference of Personnel Directors:

White collar positions under Chapter 89, HRS, are categorized under the respective position classification plans of the State, Judiciary, Hawaii Health Systems Corporation and the counties. Positions excluded from Chapter 89 are designated by categories listed in Section 89-6(f), and the final determination on the applicability of Section 89-6(f) to specific positions and employees is made by the Hawaii Labor Relations Board (HLRB).

"Top-level managerial and administrative personnel" is an exclusion category listed in Section 89-6(f), and applicable criteria have been enunciated and amplified by HLRB. Whether an excluded white collar position is "managerial" nonetheless depends primarily on the facts of duties and responsibilities assigned.

With reference to Chapter 89, HLRB criteria, and common usage, the term "managerial" is used in the commonly accepted sense of policy formulation and implementation for an agency or department, program or division, or major branch or section, with clear evidence of considerable discretion in resource utilization.

Coverage as "excluded managerial" includes those who:

- 1) are excluded from collective bargaining;
- 2) are presently in classes assigned to salary range 24 or higher, and
- 3) meet one of the following criteria:
 - is a division head or an assistant division head;
 - is at or near the top of an ongoing, complex agency or major program and formulates or determines policy for that agency or program;
 - directs the work of a major program or agency or a major subdivision thereof with considerable discretion to determine means, methods and personnel by which the agency or program policy is to be carried out;
 - is a central agency position involved in the preparation for and conduct of negotiations or has a major role in the administration of agreements or in personnel administration or meets and confers with union representatives as required under HRS § 89-9(c), provided that, such role is not routine or clerical in nature and requires the exercise of independent judgement.

A4.303-3 Application of Criteria

Criteria applies to managerial employees in the civil service system excluded from collective bargaining in the State, Judiciary, HHSC, and the counties who would otherwise be in BU 4, 9, 10, 11, 12, 13.

No excluded position assigned to a salary range below SR 24 is determined to be managerial. Positions designated managerial are found at salary ranges 24 to SC 3.

Designation process is an on-going one to be initiated by the department or the DPS, requiring appropriate documentation, review, and determination.

A4.303-4 Alignment of Classes in the Excluded Managerial Compensation Plan

A4.303-4.1 Policy

It is the policy of the Department of Personnel Services to establish and maintain reasonable and appropriate salary range relationships among classes within the compensation plan for excluded managerial white collar positions. Methods and procedures are consistent with that goal, and include periodic review of the plan for recommended changes or adjustments in salary range.

The Director of Personnel Services is authorized to take all necessary steps to implement the foregoing policy subject to such approvals as required by procedures.

4A.303-4.2 Method

4A.303-4.2a Evaluation Factors

The assignment of classes to salary ranges is consistent with the nature and scope of responsibilities, and the complexity of functions of these classes. Similarities and differences are analyzed in ranking classes from low to high, and evaluations are based on a consideration of at least the following factors:

1) Character of Work - Nature, and impact or consequence, of the program or functions for which the class is responsible; role of the class (i.e. staff or line); echelon or reporting level of the class, and degree of authority and responsibility vested for program accomplishment.

2) Complexity of Work - Nature, size and complexity of the organization for which the class provides leadership, or to which staff services are provided; nature and scope of substantive relationships within and outside the organization served; knowledge and skill requirements.

A4.303-4.2b Bench mark Classes

Certain classes, referred to as bench mark classes, are selected to serve as key reference points in confirming the correctness of the evaluation, by means of the factors listed above, of other classes. Bench mark classes are selected on the basis of the following criteria:

- 1) Common to all or most jurisdictions.
- 2) Class concepts are typical of governmental entities and well-understood by job analysts, and evaluations are well-accepted and documented.
- 3) Represent a sufficient array of line and staff classes of work to provide an adequate frame of reference in confirming evaluations.

A4.303-4.3 Procedures

A4.303-4.3a General

The Director of Personnel Services is responsible for informing employees and operating agencies of the County of Kauai of the policies and procedures expressed herein, and actions affecting them thereby.

Standard forms as prescribed by the Director are utilized in all pricing review proceedings.

Pricing actions affecting classes in the EMCP may be approved by the Mayor as authorized by Section 89C, Hawaii Revised Statutes.

A4.303-4.3b Pricing of New Class

To establish and price a new class in the EMCP, the Department of Personnel Services circulates a notice of intention, including the basis of its evaluation, and a copy of the proposed class specification, to other affected jurisdictions for review and comment. Comments of other jurisdictions are considered in adopting a new class.

Any affected employee, the director of a department with affected positions, their designated representative, or an employee organization acting on behalf of its

membership who disagrees with the pricing, may request an administrative review of the action. The request shall be in writing, within 20 calendar days from the date of notice, addressed to the Director of Personnel Services, 4444 Rice Street, Suite 140, Lihue, Hawaii 96766.

The administrative review is conducted at such time and place as considered appropriate, and the requestor(s) may appear at such meeting to make further presentation. Findings and conclusions are reported to the Mayor, as chief executive, for approval.

Adjustments recommended by the Director of Personnel Services and approved by the Mayor are effective retroactive to the date of the new class action. The Director informs affected parties of the approved actions and pertinent rationale.

James Whitfield
Chair

Joanne Nakashima
Vice Chair



Members:
Preston Chong
Tyler Rodighiero

COUNTY OF KAUAI COST CONTROL COMMISSION

C/o Office of Boards & Commissions
4444 Rice Street, Suite 150
Lihue, HI 96766

RECEIVED

September 9, 2019

'19 SEP 10 A8 52

Arryl Kaneshiro, Honorable Council Chair and
Members of the County Council
C/o Office of the County Clerk
Council Services Division
4396 Rice Street, Suite 209
Lihue, HI 96766

OFFICE OF
THE COUNTY CLERK
COUNTY OF KAUAI

Re: Request for information on audits performed

Dear Chair Kaneshiro,

At its July meeting the Cost Control Commission discussed items to pursue for the year. It is our understanding that since 2009, 19 audits have been performed. Please provide the following information on those audits that have been conducted in the past five (5) years:

1. The date and scope of those audits.
2. Audits performed and any management letters associated with those audits
3. Any recommendations of those audits.
4. Progress of the County on the implementation of those recommendations associated with cost control.

A response by no later than October 7, 2019 is requested. Should you have any questions, please feel free to contact Boards and Commissions Administrator Ellen Ching at 241-4922 or eching@kauai.gov.

Sincerely,

James Whitfield
Chair - Kauai County Cost Control Commission

An Equal Opportunity Employer

