

COUNTY OF KAUA'I, HAWAI'I

SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2008

December 8, 2008

To the Chair and Members of
the County Council of Kaua'i, Hawai'i
Lihu'e, Kaua'i, Hawai'i

We have completed our audit of the basic financial statements of the County of Kaua'i, Hawai'i (the County), as of and for the year ended June 30, 2008. Our report containing our opinion on those basic financial statements is included in the County's Comprehensive Annual Financial Report. We transmit herewith our reports on internal control and compliance with applicable laws and regulations in accordance with the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Objectives and Scope of Examination

The primary objective of our audit was to form an opinion as to whether the above mentioned financial statements present fairly the financial position of the County as of June 30, 2008 and the results of its operations for the year then ended.

Our audit was made in accordance with the specifications as outlined in the Request for Proposals for Professional Financial Auditing Services for Fiscal Years 2008-2010.

The scope of the audit was as follows:

1. Conduct a financial audit of the County to provide a basis to report on the fair presentation of the County's basic financial statements.
2. Provide an "in-relation-to" report on the combining and individual non-major fund financial statements and supporting schedules based on the auditing procedures applied during the audit of the basic financial statements.
3. Provide an "in-relation-to" report on the schedule of expenditures of federal awards based on the auditing procedures applied during the audit of the basic financial statements. The schedule of expenditures of federal awards and related report, as well as the reports on the internal controls and compliance were not included in the Comprehensive Annual Financial Report, but were issued separately.



Our audit was performed in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U.S. General Accounting Office's *Government Auditing Standards*, the provisions of the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

We have also reviewed and updated the findings and other weaknesses identified in the County's financial statement audit for the fiscal year ended June 30, 2007.

Organization of Report

This Single Audit Report includes the following:

- Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
- Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133
- Schedule of expenditures of federal awards
- Schedule of findings and questioned costs
- Summary schedule of prior audit findings

The basic financial statements and related notes, along with other financial information of the County, as of and for the year ended June 30, 2008, and our opinion as to the fairness of the presentation of those statements are included in a separate report dated December 8, 2008. We have also included our comments on matters relating to the County's internal control and operations in a separate report also dated December 8, 2008.

We would like to take this opportunity to thank the staff of the County for their courteous cooperation and assistance during our audit.

R C Holsinger Associates, P. C.

Honolulu, Hawai'i

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Chair and Members of
the County Council of Kaua'i, Hawai'i
Lihu'e, Kaua'i, Hawai'i

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Kaua'i, Hawai'i (the County) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 08-01.

We noted certain matters that we reported to management of the County in a separate letter dated December 8, 2008.

This report is intended solely for the information and use of management, the County Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

R C Holsinger Associates, P.C.

Honolulu, Hawai'i
December 8, 2008

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

To the Chair and Members of
the County Council of Kaua'i, Hawai'i
Lihu'e, Kaua'i, Hawai'i

Compliance

We have audited the compliance of the County of Kaua'i, Hawai'i (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in items 08-02 through 08-04 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding reporting that are applicable to the Federal Transit Administration Program, eligibility that are applicable to its Section 8 Housing Choice Voucher Program, and suspension and debarment that are applicable to its Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.



Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-02 through 08-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-02 through 08-04 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 8, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the County Council of Kaua'i, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

R C Holsinger Associates, P.C.

Honolulu, Hawai'i
December 8, 2008

COUNTY OF KAUAI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Project Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through State Department of Land and Natural Resources						
Cooperative Fire Assistance:						
Volunteer Fire Assistance		VFA006	\$ 40,000	\$ 3,610	\$ 40,000	\$ -
Volunteer Fire Assistance (F07VFA)		06-DG-11052012-173	40,000	10,417	40,000	-
Total Cooperative Fire Assistance	10.664		80,000	14,027	80,000	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			80,000	14,027	80,000	-
U.S. DEPARTMENT OF COMMERCE						
Passed Through Office of State Planning						
Coastal Zone Management Program Administration Grants						
Coastal Zone Management:						
Fiscal year 2004		HCZM04	215,075	20	209,075	6,000
Fiscal year 2006		HCZM06	290,344	12,487	290,344	-
Fiscal year 2007		Z07001	308,951	43,486	308,951	-
Fiscal year 2008		Z08001	285,155	285,148	285,148	7
Total Coastal Zone Management	11.419		1,099,525	341,141	1,093,518	6,007
Fishbowl Training - EDA Special Project Funding	11.300	D08011	480,000	902	902	479,098
TOTAL U.S. DEPARTMENT OF COMMERCE			1,579,525	342,043	1,094,420	485,105
U.S. DEPARTMENT OF ENERGY						
Passed Through State Department of Business, Economic Development and Tourism						
Energy Extension Service:						
Energy Ext Service 2003		EES003	69,793	(559)	69,793	-
Energy Ext Service 2005		EES005	69,825	154	69,805	20
Energy Ext Service 2006		EES006	69,825	7,219	69,269	556
EEXT Plan/Adm. FY 2007		D07059	57,269	2,647	57,264	5
EES Administration 2008		D08059	65,769	63,517	63,517	2,252
EES Renew/Energy Eff.		D08057	5,000	5,000	5,000	-
EES Recycle Re-use		D08055	1,500	1,500	1,500	-
Niihau Photovoltaic		PHOTOV	25,000	2,336	22,624	2,376
Niihau Photovoltaic System		PHOTO6	150,000	89,010	150,000	-
Total Energy Extension Service	81.041		513,981	170,824	508,772	5,209
Rebuild America Training, FY 2001	81.119	REBU01	29,906	1,439	27,818	2,088
TOTAL U.S. DEPARTMENT OF ENERGY			543,887	172,263	536,590	7,297
U.S. ENVIRONMENTAL PROTECTION AGENCY						
Direct Programs						
Surveys, Studies, Investigations and Special Purpose Grants:						
Bottle bill program (solid waste mgt. assist. grants)	66.808	BOTTLE	3,965	4	3,965	-
Brownfield Assessment (CERCLA)	66.818	BF-96913101-0	199,999	3,190	199,999	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			203,964	3,194	203,964	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed Through State Executive Office on Aging						
Special Programs for the Aging-Title III, Part C:						
HP3D 2008		E08007	7,601	241	241	7,360
C2 KE0 2008		E08006	76,723	62,758	62,758	13,965
SLP Area 2007		E07012	53,245	53,245	53,245	-
C1 KE0 2007--Area		E07011	113,197	36,827	39,911	73,286
HP3D07		E07003	7,799	6,577	6,577	1,222
CONG 2007		E07002	45,928	12,054	3,713	42,215
Home Delivered Nutrition Services, Fiscal year 2006		HOME06	146,817	12,671	146,817	-
Home Delivered Nutrition Services, Fiscal year 2007		E07008	75,082	58,433	74,774	308
C1 KE0 2008		E08004	116,937	33,133	33,133	83,804
Total Title III, Part C	93.045		643,329	275,939	421,169	222,160

COUNTY OF KAUAI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Project Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)						
Special Programs for the Aging-Title III, Part B						
Grants for Supportive Services:						
I&R Area 2009 Salary		E09001	\$ 107,325	\$ 22,832	\$ 22,832	\$ 84,493
C1 Area 2008		E08005	45,675	45,675	45,675	-
SCSEP7		E07005	22,448	126	22,448	-
Area 2007		E07001	159,603	17,302	159,603	-
I&R 2008		E08001	70,000	26,853	70,000	-
Area 2008		E08003	<u>104,984</u>	<u>51,755</u>	<u>51,755</u>	<u>53,229</u>
Total Title III, Part B	93.044		510,035	164,543	372,313	137,722
Special Programs for the Aging-Title III, Part E						
FCG Support Group		E07015	13,050	9,800	9,800	3,250
FCG Group train CARE		E07014	7,210	3,785	3,785	3,425
FGC Day Care		E06001	20,000	103	20,000	-
Caregiver FY 2006		E06003	28,535	757	5,798	22,737
FGC Legal		E06002	15,015	15,015	15,015	-
FCG Day Care		E06004	20,000	5,441	5,441	14,559
Care 2007		E07004	15,384	14,986	14,986	398
FGC Counseling		E07013	9,400	4,136	4,136	5,264
FCG Info. Serv.		E07016	10,050	5,000	5,000	5,050
OUTREACH 2008		E08002	37,144	37,143	37,143	1
3E 2009 Care Elderly		E09008	40,276	9,684	9,684	30,592
CARE AREA & RESPITE		E08008	<u>53,701</u>	<u>7,436</u>	<u>7,436</u>	<u>46,265</u>
Total Title III, Part E	93.130		269,765	113,286	138,224	131,541
Special Programs for the Aging-Title III, Part D						
Enhance Fitness 2007		E07006	53,190	26,145	40,902	12,288
Enhance Fitness 2008		E08011	54,173	21,317	21,317	32,856
Health Promotion, Fiscal year 2006		HP3D06	<u>9,579</u>	<u>7,178</u>	<u>9,278</u>	<u>301</u>
Total Title III, Part D	93.043		116,942	54,640	71,497	45,445
Administration on Aging - Special Programs for the Aging:						
Title IV and Title II Discretionary Projects:						
Enhance Fitness 2008	93.048	E09011	74,000	400	400	73,600
Administration and Aging - Nutrition Service Incentive Program:						
Food Distribution:						
NSIP08		E08009	45,984	19,460	19,460	26,524
NSIP 2007		E07009	39,196	13,569	39,196	-
USDA, Fiscal Year 2006 (Formerly CFDA 10.550)		USDA06	<u>39,539</u>	<u>16,064</u>	<u>39,539</u>	<u>-</u>
Total Food Distribution	93.053		124,719	49,093	98,195	26,524
Passed through Office of State Attorney General						
Child Support Enforcement: Title IV, Part D						
Child Support Enf FY 07		S07001	276,805	51,902	236,357	40,448
Child Support Enf FY 08		S08001	114,058	(547)	210	113,848
Child Support Enf FY 86-88		A70088	<u>556,967</u>	<u>10,275</u>	<u>451,033</u>	<u>105,934</u>
Total Title IV, Part D	93.563		947,830	61,630	687,600	260,230
Federal Office of Rural Health Policy -						
Pass through Department of Health						
Emergency Medical Services System:						
Rural Access to Emergency Devices Grant	93.259	DEFIBR(410)	<u>62,000</u>	<u>16,001</u>	<u>62,000</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,748,620	735,532	1,851,398	897,222
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed Through State Department of Business, Economic Development and Tourism						
Home Investment Partnerships Program, Title II						
Fiscal year 1999		HIPA99	963,000	(141)	794,848	168,152
Fiscal year 2002		HIPA02	972,400	141	638,460	333,940
Fiscal year 2003		HIPA03	1,547,034	(226,741)	1,169,864	377,170
Fiscal year 2004		HIPA04	1,069,380	150,902	571,151	498,229
Fiscal year 2005		HIPA05	1,006,556	(135,272)	503,960	502,596
Fiscal year 2006		HIPA06	996,172	159,551	159,551	836,621
Program Income		HIPAXX	<u>3,341,868</u>	<u>641,680</u>	<u>2,863,544</u>	<u>478,324</u>
Total Home Investment Partnerships Program, Title II (Note 1-2)	14.239		9,896,410	590,120	6,701,378	3,195,032

Note (1): Adjustments made involving program income for HIPA and CDBG programs resulting in credit (reduction in expenses).

Note (2): Adjustment made to move expense to correct funding year.

COUNTY OF KAUAI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Project Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)						
Direct Programs						
Lower Income Housing Assistance Program						
Section 8-Housing Choice Vouchers	14.871	PHA-HI-005	\$ 6,434,652	\$ 6,434,652	\$ 6,434,652	\$ -
Community Development Block Grants						
State's Program and Non-entitlement Grants in Hawai'i						
Fiscal year 2002		CDBG02	924,000	394	924,000	-
Fiscal year 2003		CDBG03	900,000	5,961	895,088	4,912
Fiscal year 2005		CDBG05	892,821	62,177	713,673	179,148
Fiscal year 2006		CDBG06	806,848	501,740	800,888	5,960
Fiscal year 2007		CDBG07	812,305	433,062	433,062	379,243
Disaster Program Income		CDBGDX	1,723,480	923,865	923,865	799,615
Program Income		CDBGXX	<u>1,351,577</u>	<u>257,700</u>	<u>1,095,373</u>	<u>256,204</u>
Total State's Program and Non-entitlement Grants in Hawai'i (Formerly CFDA 14.219 Small Cities Program)	14.228		7,411,031	2,184,899	5,785,949	1,625,082
Special Projects Grant, EDI-SP	14.246	TECH04	<u>497,050</u>	<u>119</u>	<u>456,576</u>	<u>40,474</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			24,239,143	9,209,790	19,378,555	4,860,588
U.S. DEPARTMENT OF JUSTICE						
Passed through Office of State Attorney General:						
Crime Victims Assistance Grants						
Victims of Crime, Fiscal year 2006		A07021	186,841	114,983	128,109	58,732
VOCA VA Plan		O4VA3	<u>209,191</u>	<u>806</u>	<u>209,191</u>	<u>-</u>
Total Crime Victims Assistance Grants	16.575		396,032	115,789	337,300	58,732
Byrne Formula Grant Program						
Statewide Narcotics Task Force, Fiscal year 2007		P08005	16,000	1,326	1,326	14,674
Statewide Narcotics Task Force, Fiscal year 2006		SNTF06	24,000	14,508	24,000	-
Statewide Marijuana Task Force, Fiscal year 2007		P08004	26,396	12,977	12,977	13,419
Statewide Marijuana Task Force, Fiscal year 2006		MARI06	33,000	3,388	33,000	-
US DOJ/DEA DCE/SP Program 2007		P07001	192,000	118,458	192,000	-
US DOJ/DEA DCE/SP Program 2008		P08001	151,000	63,361	63,361	87,639
High Intensity Drug Traffic, Fiscal year 2005		HIDTA5	70,410	16,094	39,352	31,058
High Intensity Drug Traffic, Fiscal year 2007		P07003	47,210	42,712	42,712	4,498
High Intensity Drug Traffic, Fiscal year 2008		P08003	<u>45,794</u>	<u>14,130</u>	<u>14,130</u>	<u>31,664</u>
Total Byrne Formula Grants	16.579		605,810	286,954	422,858	182,952
Edward Byrne Memorial Grants-State and Local Law Enforcement						
Stop Violence Against Women, fiscal year 2007		A07005	46,823	19,361	46,186	637
Strangulation Training		P08031	20,797	14,289	14,289	6,508
Byrne Jag PGM, FY05 DVPU05		DVPU05	45,600	5,391	42,859	2,741
Byrne Jag PGM, FY05 PCPU05		PCPU05	104,000	16,102	104,000	-
Bryne Jag PGM, FY08 PCPU		A08004	31,788	28,935	28,935	2,853
Bryne Jag PGM, FY08 DVPU		A08006	47,085	28,050	28,050	19,035
Bryne Jag PGM, PCPU - Special 01/08 - 12/08		A08009	118,000	50,881	50,881	67,119
Bryne Jag PGM, DVPU - Special 02/08 - 12/08		A08008	52,892	22,343	22,343	30,549
Bryne Jag PGM, Supplemental DVPU		A08005	<u>18,052</u>	<u>16,615</u>	<u>16,615</u>	<u>1,437</u>
Total Stop Violence Against Women Grants	16.588		485,037	201,967	354,158	130,819
JAG2007 Subpoena Services		A08001	<u>44,074</u>	<u>795</u>	<u>795</u>	<u>43,279</u>
Total JAG Special Projects	16.738		44,074	795	795	43,279
Pass through State Office of Health and Human Services						
Teen Court Hale Opio						
	16.540	A07004	120,000	66,107	97,422	22,578
Passed through State Office of Health and Human Services						
Youth Accountability Incentive Block Grant:						
Juv Accountability Block Grant		A08007	10,678	10,678	10,678	-
Youth Program, Title V, Fiscal Year 2007		A07001	<u>11,706</u>	<u>(343)</u>	<u>9,888</u>	<u>1,818</u>
Total Juv Accountability OJJDP Grants	16.523		22,384	10,335	20,566	1,818
Community Oriented Policing Services-						
Education and prevention:						
COPS Police Activity League	16.710	COPPAL	32,982	3,146	24,966	8,016
Title V Delinquency Prevention Program OJJDP:						
Passed through Office of Youth Services - State of Hawai'i:						
Big Brothers and Sisters Title V Program	16.548	M07002	60,000	45,000	45,000	15,000

COUNTY OF KAUAI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Project Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF JUSTICE (Continued)						
Drug enforcement:						
Passed through Hawai'i Community Foundation						
HCF KPD Crystal Meth 2008		P08002	\$ 250,000	\$ 116,210	\$ 116,210	\$ 133,790
COPS Crystal Meth		HCFOCA	50,000	10	50,000	-
Parks and Rec Year Two HCF meth grant		R08001	60,000	932	932	59,068
HCF, Drug Response Plan Year One		HCFMAY	81,000	(46,442)	80,998	2
HCF, Drug Response Plan Year Two		H07004	90,000	75,935	75,935	14,065
HCF, Drug prosecution		A07002	<u>78,500</u>	<u>23,250</u>	<u>78,500</u>	<u>-</u>
Total COPS, Drug enforcement	16.711		609,500	169,895	402,575	206,925
Green box RMS Interface/Records Management	16.000	P07028	<u>71,481</u>	<u>28,592</u>	<u>28,592</u>	<u>42,889</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			2,447,300	928,580	1,734,232	713,068
U.S. DEPARTMENT OF LABOR						
Passed through State Department of Labor and Industrial Relations						
Reed Act Agreement Reed-06K		D07070	<u>1,258,994</u>	<u>335,843</u>	<u>340,560</u>	<u>918,434</u>
Total Reed Act	17.803		1,258,994	335,843	340,560	918,434
Workforce Investment Act:						
Adult Program-Local area funds, Title I, FY 2006		WIA AP6	197,245	23,500	185,338	11,907
Adult Program-Local area funds, Title I, FY 2007		D07050	172,472	649	165,537	6,935
Adult Program-Local area funds, Title I, FY 2008		D08050	<u>139,702</u>	<u>126,390</u>	<u>126,419</u>	<u>13,283</u>
Total Adult Program	17.258		509,419	150,539	477,294	32,125
Dislocated Workers, FY2006		WIADW6	78,720	7,100	78,225	495
Dislocated Workers, FY2007		D07051	64,001	4,231	55,204	8,797
Dislocated Workers, FY2008		D08051	<u>128,138</u>	<u>95,353</u>	<u>95,363</u>	<u>32,775</u>
Total Dislocated Workers	17.260		270,859	106,684	228,792	42,067
Youth Program 2008 (In)		D08060	39,922	35,187	35,187	4,735
Youth Program 2008 (Out)		D08061	<u>82,994</u>	<u>74,195</u>	<u>74,195</u>	<u>8,799</u>
Total Youth Activities	17.259		122,916	109,382	109,382	13,534
Administrative, FY 2008		D08049	43,416	27,448	27,448	15,968
Administrative, FY 2007		D07049	<u>43,134</u>	<u>5,964</u>	<u>27,575</u>	<u>15,559</u>
Total Administrative	**		<u>86,550</u>	<u>33,412</u>	<u>55,023</u>	<u>31,527</u>
Total Workforce Investment Act			<u>989,744</u>	<u>400,017</u>	<u>870,491</u>	<u>119,253</u>
TOTAL U.S. DEPARTMENT OF LABOR			2,248,738	735,860	1,211,051	1,037,687
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through State Department of Transportation:						
Public Transportation for Nonurbanized-						
Federal Transit Administration, Section 5311						
FTA BUS HI18x023		FTA023	301,881	92,232	269,573	32,308
FTA BUS HI18x024		FTA024	320,654	3,998	320,653	1
FTA HI18x025 CPS 2008		T08001	<u>488,131</u>	<u>484,064</u>	<u>484,064</u>	<u>4,067</u>
Total Public Transportation, Section 5311	20.509		1,110,666	580,294	1,074,290	36,376
Federal Transit Capital Investment Grant						
Federal Transit Administration, Section 5309:						
HI-03-0039		FTA039	1,457,667	568,239	583,455	874,212
HI-04-0003		T07001	<u>1,485,000</u>	<u>67,638</u>	<u>67,638</u>	<u>1,417,362</u>
FTA Section 5309 Facilities	20.500		2,942,667	635,877	651,093	2,291,574
Capital Assistance Program for Elderly Persons and Persons with Disabilities						
Federal Transit Administration, Section 5310:						
FTA 30 & 31 Buses	20.513	FT3031	<u>119,905</u>	<u>119,905</u>	<u>119,905</u>	<u>-</u>
Highways Planning and Construction (Federal-Aid Highway Program)						
Bridge Replacement-Off system:						
Omao/Puuopae/Kilauea Bridge (BR0700(32))		OMAO (410)	13,078,824	3,072,923	3,747,768	9,331,056
Bridge Insp-Variou		NB1533 (410)	88,000	76,008	79,830	8,170
Statewide Transportation Improvement Program:						
Ahukini to Lydgate bikepath		AHULYD (410)	625,000	34,331	420,845	204,155
Kapaa-Kaua'i Bikepath		STP048 (410)	13,210,000	1,505,902	12,465,786	744,214
Lydgate-Kapaa Bikepath		LYDKAP (410)	2,339,074	389,129	1,450,636	888,438
ADA Curb Ramps (CMAQ-0700(52))		CMAQ52 (410)	2,809,476	1,897	688,571	2,120,905
Ala Kinoiki Road		ALAKIN (410)	1,845,187	1,423	1,865,112	(19,925)
FHWA Emergency Evacuation Road		GPSG15 (410)	327,403	200,000	200,000	127,403
Kuna Bay-Anahola Bikepath (CMAW-0700(56))		KUN4BA (410)	390,000	8,083	69,346	320,654
Nawiliwili/Ahukini Bikepath		NAWAHU (410)	<u>500,001</u>	<u>125,418</u>	<u>219,031</u>	<u>280,970</u>
Total Highways Planning and Construction	20.205		35,212,965	5,415,114	21,206,925	14,006,040

COUNTY OF KAUAI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Project Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF TRANSPORTATION (Continued)						
State and Community Highway Safety						
DOT Safe Communities - Prosecutors Office		A07006	\$ 5,812	\$ 5,812	\$ 5,812	\$ -
Seatbelt Enforcement, fiscal year 2007		P07011	50,000	629	28,116	21,884
Speed Education Mayor's Office		SPDED6	3,996	2,000	3,995	1
Roadblock funds 2008/2009		P08013	11,000	4,800	4,800	6,200
KPD Roadblock PGM 2007		P07010	48,000	9,513	47,871	129
KPD Roadblock PGM 2008		P08010	46,000	29,529	29,529	16,471
KPD Seatbelt program 2008		P08011	31,170	14,471	14,471	16,699
Speed Enforcement 2007		P07012	31,010	9,102	18,361	12,649
Speed Enforcement 2008		P08012	40,075	12,773	12,773	27,302
KPD Traffic Services		P07013	8,180	2,114	2,114	6,066
KPD School Zone Speed Enforcement		P07014	10,500	9,627	9,627	873
Traffic Data 2008		P08009	51,200	4,683	4,683	46,517
Traffic Data 2007 TR07-03 (06-K-01)		P07009	48,820	3,920	5,288	43,532
DOT SA08-0804 - K-01 - Prosecutors		A08010	4,100	1,486	1,486	2,614
Total State and Community Highway Safety	20.600		<u>389,863</u>	<u>110,459</u>	<u>188,926</u>	<u>200,937</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			39,776,066	6,861,649	23,241,139	16,534,927
CORPORATION FOR NATIONAL SERVICE						
Direct Program						
Retired Senior Volunteer Program (RSVP):						
Title II, Part A, Older Americans:						
Volunteer Program						
RSVP-Calendar year, 2008		E08012	76,271	60,163	60,163	16,108
RSVP-Calendar year, 2007		E07007	<u>77,627</u>	<u>45,818</u>	<u>77,627</u>	<u>-</u>
TOTAL CORPORATION FOR NATIONAL SERVICE	94.002		153,898	105,981	137,790	16,108
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)						
Assistance to Fire Fighters Grant Program						
AFG-Wellness 2005	97.044	F05001	183,241	142,522	158,550	24,691
Passed Through State Department of Defense:						
Civil Defense-State and Local Emergency -						
Hazard Mitigation grant program:						
Citizens corp PGM	97.053	HSGCCP	25,000	6,542	24,961	39
HSCCP 2005	97.053	HSCCP5	26,312	2,807	2,807	23,505
Kauai's County Mitigation Strategy	97.039	MITIGA	45,500	988	45,500	-
FEMA 1743-Dr-Hi Flood Dec 2007	97.036	C08001	1,253	37	37	1,216
FEMA Disaster 1640 Dr Hi	97.036	X07006	<u>1,419,163</u>	<u>(19,725)</u>	<u>939,937</u>	<u>479,226</u>
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			1,700,469	133,171	1,171,792	528,677
U.S. DEPARTMENT OF TREASURY						
Passed Through State Department of Education						
School Resource Officer Program-Project Outreach						
Gang Resistance Education and Training FY 2007	21.053	P07020	42,499	12,009	20,679	21,820
Criminal Assets Forfeiture	21.000	CAFJUS	<u>37,747</u>	<u>5,081</u>	<u>37,742</u>	<u>5</u>
TOTAL U.S. DEPARTMENT OF TREASURY			80,246	17,090	58,421	21,825
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed Through State Department of Defense						
Homeland Security, Part I	97.067	CBRNE3	599,400	54,810	581,780	17,620
Homeland Security, Part II	97.067	SHSGP3	2,250,000	42,893	1,936,766	313,234
Homeland Security 2005	97.067	SHSGP5	1,381,742	408,544	980,965	400,777
State Homeland Security	97.004	HSGSTA	1,960,060	957,442	1,627,482	332,578
Homeland Security Grant	97.004	C06100	832,000	12,852	22,990	809,010
Law Enforcement Terrorism Prevention Program	97.074	LETTP5	301,471	892	294,827	6,644
Homeland Emergency Management	97.004	HEMPG5	34,933	34,933	34,933	-
Critical Infrastructure GIS	97.017	X08001	206,250	41,756	41,756	164,494
Wind Design Code Project	97.017	WINDDC	<u>135,000</u>	<u>39,950</u>	<u>45,000</u>	<u>90,000</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>7,700,856</u>	<u>1,594,072</u>	<u>5,566,499</u>	<u>2,134,357</u>
TOTAL ALL FEDERAL PROGRAMS			<u>\$ 83,502,712</u>	<u>\$ 20,853,251</u>	<u>\$ 56,265,851</u>	<u>\$ 27,236,861</u>

COUNTY OF KAUAI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

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

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Labor		
Workforce Investment Act Youth Activities	17.259	\$ 112,525
Workforce Investment Act Adult Program	17.258	116,784
Workforce Investment Act Dislocated Workers	17.260	<u>110,432</u>
Total U.S. Department of Labor		339,741
U.S. Department of Housing and Urban Development		
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawai'i	14.228	240,630
U.S. Department of Health and Human Services		
Special Programs for the Aging, Title III, Part B, Grants for Supporting Services	93.044	105,000
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	185,312
Special Programs for the Aging, Title III, Part D	93.043	13,756
Special Programs for the Aging, Title III, Part E	93.130	<u>77,420</u>
Total U.S. Department of Health and Human Services		<u>381,488</u>
Grand Total		<u><u>\$ 961,859</u></u>

COUNTY OF KAUAI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

3. Loans Outstanding

The County had the following loan balances outstanding at June 30, 2008. These loan programs are also included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards.

<u>Cluster/Program Title Outstanding</u>	<u>CFDA Number</u>	<u>Amount</u>
Home Investment Partnership Program	14.239	\$ 85,020
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawai'i	14.228	833,550
Community Development Block Grants/Disaster	14.228	<u>923,864</u>
Grand Total		<u>\$ 1,842,434</u>

COUNTY OF KAUA'I
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: ___yes ✓___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes ✓___none reported
- Noncompliance material to financial statements noted ✓___yes ___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ✓___yes ___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes ✓___none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

✓___yes ___no

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
	<i>Department of Housing and Urban Development</i>
14.871	Section 8 Housing Choice Vouchers
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawai'i
14.239	Home Investment Partnership Program
	<i>Department of Homeland Security</i>
97.067	Homeland Security Grant Program
97.074	Law Enforcement Terrorism Prevention
97.004	State Homeland Security Grant Program
	<i>Department of Transportation</i>
20.500	Federal Transit Capital Investment Grant
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs? \$625,598

Auditee qualified as low-risk auditee?

___yes ✓___no

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section II - Financial Statement Findings

Finding No.: 08-01

Grants Management

Similar to the prior year finding 07-09, during our audit, similar issues were identified related to the County's grants programs. Of the eighteen projects selected in the current year, we identified several exceptions in the following areas:

- 1) Failure to post cash receipts to the correct grant (one program)
- 2) Failure to file for reimbursement in a timely manner (two programs)
- 3) Failure to monitor the grant expenditures not to exceed total appropriation (one program)

The primary reason for the errors above was the failure to communicate effectively with grant administrators overall grants management in a timely manner. It was also noted that not all grant administrators reconcile their data to the general ledger. Failure to properly track grant activities can impair planning and budgeting decisions due to the inaccuracy of information on available funds. In addition, the County is non-compliant with reporting requirements for two federal grants.

Recommendation:

We recommend the County evaluate the results of corrective action taken in the prior year to strengthen its control over grant management and identify items for follow-up.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section III - Federal Award Findings and Questioned Costs

Finding No.: 08-02

CFDA No.: 20.500 and 20.509

Programs: Federal Transit Capital Investment Grant and
Formula Grants For Other Than Urbanized Areas

Federal Agency: U.S. Department of Transportation

Award Periods: July 1, 2005 - June 30, 2008

Questioned Costs: None

Quarterly Progress and Expenditure Reports

In accordance with the grant contracts maintained by the County of Kaua'i Transportation Agency under the above referenced federal funding, the County is required to submit a Quarterly Progress and Expenditure Report within 30 days after the end of the fiscal quarter. We examined the quarterly reports relating to five projects in which the County incurred costs under the above referenced programs. We noted that sixteen reports relating to four projects were not submitted on a timely basis.

Recommendation

We recommend management design and implement a system that identifies the required filing dates, the individual responsible for report preparation, and the actual date of submission.

Finding No.: 08-03

CFDA No.: 14.228

Program: Community Development Block Grant/State's Program and
Non-entitlement Grants in Hawai'i

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Questioned Costs: None

Suspension and Debarment

During our audit, we noted the County does not verify whether the subrecipient entities or its principals are suspended or debarred.

HUD Rule 2 CFR 2424 and OMB Circular A-133 prohibits recipient of federal funds to make subawards to subrecipient entities that are suspended or debarred or whose principals are suspended or debarred. The recipient must verify that the subrecipient entity is not suspended or debarred or otherwise excluded. This verification can be accomplished by examining the Excluded Parties List System (EPLS) maintained by U.S. General Service Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Recommendation

We recommend management design and implement procedures to ensure the subrecipient entities and its principals are in compliance with the Suspension and Debarment requirement.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section III - Federal Award Findings and Questioned Costs (Continued)

Finding No.: 08-04

CFDA No.: 14.871

Program: Section 8 - Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Question Costs: None

Eligibility

Similar to prior year finding 07-13, the County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. During our testing, we noted that certain controls of the County that monitor eligibility were ineffective which led to the following:

- 1) For two participants, it was noted that head of household's signature was missing from authorized Third Party Verification.
- 2) For six participants, it was noted that required documents were included in file but not checked off the Document Checklist.
- 3) For four participants, it was noted that the date of the original Housing Assistance Payment (HAP) contract which contract amendment referred to did not agree to the date of the original contract.
- 4) For seven participants, it was noted that picture ID of household members could not be located.
- 5) For one participant, it was noted that the Rent Reasonableness Checklist could not be located.
- 6) For five participants, it was noted that date of birth per copy of birth certificate did not agree to that on Form 50058.
- 7) For one participant, it was noted that the participant failed to provide a copy of the Hawai'i General Excise Tax Return Statement to support self-employment income as required.
- 8) For one participant, it was noted the HAP payment was calculated incorrectly.
- 9) For one participant, it was noted that the family member's full-time student status was not substantiated properly.
- 10) For two participants, it was noted that copies of social security card and birth certificate could not be located.
- 11) For five participants, it was noted that Enterprise Income Verification could not be located.
- 12) For one participant, it was noted that no written approval of live-in aide being added to the household could be located.
- 13) For one participant, it was noted that anticipated income was calculated incorrectly.
- 14) For one participant, it was noted that annual housing inspection checklist could not be located.

Recommendation

We recommend that the management evaluate the results of quality control program as described in its prior year corrective plan to strengthen its controls over eligibility, identify areas requiring additional attention and ultimately reduce the number of errors.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings

Finding No.: 07-01

Section 8 Fund Balance Reconciliation

During the audit of the County's compliance with cash management requirements relative to its Housing Choice Voucher Program, it was noted the accounting records failed to accurately account for excess funds restricted for housing assistance payments (see Finding 07-12). A communication (PIH 2006-3) was received from HUD detailing the appropriate treatment of the excess funds restricted for housing assistance payments. Management reviewed the communication and based on their review, recorded an adjustment to restate the beginning fund balance in the Section 8 Fund for approximately \$367,000 and an adjustment in the amount of \$97,000 to write-off amounts due to HUD for activity prior to January 1, 2005 in the current year. It was determined during the audit that management's adjustments were incorrect. Accordingly, an adjustment in the amount of \$367,000 was proposed to reverse management's restatement which management recorded. In addition, an adjustment was proposed to record the write-off of \$97,000 as an adjustment to beginning fund balance, however, management elected not to record the proposed adjustment.

Management Response

The communication from HUD (PIH 2006-03) introduced a complete change in the way that Public Housing Agency (PHA)'s report year end financial information to HUD. PHA's must now report financial data electronically and in accordance with Generally Accepted Accounting Principles. This communication provided for the creation of a PHA's undesignated fund balance account for any budget authority provided the PHA in CY 2005 that exceeds actual program expenses for the same period. The requirements of this communication were unique and a one time change to the financial statements.

The \$97,000 write-off was recorded during the year as a revenue adjustment and not as an adjustment to beginning fund balance. The other adjustment for restatement of the fund balance was recorded as recommended by the auditors.

Management will review communications from HUD in a timely manner and determine if adjustments to the accounting records are needed and consult with HUD if necessary.

Status

We inquired with the Executive on Kaua'i County Housing Agency (KCHA) regarding the status of the corrective action plan and were informed that the plan had been placed in operation and corresponding adjustments had been recorded in the prior year. The finding is no longer applicable.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Finding No.: 07-02

Preparation of the Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires the total of all federal awards expended to be reported on the Schedule of Expenditures of Federal Awards (SEFA). During the audit, it was noted that \$837,674 of federal program expenditures that were recorded in the Housing and Community Development Revolving Fund (HCDRF) but were omitted from the SEFA. The expenditures were made from revolved funds which management understood to be funds that were not subject to further federal reporting requirements. It was determined that revolved funds are subject to continued federal requirements and expenditures of revolved funds should be reported on the SEFA. In addition, approximately \$411,000 of costs was identified which were incurred during fiscal year 2007 but paid and recognized as expenditures in fiscal year 2008. The amounts should have been accrued during fiscal year 2007. Accordingly an adjustment was proposed to record these costs in 2007. Upon identification of the items above, the SEFA was properly adjusted.

Management Response

KCHA's program managers and fiscal staff reported the noted \$837,674 as expenditures utilizing CDBG program income in HUD's IDIS reporting system. The \$837,674 was subsequently recorded in the Schedule of Expenditures of Federal Awards for fiscal year 2007. Future recording of program income and expenditures will be included in the County's financial report and SEFA for loans with continued federal requirements.

The Finance department identified the \$410,813 as expenditures incurred for fiscal year 2007. The entry to record the expenditure accrual was made and consequently recorded as fiscal year 2007 business costs as recommended by the auditors. The Finance department also noted that the amount was paid in October 2008, 4 months after the year-end date. The \$410,813 was also reported in the SEFA schedule which agrees with the CAFR.

Management will forward final Single Audit Report along with the Corrective Action Plan and CAFR to HUD and appropriate federal agencies.

Status

We inquired with the Accounting Systems Administrator regarding the status of corrective action plan and were informed that the federal expenditures made from HCDRF fund are being tracked appropriately and are reported on the SEFA properly. We noted that this is consistent with our review of records during fieldwork. The finding has been resolved.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Finding No.: 07-03

Accounting for Federally Funded Loan Programs

The omission of expenditures from the SEFA, identified at Finding 07-02, prompted a change in the accounting for the County's federally funded loan programs. Previously all loan activity was reported in the HCDRF. As a result of Finding 07-02, management elected to transfer all federal grant loan activity subject to continuing federal requirements from the HCDRF to the Federal Grants Fund. The transfer required management to post various entries between the HCDRF and Federal Grants Fund. These entries included a restatement of beginning fund balance in the HCDRF. During the review of management's analysis and the related journal entries recorded, it was noted that the initial analysis performed by management was incorrect and resulted in an overstatement to beginning fund balance in the HCDRF of approximately \$4 million. It was further noted that management's analysis and the related entries did not reflect the required transfer of accrued interest which amounted to approximately \$407,000. As a result, adjustments were proposed to correct these errors.

Management Response

The change in the accounting of program income from HCDRF/211 to Fed Grant Fund/250 was implemented by management to more easily identify SEFA expenditures utilizing federal grant funds and program income with federal report requirements. Due to the recommendation of the auditors, management recognized the need to reclassify loans that have continuing federal requirements to the federal grants fund. The reclassification of the loans resulted in the restatement of \$4,042,340 fund balance in HCDRF fund. Also a \$407,000 accrual adjustment for GAP loans interest earned was recorded in fiscal year 2007. Management will prepare a complete and thorough analysis prior to recording of journal entries.

Status

We inquired with the Accounting Systems Administrator regarding the status of the corrective action plan and were informed that the plan had been placed in operation and corresponding adjustments had been recorded in the prior year. We reviewed the analysis and supported schedules during fieldwork. The finding is no longer applicable.

Finding No.: 07-04

Accounting for Business-Type CIP

During the audit, it was noted that portions of the construction costs for capital assets relating to business-type activities recorded in the proprietary funds are financed through governmental activities in various capital projects funds. In prior years, the related portions of capital costs were improperly capitalized under governmental activities.

The *Codification of Governmental Accounting and Financial Reporting Standards* issued by GASB Section 1400.114 Reporting Capital Assets specifically prohibits the capitalization of costs related to activities in the proprietary funds under governmental activities. As a result, the correction of this error resulted in a prior period restatement of \$2,490,565 and required fiscal year 2007 adjustments of \$1,025,742 to be recorded to transfer this activity.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Management Response

The Finance department has made the accounting adjustment to comply with GASB Section 1400.114 as of June 30, 2007. To comply with GASB 1400.114, the financial report will reflect the capitalization of cost from sources other than Sewer Revolving Funds. All accounting adjustments, including the prior period restatement, have been made to reflect the recommendations.

For budgetary purposes the expenditure is also recorded in the fund financial to track the available appropriated funds used to build the proprietary capital asset using governmental fund resources.

Status

Based on the results of the current year audit, finding has been resolved.

Finding No.: 07-05

Capitalization of Costs

For one project, it was noted that upon completion, \$757,239 of previously capitalized costs were identified by management as repair and maintenance costs and were charged off as fiscal year 2007 expenditures. Repair and maintenance costs should be identified and expensed as incurred. As a result, an adjustment was proposed in the amount of \$757,239 to restate the beginning net assets of the Sewer Enterprise Fund.

Management Response

Classification of ongoing projects as Capital or Maintenance during the inception of the project is the current adopted policy. However, the analysis for some projects requires an ongoing evaluation of the scope of work involved for contractual changes. (i.e., a typical Capital project may involve some contractual change order work that should be classified as Maintenance work and should be classified accordingly.) The repair and maintenance cost of \$757,239 was re-classed as operating and accordingly removed from the construction-in-progress schedule. Future classification of capital cost will be identified with a work order and job order code, as a new process to track construction-in-progress. It will be the responsibility of the departments to identify capital cost and properly code it in the financial system.

Status

Based on the results of the current year audit, finding has been resolved.

Finding No.: 07-06

Completeness of Project Records

During the audit it was noted that project records improperly excluded \$616,200 of prior year expenses that should have been capitalized. Accordingly, an adjustment of \$616,200 was proposed to restate prior period balances. In addition, during the search for unrecorded liabilities, \$513,516 of construction costs were identified that were incurred during fiscal year 2007 but paid and recognized as expenditures in fiscal year 2008. The amounts should have been accrued during fiscal year 2007. Accordingly, an adjustment was proposed to record these costs in 2007.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Management Response

\$410,813 in construction costs was accrued in fiscal year 2007 as recommended. Because of the late notice of the billings, the other \$102,703 was not accrued. Billing from contractors sometimes arrives for payment 4 months after fiscal year end and cannot be accrued because of the timelines set for finishing the CAFR. The Finance Director will be taking a proactive approach by requesting in writing that our contractors timely bill the County for work done in June and prior to avoid future accrual adjustments.

The \$616,200 statement was done to account for prior year expenses.

Status

Based on construction costs reviewed during our audit, we noted the Finance Department properly accrued costs at June 30, 2008. Also, the requests for reimbursement prepared by the County and submitted to the appropriate funding agency included all accrued costs known at the time of the submission deadline. The finding has been resolved.

Finding No.: 07-07

Reconciliation of Project Records

Construction projects are generally financed by several funding sources. To facilitate the tracking and reporting of construction projects, the County implemented a project-tracking module to its accounting system. During the audit, eleven construction projects were test and five were identified as reporting expenditure amounts that did not agree to the general ledger records. We also noted that for projects that are sourced from funds that do not have established project tracking, no reconciliation is performed to agree construction expenditures incurred to the general ledger.

Management Response

Refer to management response to finding 07-05 for the new processes to record capital cost. The capital cost will be reconciled and recorded in the general ledger with the work order and job order number coding. To account for capital cost already incurred in the construction-in-progress schedule, the Finance department has retroactively labeled the ongoing projects with the cost to date amounts and attaching the new job coding to identify each construction in progress projects.

Status

During our audit, we noted the County had implemented the system described above in their Management Response. We noted no exceptions during our testing of existing construction projects. The finding has been resolved.

Finding No.: 07-08

Preparation of Government-Wide Financial Statements

As part of the preparation of the government-wide financial statements, reconciliations must be performed to convert the fund financial statements from a modified accrual basis of accounting to a full accrual basis of accounting. During the audit of the reconciliations, discrepancies in certain reconciling items were noted. Failure to properly reconcile amounts could lead to a misstatement.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Management Response

As part of the preparation of the government-wide financial statements, the Finance Department has designed a spreadsheet to link the fund financial statements to the worksheet of the government-wide financial statements. Any changes to the fund financial statement will be recognized and appropriately adjusted in the preparation of the government-wide financial statements. Properly linking the government-wide financial worksheet will also help in the required schedule to reconcile fund financials to government-wide financials.

Status

The Finance Department's linked spreadsheet for June 2008 appropriately linked the fund financial statements to the government-wide financial statements and provided the necessary detail of the adjustments. The finding has been resolved.

Finding No.: 07-09

Grant Management

Similar to prior year Finding 06-04, during the audit, similar issues were identified related to the County's grant programs. Of the 18 projects selected in the current year, we identified five exceptions in the following areas:

- 1) Failure to properly close the grant (one exception)
- 2) Failure to post expenditures to the correct grant (two exceptions)
- 3) Failure to file for reimbursement in a timely manner (two exceptions)

The two instances where management failed to file for reimbursement in a timely manner relate to the Department of Transportation Formula Grants for Other than Urbanized Areas grant program, CFDA 20.509. Received through the State of Hawai'i, the grant agreements between the County and State require the submission of quarterly reports which also serve as the reimbursement request. During 2007 the County did not file any of the quarterly reports; however the County incurred expenditures eligible for reimbursement. As such, the County is non-compliant with reporting requirements for the two grants.

Management Response

The following actions have been taken per Grant Program Manager:

- 1) Filled Grant Program Manager and Accounting Analyst Positions – vacant for two or more years.
- 2) Grant Program Manager and Accounting System Analyst met with each department's grants administrator (coordinator) and provided on site training on how to process required reports in order to reconcile department's grants records to the general ledger. Also discussed procedures for closing grants and posting expenditures properly to grant accounts. Up to March 2008, a total of 97 grant project accounts have been closed.
- 3) Identification of grants and accounting personnel in each department as designated by the Department Head as the lead for the Monthly Detailed Budget Report.
- 4) Produced a list of grants currently open by department and provided the list the departments in order to certify that the department is in compliance of their grant conditions, which included required reports (fiscal and project).

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

- 5) Developed spreadsheet of all Federal Grants to increase internal controls of the grant funds. Focus of spreadsheet will be to identify variances with expenses vs. revenue.
- 6) Development of further internal controls for the grant program will include policies and procedures to cover all the areas of grant making for the County - expected completion date of December 2008 is being set for the Grant Management Policies and Procedures.
- 7) Request for reimbursements for current expenses will be monitored using federal grant spreadsheet and Monthly Detailed Budget Reports to identify projects with excessive expense activity and limited revenue activity.
- 8) First reconciliation was completed then required reports were submitted for the reimbursement request form the State Department of Transportation Formula Grant for Other than Urbanized Areas.

Status

As noted at Finding 08-01, similar errors were identified during the current year audit; this finding is still applicable.

Finding No.: 07-10

CFDA No.: 97.067, 97.074, 97.053, 97.004

Program: Homeland Security Grant Program

Federal Agency: Department of Homeland Security

Award Period: July 1, 2006 - June 30, 2007

Questioned Costs: None

Reporting

The Memorandums of Agreement in place between the County and State requires the submission of quarterly financial reports by the fifth day of the month following the ending of each quarter. Based on the audit of program records, it was noted that the County failed to submit reports for all four quarters. Based on discussions with program management, reporting requirements were inadvertently overlooked as reporting requirements were not communicated to the new grant staff person.

Management response

Subsequent reports have been submitted in accordance with the Memorandum of Agreement and the recommendations of the auditor.

Status

Based on the results of the current year audit, finding has been resolved.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Finding No.: 07-11

CFDA No.: 14.871

Program: Section 8 - Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 - June 30, 2007

Questioned Costs: None

HUD Income Targeting

Similar to prior year Finding 06-06, the County is required to meet certain HUD Income Targeting Requirements with regard to new admissions to its Housing Choice Voucher Program. HUD Income Targeting Requirements requires at least 75% of new admissions to be in the extremely low income range and 25% very low income range. Based on the results of 2007 program admissions, only 64% of new admissions fell into the extremely low income range.

Based on discussions with a representative of the Honolulu HUD Office, the Kaua'i County Housing Authority should utilize the data and controls to monitor compliance with income targeting requirements. While a one-time violation would not lead to any immediate sanctions, continued violations could jeopardize program funding displaying a divergence from program objectives.

Management Response

HUD regulations require that 75% of all new admissions to the Section 8 program be families whose incomes are at or below the Extremely Low Income (ELI) limit as defined by HUD (less than 30% of the area's median income).

The KCHA has tried to mitigate this problem in fiscal year 2008 by making every other pull from the waitlist only families claiming to be ELI. To date, 70% of families admitted to the program for FY 2007-2008 were admitted at the ELI level. Additionally, every waitlist pull from now until the end of current fiscal year will be from ELI list only. If KCHA find on June 30, 2008 that they have not achieved the goal of 75%, they will apply to HUD a waiver from this requirement.

KCHA continues to have problems achieving this goal partly because of the difficulty in obtaining accurate information concerning a family's income from the time the family enters the waitlist to the time of actual income eligibility determination (1-2 years). Another area of concern is the fact that at the current time the entire waitlist indicates that only 68% of the families would qualify at the ELI level.

Status

During our audit, we noted that only 62% of new admission fell into the extremely low income range. KCHA filed a waiver from eligibility and income targeting requirements with HUD on June 19, 2008 and the waiver is pending. The finding is no longer applicable.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Finding No.: 07-12

CFDA No.: 14.871

Program: Section 8 - Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Questioned Costs: None

Cash Management

As noted under Finding 07-01, during the audit, it was noted that the County failed to maintain an accurate accounting of excess funding received that was restricted for housing assistance payments. Based on discussions with program management, the County failed to implement in a timely manner a 2005 communication from HUD regarding the allocation of excess funding received in prior years.

This issue was identified by the County and under analysis during the time of the audit fieldwork. The analysis was completed prior to the end of the audit fieldwork; however it was subject to an audit adjustment.

Management Response

See Finding 07-01.

Status

We inquired with Executive on Housing regarding the status of the corrective action plan and were informed that the plan had been placed in operation and corresponding adjustments had been recorded in prior year. The finding is no longer applicable.

Finding No.: 07-13

CFDA No.: 14.871

Program: Section 8 - Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2006 -June 30, 2007

Questioned Costs: \$5,137

Eligibility

Similar to prior year finding 06-07, the County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. During the audit, it was noted that certain controls of the County that monitor eligibility were ineffective which led to the following:

- 1) For fourteen participants, required documents were included in file but not checked off the Document Checklist.
- 2) For two participants, monthly medical allowance per HUD 50058 differed from the third party verification.
- 3) For one participant, HUD 50058 did not include anticipated income for savings assets.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

- 4) For one participant, authorized Third Party Verification could not be located.
- 5) For two participants, Rent Reasonableness Checklist could not be located.
- 6) For one participant, participant reports of monthly self-employment income were not notarized as required.
- 7) For one participant, EIV verification for social security differed from HUD 50058.
- 8) For two participants, average bank balance from the third party bank verification was not used.
- 9) For two participants, any document to support a family member's full-time student status could not be located.
- 10) For two participants, copies of social security cards could not be located.
- 11) For two participants, assets on HUD 50058 did not agree to the third party bank verification.
- 12) For four participants, incorrect utility allowance was entered into Form 50058.
- 13) For four participants, incorrect payment standard was entered into Form 50058.
- 14) For two participants, date of birth per copy of birth certificate did not agree to Form 50058.
- 15) For one participant, Rent Reasonableness Checklist did not consider range and refrigerator as required per the lease agreement.
- 16) For one participant, participant failed to provide a copy of the Hawai'i General Excise Tax Return Statement to support self-employment income as required.
- 17) For one participant, Child Support/Alimony Certification form was not notarized as required.
- 18) For one participant, participant failed to provide a copy of the 2005 Federal Income Tax Return to support self-employment income as required.

Management Response

The KCHA is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis and make eligibility determinations.

The housing agency has implemented its new quality control (QC) plan effective July 1, 2007. The QC plan does ongoing audit review of approximately 50% of all Annual Reexaminations. Annual Reexaminations are a review of all tenant documents while Interim Annual Reexamination only deal with any specific change in circumstance, such as income, change in family size, etc. during the Annual Reexamination period. Fifty percent (50%) of all New Admissions are also audited for accuracy. Software used for the internal quality control audits consists of comprehensive software manufactured by Nan McKay, leading experts in HUD regulations and requirements. Management is also tracking errors by case-worker, type and frequency and meets with case-workers to discuss and improve on areas of possible weakness.

Beyond the audits, by the end of the fiscal year, all Caseworkers, Management and some support staff will have attended and completed the Nan McKay Housing Choice Voucher Specialist one-week intensive training course. Ongoing training will be implemented as needed.

Status

As noted at Finding 08-04, similar instances of non-compliance were identified during the current year audit. Accordingly, the finding is still applicable.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Finding No.: 07-14

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Questioned Costs: \$963,500

Allowable Costs/Activities Allowed

During review of the records for one project, it was noted funds were disbursed on an expired promissory note that was not properly executed under the County Charter. It was further noted that the mortgage agreement that serves as the security to the promissory note was also not properly executed.

Under the County Charter, all written contracts to which the County is a party shall be approved by the County Attorney as to form and legality. Also prior to execution, contracts involving financial obligations of the County shall also be approved by the Director of Finance as to the availability of funds in the amounts and for the purposes set forth therein. Neither the promissory note nor the mortgage was signed by the County Attorney or Director of Finance.

Funding of the promissory note was made through three disbursements, all of which were subsequent to the expiration date of the promissory note, thus it is noted that County's controls over the disbursement process failed to identify the discrepancy and stop the disbursement.

Based on discussions with program management, it was noted that the execution of the documents is in line with industry practices which have been followed by the County for several years. It was further noted that note and mortgage are identified in a separate subrecipient agreement that is properly executed. It was also noted that the promissory note was subsequently amended and the amendment was properly executed under the terms of the County Charter, thereby ratifying the original promissory note.

Based on the discussion with the County Attorney, it was recognized that the failure to properly execute the note pursuant to the County Charter and the disbursement of funds on the expired note (prior to the amendment) decreases the County's chances of a successful defense on any recourse to the funds disbursed.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Management Response

Due to lengthy delays experienced by Self-Help Housing Corporation of Hawai'i (SHHCH) in financing, design, and construction of the Puhi Self-Help Subdivision, the expiration date on the promissory notes was overlooked. Funds were disbursed subsequent to the expiration date, but the default provision in the promissory note preserved County's rights for repayment of funds, had it been necessary to exercise such rights, The SHHCH promissory note was adequately secured by a recorded mortgage lien. Additionally, a written agreement between SHHCH and County signed prior to the promissory note and real property mortgage contained enforcement provisions in the event of SHHCH default, including recapture of HOME fund.

KCHA will utilize a "red flag" feature in its Cursor Control loan software currently used by fiscal staff to issue preprogrammed alerts for significant dates in rehabilitation, homebuyer, and community development loans processed by this Agency. KCHA will revisit the question of proper signatures relating to loan documents (e.g. promissory notes and mortgages) and requirements under Section 19.18 of the County Charter for written contracts.

Status

Based on the results of the current year audit, the finding regarding County's controls over the disbursement process has been resolved.

Finding No.: 07-15

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Questioned Costs: \$150,400

Period of Availability

During the review of current year program expenditures, it was noted that expenditures were charged to a grant beyond the period of availability stated in the grant agreement between the State and County.

Based on discussions with program management in administration of this program, the County usually accumulates several years of grant awards to fund a large project. It was also noted that higher than usual program income has also slowed the County's ability to expend grant funding. Program budgeting in future years include more aggressive program income projections to ensure expenditure of grant funding in full prior to the expiration of the funds.

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Although the expenditure was approved and reimbursed by the State, there is a potential risk that the County may have to absorb such costs in the event the expenditure is disallowed by the State.

Management Response

The Home stature requires that at least 15 percent of each HOME allocation be set aside for specific activities to be undertaken by a special type of nonprofit called a Community Housing Development Organization. The County's set aside is approximately \$150,000 annually and requires accumulation of several years of grant award to fund a project. The Hawai'i Housing Finance and Development Corporation (HHFDC) subgrants HOME allocations to the County, pursuant to a State Recipient Agreement.

Per KEO's Emergency Shelter and Transitional Housing Project, individual requests (called "program descriptions") were submitted to HHFDC to commit FY 2002, 2003, 2004, 2005 and 2006 HOME funds. Program descriptions sent to HHFDC referenced commitment of prior years' fund accumulation. Fiscal year 2006 HOME funds were committed by State Recipient Agreement on June 18, 2006. KCHA's initial HOME disbursement was April 30, 2007. HHFDC approved the HOME accumulation for KEO's Emergency Shelter and Transitional Housing Project. HHFDC also received quarterly reports summarizing the status of project implementation and at no time did HHFDC notify the County that the questioned cost was at risk to expire or lapse for lack of action.

In carrying out future multi-year HOME funded activities, KCHA will monitor and review State Recipient Agreement expenditure dates more regularly. If necessary, KCHA will send written notice to HHFDC seeking time extension to the expenditure date specified in the State Recipient Agreement.

Status

Based on the results of the current year audit, the finding has been resolved.

Finding No.: 07-16

CFDA No.: 14.239

Program: Home Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2007 - June 30, 2008

Questioned Costs: None

COUNTY OF KAUA'I
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Section IV - Summary Schedule of Prior Audit Findings (Continued)

Program Income

HUD Common Rule 24 CFR 85 and OMB Circular A-110 require recipients of federal funds to use program income to the extent that it is available to cover expenditures prior to requesting federal cash draws. During the audit, it was noted that the County failed to utilize program income on hand prior to requesting additional federal cash draws.

Based on discussions with program management, the requirement to utilize available program income was not clearly communicated to the program accountant.

Management Response

The County's program income is reported periodically to HHFDC so that program income is utilized to cover expenditures prior to requesting additional federal cash draws from the U.S. Treasury. HHFDC accounts for the County's program income to fund vouchers submitted by Housing Agency's fiscal staff. HHFDC had not established administrative guidelines as to frequency of program income reporting.

In discussion with HHFDC staff, an administrative guideline (best practice) has been established for County to submit quarterly program income reports to HHFDC. The Housing Agency will submit quarterly program income reports.

Status

Based on the results of the current year audit, quarterly program income reports had been submitted to HHFDC for current fiscal year. The finding has been resolved.