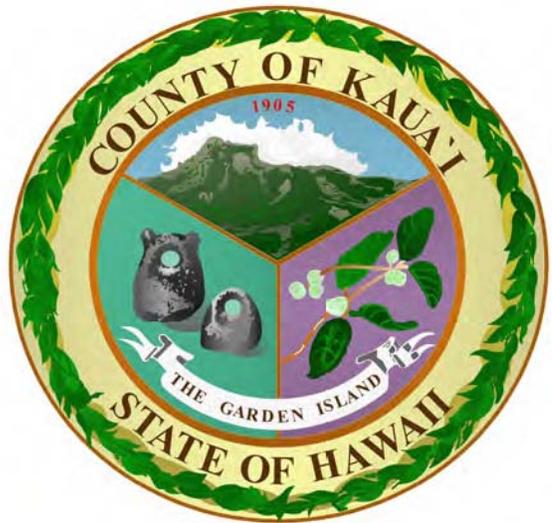


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2018

COUNTY OF KAUA'I

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

In planning and performing our audit of the financial statements of the County of Kaua'i, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our findings and recommendations regarding these matters. We previously communicated to you about the County's internal control in our report dated December 18, 2018. This letter does not affect our report dated December 18, 2018, on the financial statements of the County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, County council, and others within the County, and is not intended to be, and should not be, used by anyone other than these specified parties.

N&K CPAs, Inc.

Honolulu, Hawai'i
December 18, 2018

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-001 Improve Internal Controls Over pCard Purchases

Condition: The County issued purchase cards (pCard) to several departments and agencies for handling of small purchases (less than \$1,500). The procedures for using the pCard did not change the existing procurement procedures. During our audit, we noted the following:

- We noted 1 instance (out of 40) where an approval was obtained after the purchase was made.
- We noted that the Division of Purchasing conducted random testing of 60 pCard transactions throughout the year. The testing resulted in the following:
 - 3 instances where an approval was obtained after the purchase was made.
 - 1 instance where an approval was not obtained for a purchase.
 - 1 instance where a purchase was made by an employee that did not have authorization for the use of a pCard.

The violations were reported to the respective departments and agencies of the pCard users.

Criteria: Under the County of Kaua'i pCard Policy and Procedures:

- All purchases require prior approval by the Department Head or designee before making a purchase.
- The Department Head is responsible for monitoring and approving cardholder purchases to ensure that the pCard is being used properly in accordance with the pCard Policy and Procedures.
- A random review of pCard transactions from all departments and agencies will be conducted on a regular basis. The results will be reviewed by the pCard Administrator and Assistant Chief Procurement Officer in order to address remediation of any improprieties to include additional training, procurement investigations, and appropriate corrective action.
- The Director of Finance may subject the cardholder to disciplinary action, including pCard revocation.

Cause: The County currently requires the respective departments and agencies to self-report any procurement violations to the Division of Purchasing. The Assistant Chief Procurement Officer investigates violations and issues findings to the department and agencies' pCard administrator and the Director of Finance for any disciplinary actions.

The responsibility to follow pCard policies and procedures lies with the departments and agencies, who may not have procedures in place to prevent pCard violations from occurring. In addition, only the Director of Finance has the authority to revoke pCards that were used in purchases that resulted in violations of the County of Kauai's 'pCard Policy and Procedures'.

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

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-001 Improve Internal Controls Over pCard Purchases (Continued)

Recommendation

The County should continue to strengthen internal controls over the use of the pCard. The monitoring of pCard transactions by the Division of Purchasing should include the implementation of formal violation reports and consequences for departments and agencies not following the established procedures, including the revocation of pCards.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 14.

County of Kauaʻi, Hawaiʻi
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-002 Remove Terminated Employees from Authorized Check Signers

Condition: The County's bank accounts have designated check signers based on the position held by an individual. During our audit, we noted that an individual who had terminated employment during March 2018 was still listed as an authorized check signer in the County's bank accounts as of June 30, 2018.

Criteria: Authorized check signers should be reviewed and updated each time a change in personnel occurs. The County's banks should be promptly and formally notified of the change to ensure proper authorization of all disbursements.

Cause: The County did not properly notify the banks of a change in authorized signers due to change in personnel during the year.

Effect: Untimely removal of terminated employees from the County's authorized check signers could result in unauthorized disbursements.

Recommendation

The County should implement procedures to verify that authorized signers for its bank accounts have been properly updated when changes in personnel occur.

The County currently utilizes a 'Departmental Employee Separation Checklist' (Checklist) in an employee's personnel file that is held by the Department of Human Resources (HR). The Checklist notates termination procedures for an individual. HR should be informed that a notation be included if an employee is an authorized signer. Upon termination, the County should promptly and formally inform the bank of the removal of the individual as an authorized signer.

The County should also maintain a current listing of authorized check signers to ensure proper authorization of all disbursements and update it as necessary. The bank should be promptly and formally notified of any change in signers.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 14.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-003 Perform Quarterly Cash Counts

Condition: The County is required to verify the amount of money held on a quarterly basis as required by Article X, Section 10. 05 of the 'The Charter of the County of Kaua'i (County Charter). During our audit, we noted that the quarterly cash counts during February and May 2018 were not finalized. Random cash counts were performed and bank and investment confirmations were received. However, during our audit we noted the 'Condition of the County Treasury Statement' (Statement) which states the amounts and kind of monies held in treasury for both quarters were not completed timely.

- We noted the Statement for the February 2018 quarter cash count was not received by the Department of Finance until September 2018.
- We noted the Statement for the May 2018 quarterly cash count was not completed.

Criteria: The County Charter states: "The director of finance or a designated assistant and the county clerk shall jointly at least once in every three months and at such other times as may be deemed necessary verify the amount of money in the treasury and make a certified report showing:

- A. The amount of money that should be in the treasury.
- B. The amount and kind of money actually therein.

A signed copy of such report shall be filed with the mayor and the council"

The quarterly verification should 1) report the amount of money that should be in the treasury which is documented with random cash counts and bank and investment confirmations and 2) the amount and kind of money (cash or investments) actually held which is documented on the 'Condition of the County Treasury Statement'.

Cause: The County experienced turnover in the Treasury Department with the retirement of the Treasurer during December 2017, who was then subsequently replaced during the same month. The change in key personnel resulted in the untimely completion of the 'Condition of the County Treasury Statement' for the February and May 2018 quarters.

Effect: Failure to complete the quarterly cash counts and submit the certified report to the Mayor and Council is a violation of the County Charter.

Recommendation

The County should implement monitoring procedures to ensure that the necessary cash counts and certified report as required by the County Charter is submitted to the Mayor and Council on a timely basis.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-003 Perform Quarterly Cash Counts (Continued)

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 14.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-004 Internal Controls over Treasury Adjustments

Condition: During our audit, we noted that there was no documentation of a review and approval process over adjustments posted in the iNovah cashiering system for the recording of treasury deposit slips and fund corrections. The adjustments made were supported with adequate documentation, however there was no indication or documentation of a review and approval of the adjustment.

Criteria: A review and approval should be completed and documented over adjustments posted in the iNovah cashiering system by personnel other than the employee posting the adjustment. Evidence of the review and approval should be properly documented and signed off by an employee with the knowledge to identify any errors in adjustments made.

Cause: The County experienced turnover in the Treasury department with the retirement of several key personnel during December 2017. During the same period, the County also implemented a new cashiering system, iNovah. As a result, this led to changes in procedures and duties of personnel. Procedures implemented as a result of the changes, such as secondary reviews and approvals of adjustments, were not documented.

Effect: The lack of documentation over secondary reviews and approvals performed could result in errors in adjustments posted in the County's records.

Recommendation

Adequate internal controls should be maintained to ensure that adjustments are accurately recorded in the iNovah cashiering system. A secondary review and approval should be documented and signed off by an employee with the necessary knowledge of the adjustments to identify errors and maintained in the County's records.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 14.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-005 Review Real Property Trust Account

Condition: During our audit, we noted that the County's Real Property Trust Fund was not reviewed on an on-going basis. We noted that amounts due back to a taxpayer were properly disbursed, however certain balances for appeals that were resolved in the County's favor were not properly transferred to the general fund.

Criteria: The County's Real Property Trust Fund consists of monies held for Board of Review (BOR) and Tax Appeal Court (TAC) appeals and is an agency fund. Agency funds are custodial in nature and are used to receive and disburse funds for an entity or individual that is not part of the County. Agency funds function as a clearing account and do not measure results of operations. Based on an outcome of an appeal, the monies held may be paid back to the taxpayer or transferred to the general fund of the County. Balances should be reviewed periodically and properly accounted for when appeals are resolved.

Cause: The County does not have a documented policy in place to implement a continuous monitoring process over BOR and TAC balances that are held and recorded in the County's Real Property Trust Fund.

Effect: At June 30, 2018, the County had approximately \$5,251,481 in the Real Property Trust Fund. During November 2018, the County transferred \$87,268 related to appeals that were closed as of June 30, 2018 to the general fund.

Recommendation

The County should implement procedures to periodically review amounts held in the Real Property Trust Fund and document the review to determine that all payments back to an individual or entity are made and if any funds should be transferred to the general fund for closed appeals.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 14.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kaua'i, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2018

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the management advisory report for the fiscal year ended June 30, 2017, dated December 8, 2017.

Recommendations	Status
<p>2017-001 IMPROVE INTERNAL CONTROLS OVER PCARD PURCHASES (page 4)</p> <p>The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement policies are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.</p>	<p>Partially accomplished. The Purchasing division began conducting a random review of pCard transactions. However, we noted a finding related to the purchasing process during the current year as noted on finding 2018-001.</p>

CORRECTIVE ACTION PLAN



DEPARTMENT OF FINANCE
THE COUNTY OF KAUA'I

DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHILIG, MANAGING DIRECTOR

KEN M. SHIMONISHI
DIRECTOR

MICHELLE L. LIZAMA
DEPUTY DIRECTOR

December 18, 2018

Blake S. Isobe
N & K CPA's Inc.
1001 Bishop Street, Suite 1700
Honolulu, HI 96813-3696

Dear Mr. Isobe:

Attached are the County of Kaua'i's responses and corrective action plans related to your fiscal year 2018 audit report *Management Advisory Report's* Current Findings and Recommendations. We appreciate the opportunity to comment on the audit report.

Sincerely,

Ken M. Shimonishi
Director of Finance

Attachment



County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2018

2018-001 Internal Controls Over the pCard Purchases

Auditor's

Recommendation: The County should continue to strengthen internal controls over the use of the pCard. The monitoring of pCard transactions by the Division of Purchasing should include the implementation of formal violation reports and consequences for departments and agencies not following the established procedures, including the revocation of pCards.

**Corrective
Action:**

On November 1, 2017, the pCard Policies and Procedures for General Commodities were updated to address a number of issues that had been asserted in prior audits. The Division of Purchasing will continue to conduct random testing. Where violations are noted a secondary random testing will be performed once the cardholder, fiscal officer, division chief, and department head are notified. Continued violations will result in progressive disciplinary actions including the revocation of pCard privileges.

End Date: On-going

**Responding
Person(s):**

Ernest W. Barreira, Assistant Chief Procurement Officer, Department of Finance, Division of Purchasing, Phone: (808) 241-4295

County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2018

2018-002 Remove Terminated Employees from Authorized Check Signers

Auditor's

Recommendation: The County should implement a standardized process to check unauthorized signers for its bank accounts and update them when changes in personnel occur.

The County currently utilizes a 'Departmental Employee Separation Checklist' (Checklist) in an employee's personnel file that is held by the Department of Human Resources (HR). The Checklist notates termination procedures for an individual. HR should be informed that a notation be included if an employee is an authorized signer. Upon termination, the County should promptly and formally inform the bank of the removal of the individual as an authorized signer.

The County could also maintain a current listing of authorized check signers to ensure proper authorization of all disbursements and update it as necessary. The bank should be promptly and formally notified of any change in signers.

**Corrective
Action:**

On September 4, 2018, the County executed new signature authorizations removing separated employees as signatories for all bank accounts. The revised authorizations were transmitted to and processed by the respective financial institutions. Treasury maintains a list of authorized signers for all County bank accounts.

Treasury has asked the Department of Human Resources to add a notation to the Departmental Employee Separation Checklist for authorized signers reminding Treasury to initiate procedures necessary to remove the individual as an authorized signer.

Given the post-election transitions in key County positions during November and December 2018, Treasury will execute new bank signature authorizations adding or removing appointed persons, as necessary.

End Date: On-going

**Responding
Person(s):** David S. Schwartz, Treasurer, Department of Finance, Phone: (808) 241-4253

County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2018

2018-003 Perform Quarterly Cash Counts

Auditor's

Recommendation: The County should implement monitoring procedures to ensure that the necessary cash counts and certified report as required by the County Charter is submitted to the Mayor and Council on a timely basis.

Corrective

Action:

The Department of Finance has hired permanent professional staff to support and assist the Treasurer in bringing the County Treasury's books and records up-to-date and maintain them on an ongoing basis. The Department of Finance has also installed an upgraded cashiering system compliant with modern security and cash control protocols.

Cash and investment balances and records are current and available for quarterly surprise inspection and confirmation as required under the Kauai County Charter. ¹

End Date:

On-going

**Responding
Person(s):**

David S. Schwartz, Treasurer, Department of Finance, Phone: (808) 241-4253

¹ Article X, Section 10.5

County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2018

2018-004 Internal Controls Over Treasury Adjustments

Auditor's

Recommendation: Adequate internal controls should be maintained to ensure that adjustments are accurately recorded in the iNovah cashiering system. A secondary review and approval should be documented and signed off by an employee with the necessary knowledge of the adjustments to identify errors and maintained in the County's records.

**Corrective
Action:**

Prior to the auditor's recommendation, adjustments and corrections to the new iNovah cashiering system were reviewed by Treasury personnel, however, without formal documentation of the process.

Treasury has established and formalized the following procedure to review cashiering corrections:

1. On a weekly basis, Treasury produces an iNovah report detailing all error corrections made during the prior week.
2. Treasury personnel review the report for unusual, unexplained, or ambiguously described changes, adjustments with unusually large amounts², or changes that appear to be duplicated.
3. Treasury personnel follow up on items identified in 2, seeking explanations and documentary support for the error corrections.
4. Treasury staff periodically haphazardly select an error correction line item and seek support and explanation.
5. If Treasury's review of error corrections yields unsupported, unexplained, or suspicious changes to iNovah data, these changes are reported to the Director of Finance for further investigation or direction.

End Date: On-going

**Responding
Person(s):**

David S. Schwartz, Treasurer, Department of Finance, Phone: (808) 241-4253

² Typical error corrections can be as little as a single penny; however, Treasury examines whether the dollar amount of the error correction is consistent with the type of error.

County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2018

2018-005 Review Real Property Trust Account

Auditor's

Recommendation: The County should implement procedures to periodically review amounts held in the Real Property Trust Fund and document the review to determine that all payments back to an individual or entity are made and if any funds should be transferred to the general fund for closed appeals.

**Corrective
Action:**

Real Property Assessment Division will implement a policy together with the County Attorney's office who controls Tax Appeal Court scheduling and progress. There already exists policy for Board of Review where the Assessment division is notified on the first 2 Friday's of every month of Appeal decisions.

End Date: December 15, 2018

**Responding
Person(s):**

Brad Cone, Department of Finance, Real Property Tax Manager, Division of Real Property Assessments, Phone: (808) 241-4228