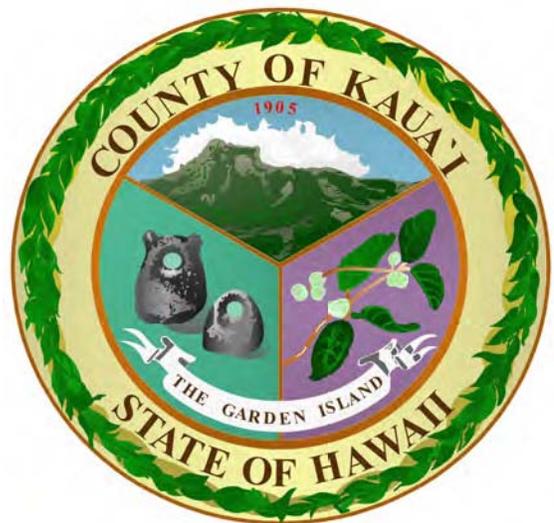


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2020

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, 2020, 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 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 a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our finding and recommendation regarding this matter. We previously communicated to you about the County's internal control in our report dated January 20, 2021. This letter does not affect our report dated January 20, 2021, on the financial statements of the County.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various County personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

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
January 20, 2021

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2020

2020-001 Contract Encumbrances

Condition: During the current year audit, we noted that there were three instances where payments totaling \$461,581 did not utilize a contract encumbrance for the following:

- A contract that has variable terms was executed as an open ended contract that does not need to encumber funds
- The County's estimated current liability related to its Puhi Metals Recycling Center environmental remediation plan was not encumbered
- An encumbrance for the subsequent fiscal year was requested during payment, which could not be utilized

These payments did not utilize an encumbrance, payments were processed through an Accounts Payable Edit List (Voucher Edit).

Criteria: The Charter (Charter) of the County of Kauai (County) allows for the administration and enforcement of an annual budget ordinance for the appropriation of funds. Appropriations are valid for a fiscal year in which encumbrances for contract commitments are recorded for budgetary control purposes and accountability. The Charter also states that before execution, contracts involving financial obligations of the County shall also be approved by the Director of Finance as to the availability of funds. Encumbrances are restrictions on the use of funds and used to ensure there will be sufficient cash available to pay for specific obligations.

Cause: The County's Voucher Edit policy allows for specific payments to be processed by the Department of Finance without the use of a purchase order or contract. Transactions that fall outside of these specific payments may be processed if it is justified at the time of the payment request.

Effect: The failure to use encumbrances could result in the unknown amount of contract commitments, funds are not available for contract payments, decreased accountability of the County's annual budget, or payments in excess of contract amounts.

Recommendation

The County should utilize Blanket Purchase Orders to encumber outstanding contract commitments. Encumbrances should be amended for revisions in contract amounts as they become known. Available encumbrances should be used when payments are made for a contract.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 8.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kaua'i, Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2019

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, 2019, dated January 3, 2020.

Recommendations	Status
2019-001 PERFORM TIMELY USER ACCESS REVIEWS (page 4) The County should strengthen procedures to ensure annual user access reviews for software used in each department. Any changes to access, if any, should be determined by department heads and a separate secondary review should be completed to verify that employee user access remains appropriate.	Accomplished.

CORRECTIVE ACTION PLAN

DEPARTMENT OF FINANCE

REIKO MATSUYAMA, DIRECTOR

MICHELLE L. LIZAMA, DEPUTY DIRECTOR



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

January 20, 2021

Blake S. Isobe
N & K CPA's Inc.
999 Bishop Street, Suite 2200
Honolulu, HI 96813-3696

Dear Mr. Isobe:

Attached is the County of Kauai's responses and corrective action plan related to your fiscal year 2020 *Management Advisory Report's* Current Findings and Recommendations. We appreciate the opportunity to comment on the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Reiko Matsuyama", is written over a large, light-colored oval shape.

Reiko Matsuyama
Director of Finance

County of Kaua'i, Hawai'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2020

2020-001 Contract Encumbrances

Auditor's

Recommendation: The County should utilize Blanket Purchase Orders (BPO) to encumber outstanding contract commitments. Encumbrances should be amended for revisions in contract amounts as they become known. Available encumbrances should be used when payments are made for a contract.

**Corrective
Action:**

The Division of Purchasing (DoP), Department of Finance will be issuing a formal policy directive by December 16, 2020 discontinuing the use of purchase orders and requiring BPO fund encumbrances for all open-ended contracts effective immediately for all new awards and contracts.

Voucher edit payments for any items that are not included in the Voucher Edit itemized policy should not be executed unless expressed written consent is requested from and granted by the Director of Finance (DoF) in response to a matter deserving of exception consideration. Requests for which exceptions by the DoF will not be granted should not be paid but rather, referred to the DoP for procurement and encumbrance determination.

The Voucher Edit Policy is currently being reviewed to ensure compliance with current County needs.

End Date: Continuous monitoring.

**Responding
Person(s):**

Ernest Berreira, Assistant Chief Procurement Officer
Phone: (808) 241-4295