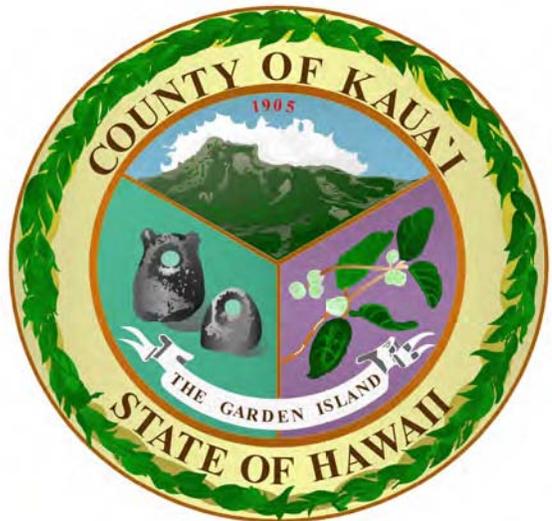


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2017

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, 2017, 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 8, 2017. This letter does not affect our report dated December 8, 2017, 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 8, 2017

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2017

2017-001 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 current year audit, we sampled 81 pCard transactions and noted the following:

- 6 instances where a pre-approval was obtained after the purchase was made.
- 1 instance where there was no documentation of a pre-approval.
- 3 instances where a pCard purchase did not have 3 quotations for purchases greater than \$1,000.

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.
- The approved threshold for use of pCards for small purchases of general County of Kaua'i commodities is \$1,500. For purchases between \$1,000 - \$1,499.99, three (3) price quotes shall be solicited by County agencies. Agency personnel shall document the price information to verify the required procurement activity and results.

Cause: The County currently requires the respective departments and agencies to self-report any procurement violations to the Division of Purchasing. Other than the self-reporting of violations, the County does not have adequate monitoring controls to ensure that the departments and agencies are following the purchasing procedures. However, specific guidance was provided to all departments through the issuances of memorandums, formal policies and procedures, and formal training to department and agency personnel who were involved in the use of pCards.

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

Recommendation

The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement procedures are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.

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
Fiscal Year Ended June 30, 2017

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, 2016, dated December 22, 2016.

<u>Recommendations</u>	<u>Status</u>
<p>2016-001 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 is drafting an updated policies and procedures manual and has conducted training for individuals using the pCard. However, we noted several findings related to the purchasing process during the current year as noted on finding 2017-001.</p>
<p>2016-002 REVIEW TREASURY TRUST ACCOUNTS (page 5)</p> <p>The County should continue its efforts in determining the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.</p>	<p>Accomplished.</p>

CORRECTIVE ACTION PLAN

Bernard P. Carvalho, Jr.
Mayor



Ken M. Shimonishi
Director of Finance

Wallace G. Rezentes, Jr.
Managing Director

Sally A. Motta
Deputy Director of Finance

DEPARTMENT OF FINANCE
County of Kaua'i, State of Hawai'i

4444 Rice Street, Suite 280, Lihue, Hawai'i 96766
TEL (808) 241-4200 FAX (808) 241-6529

December 8, 2017

Blake S. Isobe
N & K CPA's, Inc.
American Savings Bank Tower
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 2017 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

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2017-001 Internal Controls Over the pCard Purchases

Auditor's

Recommendation: The County should strengthen internal controls over the use of the pCard. These include continuous monitoring of pCard transactions to ensure proper procurement procedures are followed; and implementation of violation reports and consequences for departments and agencies not following the established procedures.

Corrective

Action: Client agrees with findings. 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. These updates include Departments that will be responsible for random audits. Further, transaction sampling review is to be performed by the Purchasing Division.

End Date: On-going

Responding Person(s):

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