



Ernesto G. Pasion
County Auditor

OFFICE OF THE COUNTY AUDITOR

COUNTY OF KAUA'I, STATE OF HAWAII

HALE PUMEHANA BUILDING

3083 AKAHI STREET, ROOM 203

LĪHU'E, HAWAII 96766-1102

Telephone: (808) 241-4178

Fax: (808) 241-6208

Email: auditor@kauai.gov

August 22, 2011

TO: Bernard P. Carvalho, Jr.
Mayor

FROM: Ernesto G. Pasion *E. G. Pasion*
County Auditor

SUBJECT: Annual Report – Fiscal Year 2010-2011

Attached please find the Annual Report of the Office of the County Auditor, submitted in compliance with Kaua'i County Charter Section 23.07.A.

Please do not hesitate to call me if you have any questions concerning the report.

Attachment

C: Gary Heu
Kaua'i County Council
Office of the County Clerk

OFFICE OF THE COUNTY AUDITOR

Mission Statement

The mission and vision of the office is to promote honest, efficient, effective and accountable government for the County of Kaua'i through carefully selected audits of critical areas.

Under the Kaua'i County Charter, the audits include an independent annual or biennial audit of all county funds and accounts and performance audits having the purpose of ensuring and determining whether government services are being efficiently, effectively and economically delivered.

Department Goals

The goals of the department are:

- To serve as a catalyst for positive change throughout county operations;
- To encourage efficiency and effectiveness of county programs;
- To inspire public trust by safeguarding the county's financial integrity by having annual financial audits done by outside auditors and conducting in-house performance audits; and
- To help ensure that the county's scarce resources are used effectively, efficiently and economically.

Program Description

Like other government auditing offices, we conduct audits and analyses designed to identify opportunities for significant efficiencies and savings, as well as improving transparency to the general public and helping to ensure that their tax dollars are being spent ethically, competently and appropriately.

Our audits provide factual information to county policymakers and the public. The financial audits tell us the financial condition of the county. The performance audits provide information necessary to evaluate specific programs, as well as identify inefficiencies, fraud and other risks.

We conduct audits in accordance with government auditing standards, as required by the Kaua'i County Charter. The standards are also referred to as the generally accepted government auditing standards (GAGAS) or the Yellow Book. The GAGAS standards deal with the independence of the audit function and quality control of fieldwork and reports, and are designed to make certain that high quality government audits are conducted uniformly, with safeguards, and with competence, integrity, objectivity and independence.

Our audit work is itself audited every three years by a team of external auditors. This audit, called a “peer review,” makes certain that we have adequate and effective quality control and internal monitoring systems and procedures, and reviews our audit reports to determine if the audits were conducted properly and in compliance with our quality control procedures. Based on the experience of other government organizations, the three-year requirement means that the auditor’s office will be audited more often than any other county department or function.

The reports of all audits are public and posted on our website. This enables the community to have access to the same information we provide to the Council and the Mayor.

Department Objectives: The department objectives for each fiscal year are stated in the work plan, filed with the Council by the County Auditor before the end of each fiscal year. The objectives for the 2010-2011 fiscal year were:

- Complete three to five performance audits;
- Complete the financial audit of the County of Kaua‘i for the fiscal year ended June 30, 2010 (contract audit); and
- Produce a citizen-friendly, plain language publication describing the highlights of the financial audit.

Highlights and Activities:

With the support of the Kaua‘i County Council, we were able to add two support personnel to assist the staff auditors, bringing our department to full staffing (total of five positions).

Another highlight for the fiscal year was the successful procurement of an outside CPA firm to conduct the next series of financial audits. The procurement resulted in a four-year term at favorable rates. The overall contract price results in a savings of \$130,000 when compared to the equivalent rates for the expiring contract.

The audit about implementation of the cost control commission’s recommendations for saving energy found that the recommendations were not appreciably implemented and the county lacked a strategic approach to energy management. The county paid \$1.3 million more for electricity in 2010 than in 2009, despite the furlough that closed county offices for two days a month from July to December, 2010. The audit findings suggest that increases of this magnitude could be avoided or moderated by (1) following cost control commission recommendations for saving energy, (2) making departments and functions responsible for the electricity they use and (3) adopting a strategic approach to energy management. The full text of the audit report is on the County Auditor’s web site at <http://www.kauai.gov/auditor/reports>.

Program Measures – Accomplishments and Evaluation

The objectives for the fiscal year have been met.

- Objective 1: Accomplished. We completed three performance audits in the fiscal year. They were (1) audit of the county's implementation of the cost control commission's energy conservation recommendations, (2) audit of the county's implementation of the prior audit of the buildings division and (3) audit of the county's capital project planning and implementation process as practiced in the Kaiākea Fire Station project.
- Objective 2: Accomplished. The contract auditor, R.C. Holsinger, LLC, issued a clean audit report for the fiscal year ending June 30, 2010. The full text of the consolidated annual financial report is on the web site of the Department of Finance at <http://www.kauai.gov/finance/reports>.
- Objective 3: Accomplished. The citizen-friendly, plain language Report to Citizens was issued in May 2011. The report is available on the web site of the Office of the County Auditor at <http://www.kauai.gov/auditor/reports>.

In addition, we also completed pre-audit assessments of the feasibility of consolidating personnel functions and the county's furlough program.

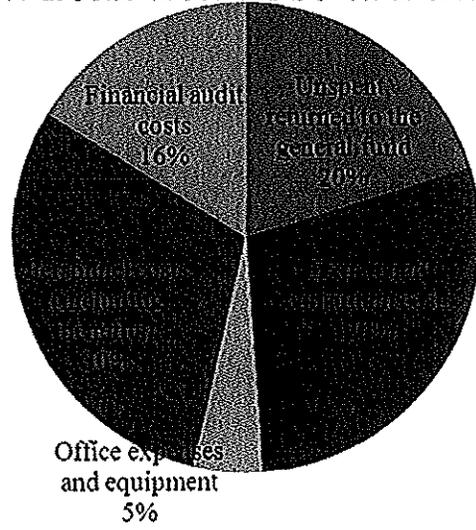
This year was productive as well as challenging. The production from our staff enabled us to meet and exceed our objectives. As shown in the statistics section, the two staff auditors carry a substantial workload, but the returns are positive. As in the prior year, we find that we must devote significant resources toward ensuring that the new audit function is understood and integrated into county government.

Budget

Approximately 16 percent of the budget in fiscal year 2010-2011 was designated for the county's annual financial statement audit and the single audit. The latter is an audit required by the federal government of major programs receiving federal funding and all programs funded by the 2009 American Recovery and Reinvestment Act.

Cost savings as a result of delays in the hiring and procurement processes from outside our office and savings in operations resulted in nearly 20 percent of the budget being unspent and lapsing to the general fund. The following chart shows how the funds were used this fiscal year.

FY 2011-2012 Use of Funds



Statistics

With a small staff of only two auditors, we are successfully undertaking a challenging work load. The statistics for the fiscal year 2010-2011 are stated below.

Audits completed:	3
Audits in process:	4
Pre-audit assessments completed:	2
Pre-audit assessments in process:	1
Report to Citizens	1

Potential savings identified in completed audits: up to \$1.3 million in energy costs