

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 financial 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; and
- To ensure that the county’s scarce resources are used effectively, efficiently and economically.

Program Description

Like other government auditing offices, we produce audits and projects that make recommendations for efficiencies and savings, as well as provide transparency to the general public.

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 risk.

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 2011-2012 fiscal year were:

- Complete three to five performance audits;
- Complete the Financial Audit of the County of Kaua'i for the Fiscal Year Ending June 30, 2011 (contract audit);
- Complete Pre-Audit Assessment of Sick Leave Usage;
- Complete Pre-Assessment of Hazardous Waste Practices (Kekaha Landfill); and
- Complete a citizen-friendly, plain language publication describing the highlights of the Financial Audit.

Highlights and Activities:

The audit about fuel cost, consumption and management was warranted based on the cost of fuel to county operations and the inherent susceptibility of fuel to fraud, waste and abuse. The county uses substantial amounts of gasoline and diesel fuel at a cost of \$1,400,000 per year. The audit found that the Public Works' electronic fuel control and inventory management system called "Gasboy," used in four (4) fueling stations, which cost the county more than \$185,000, was not fully functional. When software and mechanical malfunctions occurred, it produced incomplete or inaccurate data. Based on our findings, we made the following recommendations: (1) the public works department, with the assistance from the finance department's IT division, evaluate alternative fuel and fleet management system options, including whether to acquire a new system to better meet the county's management needs; (2) the finance department ensure that the Gasboy system's features can be fully implemented and that the software glitches, when they occur, can be remediated in a timely manner by allocating sufficient staff resources to support the Gasboy system; (3) the public works department assign staff resources to obtain training in the mechanical aspects of the fueling system, including fuel pedestal and pump operations, so that basic mechanical malfunctions can be timely repaired using public works department employees; (4) the public works department implement periodic physical inventory processes to obtain readings of fuel tank levels and to reconcile fuel inflows and outflows between beginning and ending inventory readings; (5) the dual feature of the Gasboy system be implemented so that fuel usage can be identified by employee numbers; and (6) the direct billing feature of the Gasboy system be implemented along with the automated accounting entries to eliminate the need for manual invoices and manually prepared checks.

The Transportation Agency, on the other hand, purchases fuel for its buses and other vehicles through commercial fueling stations owned by the Kaua'i Automated Fuels Network (KAFN). Fuel purchase cards are used to obtain fuel from KAFN fueling stations. Based on our

findings, we recommended that controls with the use of fuel purchase cards by the Kaua'i police department (KPD) by implementing procedures that enhance the level of scrutiny applied to fuel invoices received from KAFN as well as the public works department's Gasboy's records to detect any potentially inappropriate fueling transactions.

The audit about capital project management (roads maintenance program) examined the road resurfacing project for the fiscal year 2006-07, Phase 1, to obtain insight into the county's management of capital projects. Based on our findings, we recommended the following: (1) the administration and the county council should provide sufficient resources to enable the roads division to develop asset management plan, to be used as a rational basis for selecting roads for the annual road resurfacing program and setting priorities for other highway projects; (2) public works and the roads division should conduct an economic trade-off analysis to determine the estimated optimum amount to invest in roads to achieve the highest economic return. The administration, director of finance and the county council should base the funding for road maintenance projects on this analysis; (3) the administration and the county council continue to allocate resources necessary for the roads division to plan and execute timely annual road maintenance programs. The resources could include the funds needed to ensure an accurate pavement condition inventory, deploy an effective pavement management system and provide training for division employees. These measures will allow the division to use the pavement management system effectively and efficiently in planning road maintenance projects; (4) the roads division considers allowing for reconstruction as part of the road maintenance solicitation even if exact locations cannot be specified. The contractor can be required to complete reconstruction at the prices in the bid, rather than as negotiated at a later date. Once the county's pavement management system is fully functioning, the areas requiring reconstruction can be better identified and included specifically in the plans for bidding purposes at the correct location with set unit pricing; (5) the roads division consider basing its remedial road work on conditions based on a cost-benefit analysis; (6) the administration and the county council provide sufficient resources to enable the roads division to complete its policy and standard operating procedures manual; (7) the administration and the county council ensure that the island wide road resurfacing projects are categorized as required by the county charter, and that capital budget funds are used for permanent improvements and not repair and maintenance; (8) the public works and finance departments amend their existing policies and procedures to include detailed policies on the administration and use of the highway fund to ensure compliance with state law restrictions; and (9) the public works and finance departments develop a chart of accounts dedicated strictly to operations funded revenue subject to restrictions.

The audit about cash management practices was warranted based on the significant amounts of cash and short-term investments that often exceed \$200 million managed by the county's Department of Finance. Based on our findings, we recommended the following: (1) the county treasurer document the percentage of county moneys on deposit with each of the county's depositories on a daily or weekly basis, along with the yields offered by each depository, to demonstrate ongoing compliance with state laws. Currently, it is being monitored on a monthly basis; (2) consideration should be given to increasing the amount of county moneys on deposit with local bank(s) that offer the highest yields; and (3) management at the departments and agencies implement the minor suggestions for improvements in cash receipt processing controls that were noted during the audit. In particular, we recommended that the

transportation agency accountant who assists with daily bus fare counts should not be involved in the daily bank deposit process.

Program Measures – Accomplishments and Evaluation

The objectives for the fiscal year have been met.

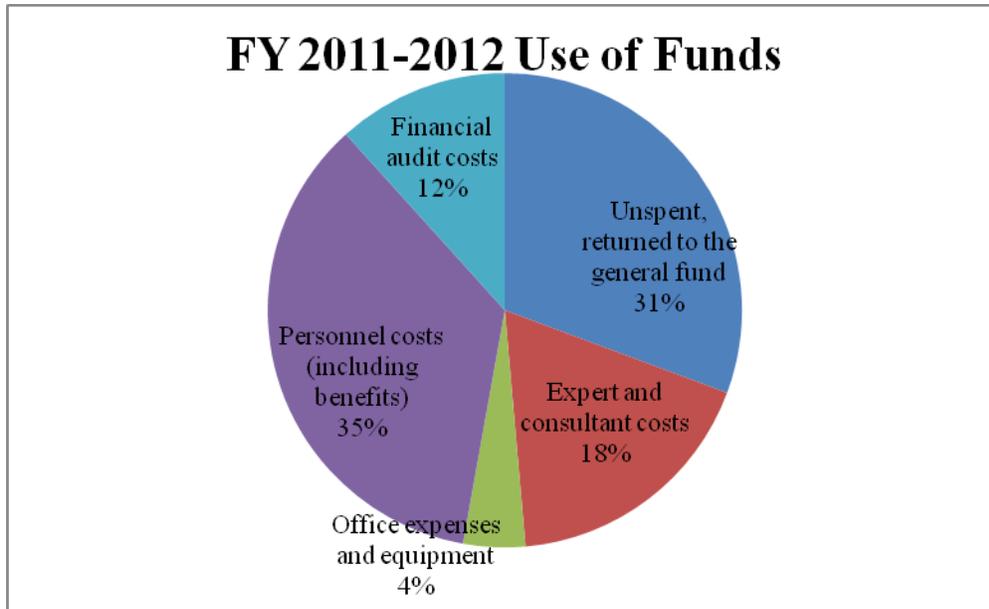
- Objective 1: Accomplished. We completed three performance audits in the fiscal year. They were (1) audit of the county's fuel, consumption and management, (2) audit of the county's capital project management (Roads Maintenance Program) and (3) audit of the county's cash management practices. We post the full text of our audit reports shortly after issuance on the County Auditor's web site at <http://www.kauai.gov/auditor/reports>.
- Objective 2: Accomplished. The contract auditor, N&K CPAs, issued a clean audit report for the fiscal year ending June 30, 2011. 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 for FY2011 was issued in February 2012. The Association of Government Accountants (AGA) issued a Certificate of Achievement in Citizen-Centric Reporting for Kaua'i's FY2010 report. The reports are 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 sick leave usage and hazardous waste practices (Kekaha Landfill).

This year was productive, as well as challenging. The production from our staff enabled us to meet and exceed our objectives. 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

The following chart shows how the funds were used this fiscal year.



Approximately 12 percent of the budget in fiscal year 2011-2012 was designated for the County's comprehensive annual financial report (CAFR) and the single audit. Expert and consultant costs represented 18% of the budget. Personnel costs, including benefits, accounted for 35% of the budget; while other, office and equipment expenses were 4% of the budget.

Lower expenses, when compared to the budget, in the areas of employee benefits, procurement of experts and consultants and other expenses represented 31% of the budget. Such unspent budgeted amounts lapsed to the general fund.

Statistics

With a small staff of only two auditors, we are successfully undertaking a challenging work load. The statistics for the fiscal year 2011-2012 are stated below.

Audits completed:	3
Audits in process:	3
Pre-audit assessments completed:	2
Pre-audit assessments in process:	1