

## **OFFICE OF THE COUNTY AUDITOR**

### **ANNUAL REPORT – FISCAL YEAR 2013-14**

#### **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 2013-2014 fiscal year were:

- Complete the financial audit of the County of Kaua‘i for the fiscal year ended June 30, 2013 (contract audit); and
- Complete one to two performance audits.

*Highlights and Activities:*

Pursuant to the County Charter Section 32.02 (4), The county auditor shall conduct or cause to be conducted all audits in accordance with the government auditing standards. Government Auditing Standards (Yellow Book) Section 3.82 requires that each audit organization performing audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) must:

- (a) Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with the regulatory requirements, and
- (b) Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. This external peer review was successfully completed in June 2013.

## **Program Measures – Accomplishments and Evaluation**

The objectives for the fiscal year have been met.

- Objective 1: Accomplished. The contract auditor, N&K CPA’s Inc., issued a clean audit report for the fiscal year ending June 30, 2013. 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 2: Accomplished. (1) Audit of the County's Furlough Program. Inasmuch as the County Council supported the Mayor's cut of auditors staff budget, this audit was outsourced to PKF Hawai'i LLP. PKF Hawai'i LLP examined the financial impact and management of the program, which took place from July 1, 2010 to December 31, 2010. The audit revealed deficiencies in planning, and lacked of transparency and accountability in the execution of the Furlough Program, which closed County offices for two days a month. Press releases and notices indicated that the Furlough was needed to address the County's financial difficulties. In reality, financial need had not been analyzed and the County had an unappropriated surplus of \$58,614,000.

(2) Audit of the County's Take-Home Car Policy Compliance. Similar to the situation mentioned above, this audit was outsourced to PKF Hawai'i LLP. This audit was conducted to determine whether County of Kauai is in compliance with Chapter 105 of the Hawai'i Revised Statutes, Government Motor Vehicles. The use of government motor vehicles is also subject to compliance to Internal Revenue Service (IRS) called Section 1.61-21 as well as to applicable Hawai'i State Taxation Laws. The County of Kaua'i, as a governing and taxing authority, is also required to comply with such State and Federal Laws. The audit found that the County's 2002 Policy, developed to comply with the State Law on the use of County vehicles is inadequate, leading to possible non-compliance, abuse, waste and inefficiency. To address the situation a new Comprehensive Motor Vehicle Policy was finalized and approved for implementation in August 2013. This Policy will create accountability for drivers and communicates what is expected of each person as they use County vehicles, or their personal vehicles for County purposes. Tax implications related to the use of Take-Home Vehicles were not addressed since the implementation of the County's 2002 Policy up to June 30, 2013. The use of the County vehicle of commuting purposes is considered an employment benefit according to IRS Publication 15-B Employer's Tax Guide to Fringe Benefits. As a result, those who were assigned Take-Home Vehicles as well as the County may be liable for additional payroll related withholding taxes.

## **Budget**

Approximately 27 percent of the budget in fiscal year 2013-2014 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. Expert and Consultant costs represented 25 percent of the budget. Personnel costs, including benefits, accounted for 33 percent of the budget; office operation costs were 2 percent while other, office and equipment expenses were 6 percent of the budget.

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

### FY 2013-2014 Use of Funds

