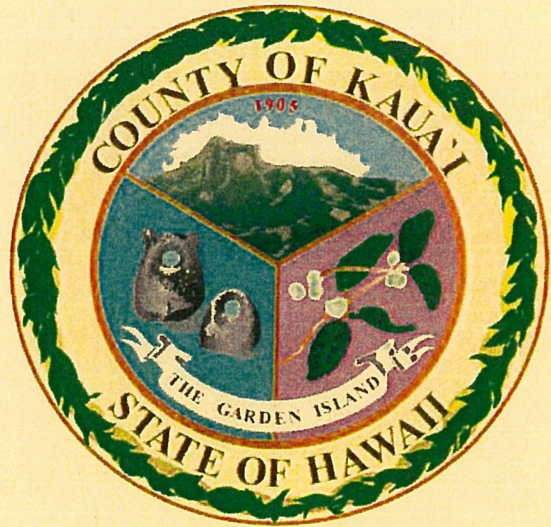


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2015

C2016-19

COUNTY OF KAUA'I

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT ADVISORY REPORT	
Management Letter	3
CURRENT FINDINGS AND RECOMMENDATIONS	
2015-001 Improve Internal Controls Over pCard Purchases	4
2015-002 Review Treasury Trust Accounts	5
2015-003 Improve Monitoring of Landfill Receivable Accounts	6
STATUS OF PRIOR YEAR'S RECOMMENDATIONS	
Status Report	8
CORRECTIVE ACTION PLAN	
Response of County of Kaua'i	10 - 13

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, 2015, 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 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 22, 2015. This letter does not affect our report dated December 22, 2015, 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 these 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 22, 2015

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015

2015-001 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 noted the following:

- We noted 2 instances (out of 40 samples) where an approval was obtained after the purchase was made.
- We noted 1 instance (out of 40 samples) where there was no evidence that the purchase was approved prior to it being made.

Criteria: The County's policy requires that any purchase made by the pCard must be preapproved by the respective pCard coordinator.

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 a monitoring control 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 of the pCard for non-approved purchases in violation of the policies and procedures in place.

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.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS (Continued)
Fiscal Year Ended June 30, 2015

2015-002 Review Treasury Trust Accounts

Condition: The County maintains fiduciary funds that are limited to agency funds. The County has the following agency funds:

- Trust and Agency Fund
- Treasury Trust Fund
- Real Property Trust Fund

At June 30, 2015, the County had approximately \$2,653,000 in these treasury trust accounts. We reviewed 3 of the 12 treasury trust accounts totaling \$2,483,832, noting the following:

Public Works Fiscal Treasury Trust - The account holds 25 different deposits for a total of \$67,824 from May 9, 1986 through August 7, 2009. The remaining balance of \$471,100 was from current deposits from 2010 through 2015.

Criteria: Agency funds are custodial in nature and are used to receive and disburse funds for an entity or individual that is not part of the County. Agency funds function as a clearing account and do not measure results of operations. All funds held by the County should be properly monitored and addressed when it is due back to the individual or entity.

Cause: The County did not have a continuous monitoring process over deposits being held and recorded in the County's funds. Amounts due back to individuals or entities were not properly addressed.

Effect: Deposits that are held that are not accounted for and addressed will continue to be held on the County's funds until the proper disposition can be made. Such deposits can build over time unless a continuous monitoring process is implemented over these agency funds.

Recommendation

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.

County of Kaua'i, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS (Continued)
Fiscal Year Ended June 30, 2015

2015-003 Improve Monitoring of Delinquent Receivable Accounts

Condition: Outstanding receivables due from customers are maintained by the County and are to be investigated as they become delinquent. At fiscal year end, the County's commercial landfill receivable balances outstanding over ninety days totaled \$147,321. Of this amount, \$91,359 was related to one customer who is designated as inactive as the account is over five years delinquent. Collections attempts on this account have been made by the County periodically to no avail and they do not believe this account to be collectible.

Criteria: Outstanding receivables are to be monitored continuously with delinquent accounts investigated on a timely basis. Section 19.21 of the County Charter requires accounts over ninety days past due to be referred to the County Attorney for collection.

Cause: The County did not have a continuous monitoring process over outstanding receivables, nor did they take action on investigating delinquent accounts on a timely basis. There were no policies for writing off accounts deemed uncollectible by the County Attorney.

Effect: Delinquent accounts that are not investigated on a timely basis will decrease the chance of collectability. Uncollectible accounts can build over time unless policies and procedures are established for the process to write these off.

Recommendation

The County should improve its monitoring of delinquent receivable accounts by timely submittal of past due accounts to the County Attorney. The County should establish policies and procedures for writing off accounts once they are deemed uncollectible.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kaua'i, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2015

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, 2014, dated December 1, 2014.

Recommendations	Status
<p>2014-001 IMPROVE INTERNAL CONTROLS OVER PCARD PURCHASES (page 4)</p> <p>The County should review its policies and procedures and strengthen internal controls over the use of the pCard. These policies and procedures could include mandatory training for all personnel handling pCard transactions at the various departments and agencies; 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.</p>	<p>Partially accomplished. The Purchasing division has issued a 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 2015-001.</p>
<p>2014-002 REVIEW TREASURY TRUST ACCOUNTS (page 5)</p> <p>The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up with aging deposits. In addition, the County should review the use of the Planning Treasury Trust to ensure that the transactions recorded in the account are proper and determine who the balance in the account is being held for.</p>	<p>Partially accomplished. The Planning Treasury Trust has been reviewed and reconciled. However, the Public Works Fiscal Treasury Trust still includes older balances that should be reviewed. Refer to current year finding 2015-002.</p>
<p>2014-003 IMPROVE INTERNAL CONTROLS OVER EMERGENCY PROCUREMENT (page 6)</p> <p>The County should generate a report throughout the year that accounts for RRCA outstanding balances to allow personnel to monitor balances and reconcile outstanding balances that are recorded in the real property tax assessment system to the general ledger.</p>	<p>Accomplished.</p>

CORRECTIVE ACTION PLAN

Bernard P. Carvalho, Jr.
Mayor



Ken M. Shimonishi
Director of Finance

Nadine K. Nakamura
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 22, 2015

Blake S. Isobe
N & K CPAs, 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 2015 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

An Equal Opportunity Employer

2015-001 Improve Internal Controls Over 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:

The Department of Finance concurs with the recommendation of the auditor and will have internal discussions within the department and the administration to determine how best to achieve these issues of internal controls.

End Date:

On-going

**Responding
Person:**

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

2015-002 Review Treasury Trust Accounts

**Auditor's
Recommendation:**

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.

Corrective Action:

Engineering Division continues to resolve the older deposits in the trust account. Recent clarification provided by the County Attorney's Office with regard to the handling of any abandoned deposits, will allow the clearing of older deposits in accordance with the Hawai'i Uniform Unclaimed Property Act. To prevent the newer bond deposits from aging, the Division has implemented a procedure to review all outstanding permits prior to their expiration date. The permit holder is contacted to find out the status of job. The deposit at that point maybe released (if job completed), forfeited, or the permit maybe extended.

End Date:

On-going

**Responding
Persons:**

Larry Dill, P.E., County Engineer, Department of Public Works, Phone: (808) 241-4996

James Matsushige, Budget/Fiscal Specialist, Department of Public Works, Phone: (808) 241-4834

2015-003 Improve Monitoring of Delinquent Receivable Accounts

**Auditor's
Recommendation:**

The County should improve its monitoring of delinquent receivable accounts by timely submittal of past due accounts to the County Attorney. The County should establish policies and procedures for writing off accounts once they are deemed uncollectible.

Corrective Action:

Solid Waste Division does have a policy regarding delinquent accounts. All delinquent accounts are monitored and letters sent to vendors. However, due to a staff shortage, certain parts of the policy were not followed. Staffing is now full and policies will be followed in the future.

End Date:

On-going

**Responding
Persons:**

Larry Dill, P.E., County Engineer, Department of Public Works, Phone: (808) 241-4996

James Matsushige, Budget/Fiscal Specialist, Department of Public Works, Phone: (808) 241-4834