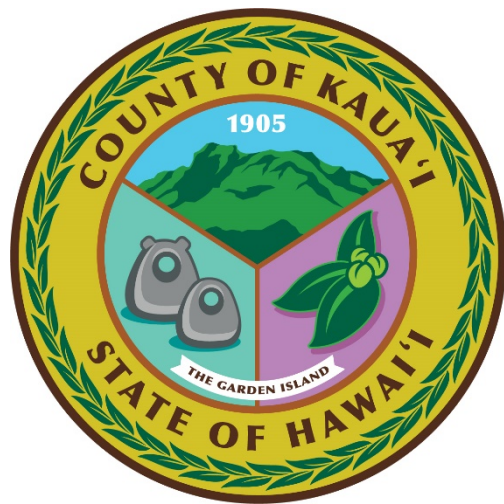


MANAGEMENT ADVISORY REPORT

County of Kauaʻi, Hawaiʻi



For the Fiscal Year Ended
June 30, 2021

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 basic financial statements of the County of Kaua'i, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2021, 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. (We previously communicated to you about the County's internal control in our report dated January 28, 2022.) This letter does not affect our report dated January 28, 2022, 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
March 10, 2022

County of Kauaʻi, Hawaiʻi
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2021

2021-001 Timely Grant Reimbursements

Condition: During the current year audit, we noted the following:

- There was one instance where a project incurred \$138,821 in expenditures from January through June and no drawdowns were completed on outstanding grant receivables.
- There was one instance where a project incurred \$291,212 in expenditures from July through June and two drawdowns were completed during May and September on outstanding grant receivables.

Criteria: The County advances monies for grants and accrues unreimbursed grant expenditures in the Federal Grant Fund balance sheet as grant receivables. Once expended, the County should complete drawdowns on grants in order to reimburse County cash used for projects. Drawdowns should be completed timely as allowed for in grant agreements.

Cause: The County did not have a required process for all grant management personnel in County departments to drawdown on grant receivables periodically.

Effect: The lack of timely drawdowns completed on the County's Federal grant receivable balances could lead to ineffective management of cash required by the County's projects.

Recommendation

Grant management personnel in County departments should implement a consistent process to drawdown grant receivables. Drawdowns should be made timely as expenditures are incurred.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 9.

County of Kauaʻi, Hawaiʻi
CURRENT FINDINGS AND RECOMMENDATIONS (Continued)
Fiscal Year Ended June 30, 2021

2021-002 Improve Controls over Project Accounting

Condition: During the current year audit, we noted eleven (11) instances totaling \$2,537,963 where the County obtained approvals for reimbursement of grant expenditures that were not communicated to the Department of Finance when received. As a result, individual project codes were only set up when reimbursements were received.

Criteria: Individual project codes should be set up in the County's system in order to properly account for budgeted and earned revenues, expenditures incurred, unreimbursed grant expenditures (grant receivables), and grant funds received in advance (deferred grant revenue) related to each of the County's various projects. Project codes should be entered by the Department of Finance when notified by the County's departments of funding eligibility for projects.

Cause: The process in place for the County's departments to communicate funding eligibility to the Department of Finance to account for all County projects is inadequate. Funding awards for projects were not monitored by the County's departments to determine that they were properly set up in the County's system

Effect: Inadequate oversight on communication of funding awards to initiate project code set up may result in misstatements in accounting for projects and the County's financial statements.

Recommendation

The County should implement a process to require all departments to communicate funding awards to the Department of Finance to set up project codes when the County is eligible to receive funding and resources are available for the project. The County's departments should monitor that all projects are properly set up in the County's system and that projects are properly accounted for.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 9.

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Kauaʻi, Hawaiʻi
STATUS REPORT
Fiscal Year Ended June 30, 2021

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, 2020, dated January 20, 2021.

Recommendations	Status
2020-001 CONTRACT ENCUMBRANCES (page 4) The County should utilize Blanket Purchase Orders to encumber outstanding contract commitments. Encumbrances should be amended for revisions in contract amounts as they become known. Available encumbrances should be used when payments are made for a contract.	Accomplished.

CORRECTIVE ACTION PLAN

DEPARTMENT OF FINANCE

REIKO MATSUYAMA, DIRECTOR

MICHELLE L. LIZAMA, DEPUTY DIRECTOR



DEREK S.K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR

March 10, 2022

Blake S. Isobe
N & K CPA's Inc.
999 Bishop Street, Suite 2200
Honolulu, HI 96813-3696

Dear Mr. Isobe:

Attached is the County of Kaua'i's responses and corrective action plan related to your fiscal year 2021 *Management Advisory Report's* Current Findings and Recommendations. We appreciate the opportunity to comment on the report.

Sincerely,

Reiko Matsuyama
Director of Finance

County of Kauaʻi, Hawaiʻi
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2021

2021-001 Timely Grant Reimbursements

Auditor's

Recommendation: Grant management personnel in County departments should implement a consistent process to drawdown grant receivables. Drawdowns should be made timely as expenditures are incurred.

**Corrective
Action:**

Planning Department

The Department has made strides in the last year regarding the findings of the Audit and is in the mid-stream of the Corrective Action Plan. This includes:

1. The recruitment and training of Grant Funded Account Clerk to assist with oversight of the grant funds.
2. The Department has met with the Budget Team to discuss best practices and identified the need for the Department's fiscal staff to work with its project manager to submit quarterly expenditure reports to the granting agency and reconcile the correlating project on the County side to ensure accurate and timely reporting.
3. The Department has been in contact with the granting agency to discuss the best practices regarding the Grant to clarify the deadlines for transactions of the Grant.

Office of the Prosecuting Attorney (OPA)

OPA has implemented a new procedure that includes two points of contact from both agencies on all communications between the Grantor and the Grantee. This measure will ensure that communication and documents (i.e contracts, request for reimbursement, etc.) sent electronically are processed and received by the Grantor. It will also provide for OPA support staff to be cross-trained in providing support should there be an unexpected absence in OPA.

End Date: Continuous monitoring.

**Responding
Person(s):**

Kristen Romuar-Cabico, Account Clerk
Phone: (808) 241-4170

Myles Hironaka, Planner
Phone: (808) 241-4072

Yvette Sahut, Administrative Services Officer
Phone: (808) 241-1727

County of Kauaʻi, Hawaiʻi
CORRECTIVE ACTION PLAN (Continued)
Fiscal Year Ended June 30, 2021

2021-002 Improve Controls over Project Accounting

Auditor's

Recommendation: The County should implement a process to require all departments to communicate funding awards to the Department of Finance to set up project codes when the County is eligible to receive funding and resources are available for the project. The County's departments should monitor that all projects are properly set up in the County's system and that projects are properly accounted for.

**Corrective
Action:**

The County Department of Finance concurs that County's departments should improve their monitoring of all projects so that they are properly set up in the County's system to account for all projects. Specifically, the County has an existing disaster projects process in which it will continue to improve and communicate to departments as it relates to past, current, and future disasters. The communication of the disaster process will be sent to departments annually and during each FEMA Public Assistance qualifying event, emphasizing the requirement to timely submit necessary project setup forms and documents upon grantor's approval.

End Date: Continuous monitoring.

**Responding
Person(s):**

Ken M. Shimonishi, Budget Administrator
Phone: (808) 241-4206