

County of Kauai, Hawaii

Single Audit Reports
For The Year Ended June 30, 2006



January 24, 2007

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

We have completed our audit of the basic financial statements of the County of Kauai, Hawaii (the County), as of and for the year ended June 30, 2006. Our report containing our opinion on those basic financial statements is included in the County's Comprehensive Annual Financial Report. We transmit herewith our reports on internal control and compliance with applicable laws and regulations in accordance with the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Objectives and Scope of Examination

The primary objective of our audit was to form an opinion as to whether the above mentioned financial statements present fairly the financial position of the County as of June 30, 2006 and the results of its operations for the year then ended.

Our audit was made in accordance with the specifications as outlined in the Request for Proposals for Professional Financial Auditing Services for Fiscal Years 2004-05, 2005-06, and 2006-07.

The scope of the audit was as follows:

1. Conduct a financial audit of the County to provide a basis to report on the fair presentation of the County's basic financial statements.
2. Provide an "in-relation-to" report on the combining and individual non-major fund financial statements and supporting schedules based on the auditing procedures applied during the audit of the basic financial statements.
3. Provide an "in-relation-to" report on the schedule of expenditures of federal awards based on the auditing procedures applied during the audit of the basic financial statements. The schedule of expenditures of federal awards and related report, as well as the reports on the internal controls and compliance were not included in the Comprehensive Annual Financial Report, but were issued separately.

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U.S. General Accounting Office's *Government Auditing Standards*, the provisions of the Single Audit Act of 1984, as amended, and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

We have also reviewed and updated the findings and other weaknesses identified in the County's financial statement audit for the fiscal year ended June 30, 2005.

Organization of Report

This Single Audit Report includes the following:

- Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
- Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133
- Schedule of expenditures of federal awards
- Schedule of findings and questioned costs
- Summary schedule of prior audit findings

The basic financial statements and related notes, along with other financial information of the County, as of and for the year ended June 30, 2006, and our opinion as to the fairness of the presentation of those statements are included in a separate report dated January 24, 2007. We have also included our comments on matters relating to the County's internal control and operations in a separate report also dated January 24, 2007.

We would like to take this opportunity to thank the staff of the County for their courteous cooperation and assistance during our audit.

KMH LLP

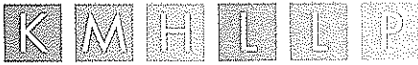
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PART I

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial
Statements Performed in Accordance With
*Government Auditing Standards***



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Kauai, Hawaii (the County) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs, items 06-01 through 06-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-01 through 06-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-05 through 06-07.

This report is intended solely for the information and use of management, the County Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

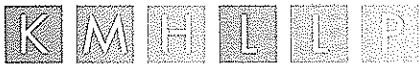
KMH LLP

KMH LLP

Honolulu, Hawaii
January 24, 2007

PART II

**Report on Compliance With Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133,
and on the Schedule of Expenditures of Federal Awards**



Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

Compliance

We have audited the compliance of the County of Kauai, Hawaii (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items 06-06 and 06-07 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding special tests and provisions, and allowable costs and eligibility that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-05 through 06-11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-05 through 06-07 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 24, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the County Council of Kauai, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
January 24, 2007

PART III

Schedule of Expenditures of Federal Awards

County of Kauai

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through State Executive Office on Aging--						
Food Distribution:						
USDA, Fiscal year 2005			\$ 35,888	\$ 16,128	\$ 35,888	\$ -
USDA, Fiscal year 2006			35,888	18,397	18,397	17,491
Total Food Distribution	10.550	--	71,776	34,525	54,285	17,491
Passed Through State Department of Education--						
Child Nutrition Program	10.560	--	24,092	24,092	24,092	-
Passed Through State Department of Land and Natural Resources--						
Cooperative Fire Assistance:						
Volunteer Fire Assistance		VFA002	150,000	104,541	150,000	-
Volunteer Fire Assistance		VFA094	60,000	60,000	60,000	-
Total Cooperative Fire Assistance	10.664		210,000	164,541	210,000	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			305,868	223,158	288,377	17,491
U.S. DEPARTMENT OF COMMERCE						
Passed Through Office of State Planning--						
Coastal Zone Management Program Administration Grants--						
Coastal Zone Management:						
Fiscal year 2005	11.419	25008005279092	277,762	12,537	238,026	39,736
Fiscal year 2006	11.419	25008005279093	290,344	161,597	161,597	128,747
TOTAL U.S. DEPARTMENT OF COMMERCE			568,106	174,134	399,623	168,483
U.S. DEPARTMENT OF ENERGY						
Passed Through State Department of Business, Economic Development and Tourism:						
Energy Extension Service:						
Energy Ext Service		25009005299088	69,825	53,704	53,704	16,121
Energy Ext Service		25009005299019	69,825	(13,200)	55,651	14,174
Niihau Photovoltaic System		25009005299010	25,000	11,125	20,288	4,712
Total Energy Extension Service	81.041		164,650	51,629	129,643	35,007
DBEDT CHP PMRF Feas Study		25009005299087	80,975	24,293	24,293	56,682
Rebuild America Training, Fiscal year 2001	81.119	25009005299063	27,881	(1,995)	23,175	4,706
TOTAL U.S. DEPARTMENT OF ENERGY			273,506	73,927	177,111	96,395
U.S. ENVIRONMENTAL PROTECTION AGENCY						
Direct Programs--						
Surveys, Studies, Investigations and Special Purpose Grants:						
Lihue WWTP Effluent System	66.606	XP-97910801-0	1,425,400	6,785	1,425,400	-
Brownfield Assessment	66.818	BF-96913101-0	200,000	94,379	118,728	81,272
Model Bottle Bill	66.808	X1-97940201	4,500	2,596	3,962	538
Pollution Control	66.460	C997942903-0	200,000	128,000	137,374	62,626
Waimea WWTP Backup Effluent	66.606	41020067921226	483,900	320,717	320,717	163,183
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			2,313,800	552,477	2,006,181	307,619

County of Kauai

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed Through State Executive Office on Aging--						
Special Programs for the Aging - Title III, Part C:						
Congregate Nutrition Services, Fiscal year 2004		25042026519021	\$ 243,427	\$ 94,995	\$ 242,823	\$ 604
Congregate Nutrition Services, Fiscal year 2005		25042026519029	59,291	1,027	1,716	57,575
Congregate Nutrition Services, Fiscal year 2006		25042026519037	131,017	38,795	38,795	92,222
Home Delivered Nutrition Services, Fiscal year 2004		25042026519022	132,941	18,234	132,941	-
Home Delivered Nutrition Services, Fiscal year 2005		25042026519030	170,911	28,669	170,911	-
Home Delivered Nutrition Services, Fiscal year 2006		25042026519038	145,992	43,712	43,712	102,280
Total Title III, Part C	93.045		883,579	225,432	630,898	252,681
Special Programs for the Aging - Title III, Part B--						
Grants for Supportive Services and Senior Centers:						
Area Plan, Fiscal year 2005		25042026519028	212,676	84,813	212,676	-
Area Plan, Fiscal year 2006		25042026519036	212,748	155,213	155,213	57,535
Total Title III, Part B	93.044		425,424	240,026	367,889	57,535
Special Programs for the Aging - Title III, Part E						
Caregiver III E FY04		25042026519024	100,097	12,007	66,141	33,956
Caregiver III E FY05		25042026519032	56,687	9,726	9,726	46,961
Caregiver III E FY06		25042026519040	55,016	17,530	17,530	37,486
Total Title III, Part E	93.130		211,800	39,263	93,397	118,403
Special Programs for the Aging - Title III, Part D:						
Health Promotion, Fiscal year 2004		25042026519023	8,577	1,994	5,939	2,638
Health Promotion, Fiscal year 2005		25042026519031	7,248	12	72	7,176
Health Promotion, Fiscal year 2006		25042026519039	7,511	1,988	1,988	5,523
Total Title III, Part D	93.043		23,336	3,994	7,999	15,337
Passed through Office of State Attorney General--						
Child Support Enforcement: Title IV, Part D:						
Child Support Enf FY 03		25003005249017	228,815	47,374	228,815	-
Child Support Enf FY 05		25003005249015	230,502	55,297	230,502	-
Child Support Enf FY 06		25003005249014	169,791	272,751	272,751	(102,960)
Total Title IV, Part D	93.563		629,108	375,422	732,068	(102,960)
Passed through National Youth Sports Program Fund--						
Community Services:						
National Youth Sports Program, Fiscal year 2004			51,566	1,974	30,418	21,148
Total Community Services	93.570		51,566	1,974	30,418	21,148
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,224,813	886,111	1,862,669	362,144
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed Through State Department of Business, Economic Development and Tourism--						
Home Investment Partnerships Program, Title II:						
Fiscal year 2000		25007006539015	963,000	(322,307)	297,225	665,775
Fiscal year 2001		25007006539013	963,000	(9,795)	644,973	318,027
Fiscal year 2002		25007006539014	972,400	(15,228)	487,919	484,481
Fiscal year 2003		25007006539012	1,547,033	46,762	75,070	1,471,963
Fiscal year 2004		25007006539011	1,069,380	3,505	3,505	1,065,875
Fiscal year 2005		25007006539010	856,555	78,013	78,013	778,542
Program Income		25007006539026	2,084,803	383,399	1,642,046	442,757
Total Home Investment Partnerships Program, Title II	14.239		8,456,171	164,349	3,228,751	5,227,420

County of Kauai

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)						
Direct Programs:						
Lower Income Housing Assistance Program-- Section 8 - Housing Choice Vouchers	14.871	PHA-HI-005	\$ 6,444,014	\$ 6,525,218	\$ 6,444,014	\$ -
Community Development Block Grants-- Small Cities Program:						
Fiscal year 2000		25007006539098	883,000	5,053	882,999	1
Fiscal year 2001		25007006539099	921,000	13,921	902,642	18,358
Fiscal year 2002		25007006539084	924,000	1,069	860,162	63,838
Fiscal year 2003		25007006539092	900,000	74,238	888,955	11,045
Fiscal year 2004		25007006539091	936,202	428,955	862,307	73,895
Fiscal year 2005		25007006539001	892,821	277,707	277,707	615,114
Program Income		25007006539027	-	(437)	(924)	924
Total Small Cities Program	14.219		5,457,023	800,506	4,673,848	783,175
Special Purpose Grant, HUD	14.227	25007006539086	2,000,000	10,000	2,000,000	-
West Kauai Tech CE	14.246	25007006539070	447,075	223,538	447,075	-
Special Projects Grant, EDI-SP	14.246	25007006539071	497,050	341,754	369,877	127,173
Total Special Purpose Grants			2,944,125	575,292	2,816,952	127,173
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			23,301,333	8,065,365	17,163,565	6,137,768
U.S. DEPARTMENT OF INTERIOR						
Playground equipment, Hanapepe	15.919	15-00147	430,000	430,000	430,000	-
TOTAL U.S. DEPARTMENT OF INTERIOR			430,000	430,000	430,000	-
U.S. DEPARTMENT OF JUSTICE						
Passed through Office of State Attorney General:						
Crime Victims Assistance Grants:						
Victims of Crime, Fiscal year 2003		25004005509074	336,312	20,853	336,312	-
Victims of Crime, Fiscal year 2005		25004005509075	185,051	158,314	184,200	851
VOCA VA Plan		25004005509076	186,841	21,507	21,507	165,334
Total Crime Victims Assistance Grants	16.575		708,204	200,674	542,019	166,185
Byrne Formula Grant Program:						
Statewide Narcotics Task Force, Fiscal year 2005		25010015519007	19,287	5,968	19,211	76
Statewide Narcotics Task Force, Fiscal year 2006		25010015510000	24,000	5,664	5,664	18,336
Statewide Marijuana Task Force, Fiscal year 2005		03-DB-12	33,000	3,230	33,000	-
Statewide Marijuana Task Force, Fiscal year 2006		25010015519006	33,000	715	715	32,285
US DOJ/DEA DCE/SP Program		25010015519099	193,043	186,099	193,272	(229)
High Intensity Drug Traffic, Fiscal year 2003		25010015519061	70,410	3,944	70,410	-
High Intensity Drug Traffic, Fiscal year 2005		25010015519078	70,410	10,259	10,259	60,151
High Intensity Drug Traffic		25010015519077	70,410	2,756	59,312	11,098
Domestic Cannabis Eradication, Fiscal year 2004		25010015519081	143,000	95	143,000	-
Domestic Cannabis Eradication, Fiscal year 2005		25010015519035	143,000	577	143,000	-
Domestic Cannabis Eradication, Fiscal year 2006		25010015519097	187,922	47,619	47,619	140,303
Total Byrne Formula Grants	16.579		987,482	266,926	725,462	262,020

County of Kauai

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF JUSTICE (continued)						
Edward Byrne Memorial Grants-State and Local Law Enforcement:						
Stop Violence Against Women, fiscal year 2005		25004005509065	\$ 47,475	\$ 20,818	\$ 47,475	\$ -
Stop Violence Against Women, fiscal year 2006		25004005509066	46,811	26,035	26,035	20,776
Bryne Jag PGM		25010015519015	45,370	19,840	19,840	25,530
Bryne Jag PGM, FY05 DVPU05		25004005509091	45,600	5,762	5,762	39,838
Bryne Jag PGM, FY05 PCPU05		25004005509090	104,000	13,516	13,516	90,484
Sane Training, FY 06		25010015519016	15,804	14,077	14,077	1,727
Total Stop Violence Against Women Grants	16.588		305,060	100,048	126,705	178,355
State and Local Law Enforcement Assistance:						
Local Law Enforce		25010015519033	19,161	97	19,161	-
Local Law Enforce, FY01B		25010015519044	19,060	(97)	19,060	-
Local Law Enforce, FY03		25010015519068	16,442	3,045	16,442	-
Total State and Local Law Enforcement Assistance	16.592		54,663	3,045	54,663	-
Teen Court Hale Opi'o	16.540	2003-JF-FX-0001	72,330	54,352	67,484	4,846
Youth Program Block Grant	16.523	DHS-2000-OYS-8002	312,115	(151)	312,115	-
Community Oriented Policing Services--						
Education and prevention:						
COPS technology grant		25010015519027	400,000	180,997	400,000	-
COPS Police Activity League		25010015519090	32,982	2,624	18,495	14,487
Total COPS Education and prevention	16.710		432,982	183,621	418,495	14,487
Drug enforcement:						
COPS, fiscal year 2002		25010015519045	500,000	71,524	365,861	134,139
COPS in school		25010015519002	375,000	32,184	40,699	334,301
COPS Kapaa High School		25010015519055	20,000	12,425	12,425	7,575
COPS Crystal Meth		25042046349004	50,000	22,743	22,743	27,257
Crystal Meth Vehicles		25010015519048	235,000	18,082	108,169	126,831
Passed through Hawaii Community Foundation:						
HCF, Drug response plan		25001005159050	81,000	48,075	66,995	14,005
HCF, Drug prosecution		25004005509010	75,000	66,667	75,000	-
Total COPS, Drug enforcement	16.711		1,336,000	271,700	691,892	644,108
Passed through State Civil Defense--						
Domestic Preparedness program:						
State Domestic Equipment purchase		2000-TE-CX-0169	254,500	(28)	254,500	-
Weapons Mass Destruction		2000-TE-CX-0169	178,816	(464)	178,816	-
Domestic Equipment program		25012005409002	591,051	89,514	591,051	-
Total Domestic Preparedness program	16.007		1,024,367	89,022	1,024,367	-
TOTAL U.S. DEPARTMENT OF JUSTICE			5,233,203	1,169,237	3,963,202	1,270,001
U.S. DEPARTMENT OF LABOR						
Passed through State Department of Labor and Industrial Relations:						
Senior Community Service Employment Program, FY05		25042026519033	72,000	136	72,000	-
Senior Community Service Employment Program, FY06		25042026519041	93,261	65,256	65,256	28,005
Total Senior Community Service Employment Program	17.235		165,261	65,392	137,256	28,005

County of Kauai

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF LABOR (continued)						
Workforce Investment Act:						
Adult Program-Local area funds, Title I, FY 2005		25009005299084	\$ 259,515	\$ 133,653	\$ 259,515	\$ -
Adult Program-Local area funds, Title I, FY 2006		25009005299090	198,824	51,662	51,662	147,162
Total Adult Program	17.258		458,339	185,315	311,177	147,162
Dislocated Workers, FY2005		25009005299085	94,063	76,597	94,063	-
Dislocated Workers, FY2006		25009005299091	79,273	67,974	67,974	11,299
Total Dislocated Workers	17.260		173,336	144,571	162,037	11,299
Youth Activities, FY2005		25009005299086	246,983	17,250	246,983	-
Youth Activities, FY2006		25009005299092	176,818	157,736	157,736	19,082
Total Youth Activities	17.259		423,801	174,986	404,719	19,082
Administrative, FY2005		25009005299083	85,851	36,962	85,851	-
Administrative, FY2006		25009005299089	62,183	39,477	39,477	22,706
Total Administrative	**		148,034	76,439	125,328	22,706
Total Workforce Investment Act			1,203,510	581,311	1,003,261	200,249
TOTAL U.S. DEPARTMENT OF LABOR			1,368,771	646,703	1,140,517	228,254
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through State Department of Transportation:						
Public Transportation for Nonurbanized Areas--						
Federal Transit Administration, Section 5311:						
FTA BUS HI18x023		25042036559084	301,881	3,728	3,728	298,153
FTA BUS HI18x024		25042036559085	320,653	73,672	73,672	246,981
FTA, Kauai Baseyard HI180015		25041006559079	3,010,000	58,757	3,009,008	992
FTA BUS HI18x021		25042036559003	150,400	76,165	150,400	-
ISTEA, FTA HI 18x0012, STP1500010		41040027971674	368,000	5,763	368,000	-
FTA BUS HI18x022		25042036559076	535,500	74,392	516,684	18,816
Total Public Transportation, Section 5311	20.509		4,686,434	292,477	4,121,492	564,942
Trans CAP, HI-03-0033	20.500	25042036559004	785,808	492,528	492,528	293,280
Highways Planning and Construction (Federal-Aid Highway Program):						
Bridge Replacement - Off system:						
Omao bridge construction		41020077919140	1,288,980	298	1,213,483	75,497
Omao/Puuopae/Kilauea Bridge		BR-0700(32)	790,824	66,051	664,438	126,386
Olohena Road BR-0700(36)		41020077919141	3,281,240	2,582,702	2,767,389	513,851
Bridge Insp-Variou		41020077919148	88,000	3,823	3,823	84,177
Statewide Transportation Improvement Program:						
Ahukini to Lydgate bikepath		41020037919125	625,000	196,321	292,694	332,306
Kapaa-Kauai Bikepath		41020037919124	12,610,000	5,069,306	5,976,072	6,633,928
Lydgate-Kapaa Bikepath		41020037919123	840,900	201,473	400,111	440,789
Lydgate Bikeway		41020037919121	2,959,760	8	2,874,342	85,418
ADA Curb Ramps		CMAQ-0700(52)	678,400	14,794	663,016	15,384
Ala Kinoiki Road		41020077919151	1,762,120	32,377	49,546	1,712,574
Kamalu Road, RS-0581(1)		41020077919107	-	(114,373)	-	-
Koloa Bypass, Phase II		41020077919142	5,056,467	61	5,056,467	-
Koloa Roads, RS-0700(26)		41020077919106	327,536	13,263	327,536	-
Kuna Bay-Anahola Bikepath FHWA		CMAQ-0700(56)	300,000	746	746	299,254
Nawiliwili/Ahukini Bikepath		41020077919153	500,000	497	497	499,503
Poipu Bridge BR070031		41020077919127	1,621,754	17,836	1,621,754	-
Poipu Rd: Lawai to Pee Rd		41020077919138	1,753,091	45,401	1,753,091	-
Resurf Var Roads, STP70034		41020077919139	-	(175)	-	-
Total Highways Planning and Construction	20.205		34,484,072	8,130,409	23,665,005	10,819,067

County of Kauai

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Title	CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	Total Cumulative Expenditures	Grant Balance
U.S. DEPARTMENT OF TRANSPORTATION (continued)						
State and Community Highway Safety:						
Blood Pressure Cuff		25011005529010	\$ 684	\$ 585	\$ 585	\$ 99
Extrication Glove		25011005529008	4,558	4,332	4,332	226
Seatbelt Cutter		25011005529011	332	300	300	32
Seatbelt Enforcement, fiscal year 2005		25010015519051	55,000	4,029	31,689	23,311
KPD Seatbelt PGM		25010015519087	39,820	11,926	11,926	27,894
Jaws of Life		25011005529006	21,880	1,080	21,880	-
Fire Spine Board		25011005529012	2,924	1,950	1,950	974
KPD Roadblock PGM		25010015519013	47,744	19,480	47,744	-
KPD Roadblock PGM		25010015519086	58,145	24,909	24,909	33,236
Windshield Extrication		EM06-04(03-K-01)	1,372	1,270	1,270	102
Youth Deterrence		AL05-02(07-K-02)	16,040	85	16,040	-
Speed Enforcement		25010015519084	41,573	13,408	13,408	28,165
Speed Education Grant		25001005159044	10,600	1,995	1,995	8,605
Speed FY 05		25010015519052	22,887	16,736	22,887	-
Data Transmission fiscal year 2005		25010015519054	20,867	19,283	20,867	-
Traffic Data		25010015519085	22,000	3,004	3,004	18,996
Traffic FY05 PT05-01(01K04)		PT05-01(01-K-04)	21,337	21,337	21,337	-
Traffic Service		PT06-01(02-K-01)	18,720	5,983	5,983	12,737
Total State and Community Highway Safety	20.600		406,483	151,692	252,106	154,377
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			40,362,797	9,067,106	28,531,131	11,831,666
CORPORATION FOR NATIONAL SERVICE						
Direct Program--						
Retired Senior Volunteer Program:						
Title II, Part A, Older Americans						
Volunteer Program:						
Calendar year, 2005		25042026519035	76,593	43,947	76,593	-
Calendar year, 2006		25042026519043	76,593	28,549	28,549	48,044
TOTAL CORPORATION FOR NATIONAL SERVICE			153,186	72,496	105,142	48,044
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)						
Passed Through State Department of Defense:						
Civil Defense - State and Local Emergency--						
Project Impact	83.544	25005015339050	301,589	-	270,397	31,192
Hazard Mitigation grant program:						
Citizens Corp PGM	97.053	25012005409024	25,000	1,806	1,806	23,194
Supplemental grant	97.053	25012005409001	130,176	3,128	103,186	26,990
FEMA Disaster 1640 Adm Fee	97.036	25005015123000	26,005	26,005	26,005	-
FEMA Disaster 1640 Dr Hi	97.036	25005015123000	960,774	495,072	495,072	465,702
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			1,443,544	526,011	896,466	547,078
U.S. DEPARTMENT OF TREASURY						
Passed Through State Department of Education:						
School Resource Officer Program-Project Outreach						
Gang Resistance Education and Training, fy 2006	21.053	2004-JV-FX-0120	42,499	9,856	9,856	32,643
Criminal Assets Forfeiture		25004005509081	37,747	23,849	24,536	13,211
TOTAL U.S. DEPARTMENT OF TREASURY			80,246	33,705	34,392	45,854

County of Kauai

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

<u>Federal Grantor/Pass-through Grantor/Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>	<u>Total Cumulative Expenditures</u>	<u>Grant Balance</u>
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed Through State Department of Defense:						
Homeland Security, Part I	97.067	25012005409020	\$ 599,400	\$ 282,787	\$ 416,597	\$ 182,803
Homeland Security, Part II	97.067	25012005409021	2,250,000	318,820	338,798	1,911,202
State Homeland Security	97.004	25012005409022	1,960,060	90,520	157,039	1,803,021
Wind Design Code Project	97.017	EMF-2005-PC-0004	135,000	4,826	4,826	130,174
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>4,944,460</u>	<u>696,953</u>	<u>917,260</u>	<u>4,027,200</u>
TOTAL ALL FEDERAL PROGRAMS			<u>\$ 83,003,633</u>	<u>\$ 22,617,383</u>	<u>\$ 57,915,636</u>	<u>\$ 25,087,997</u>

County of Kauai

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Labor		
Workforce Investment Act Youth Activities	17.259	\$ 157,736
Workforce Investment Act Adult Program	17.258	51,662
Workforce Investment Act Dislocated Workers	17.260	67,974
One-Stop Administration of Workforce Investment Act Programs	-	39,477
Total U.S. Department of Labor		<hr/> 316,849
U.S. Department of Housing and Urban Development		
Community Development Block Grants: Small Cities Program	14.219	714,257
U.S. Department of Health and Human Services		
Special Programs for the Aging, Title III, Part B Grants for Supportive Services	93.044	85,848
Special Programs for the Aging, Title III, Part C, Nutrition	93.045	176,237
Total U.S. Department of Health and Human Services		<hr/> 262,085
Grand Total		<hr/> <hr/> \$ 1,293,191

PART IV

Schedule of Findings and Questioned Costs

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes ___ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes ___ none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes ___ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes ___ none reported

Type of auditor’s report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes ___ no

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
14.871*	<i>Department of Housing and Urban Development</i> Section 8 Housing Choice Vouchers
14.219	
	<i>Community Development Block Grant – Small Cities Program</i>
	<i>Department of Transportation</i>
20.205*	Highway Planning & Construction
	<i>Department of Homeland Security</i>
97.067*	Homeland Security Grant Program
97.004*	State Homeland Security Grant Program

* Indicates program selected for testing

Dollar threshold used to distinguish between type A and type B programs? \$676,085

Auditee qualified as low-risk auditee? yes no

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section II – Financial Statement Findings

Finding No.: 06-01

Capital Assets Additions Not Recorded

During the year, the County identified approximately \$26 million in capital assets acquired in previous years (1970 through 2005) not recorded on the fixed asset register. As a result of this error, the County's beginning net asset balance was restated in the statement of activities of the County's basic financial statements as of June 30, 2006.

The majority of these assets were acquired through transactions that occur infrequently and include donation, judgment, insurance recovery, and a contract administered by FEMA on behalf of the County. Based on discussion with management, the majority of the omissions were caused by a lack of communication due to the unusual nature in which the assets were procured.

Furthermore, we noted that the County's annual physical inventory count of capital assets failed to identify the missing assets. County inventory procedures include instructions to identify capital assets not included in the department/agency listing for follow-up. Proper adherence to inventory procedures could have identified the missing assets earlier.

Failure to record capital assets limits the County's ability to assess and evaluate its capital asset needs and proper utilization.

Recommendation

We recommend that the County place an emphasis on the completeness of its annual inventory count procedures to ensure that all capital assets are properly accounted for. The County should also revisit its procedures over recognition of capital assets with an emphasis on acquisition transactions other than contracts and purchases.

Finding No.: 06-02

Government-Wide Financial Statements – Accrual Accounting

Based on testing performed throughout the audit, we noted several instances where the County failed to properly record transactions in the government-wide financial statements (accrual-basis). In two instances, the County's failure to properly record the accrual adjustments resulted in the restatement of beginning net assets in the statement of activities of the County's basic financial statements as of June 30, 2006. The restatement recorded was to properly reflect approximately \$622,000 in expenses and approximately \$902,000 in revenues in the prior fiscal year. In addition, the County did not properly accrue approximately \$1.5 million in expenses and \$82,000 in revenues in the current fiscal year.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section II – Financial Statement Findings

Under Statement No. 34 of the Governmental Accounting Standards Board - *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (GASB 34)* implemented in 2003, the County is responsible for fund financials under the current financial resources – modified accrual basis and on the full accrual basis of accounting for government-wide and enterprise fund statements. After years of working on the modified accrual basis, it is noted that a majority of the fiscal personnel do not possess the level of training to identify and account for transactions under the full accrual basis of accounting.

Inadequate number of trained personnel and formal procedures to identify accrued related transactions at the departmental level increases the potential for misstatements in the respective GASB 34 financial statements. In addition, the lack of personnel was a primary cause for the delays in completing the County's comprehensive annual financial report.

Recommendation

The County should consider training or hiring more individuals to improve timelines and accuracy of the government-wide financial statements. In addition, the County of Kauai should develop formal procedures/checklists to help ensure the identification and timely communication of transactions that, albeit not recorded in the modified accrual financial statements, should be reflected in the statement of net assets or statement of activities.

Finding No.: 06-03

Risk Management

During our testing of the County's self-insured workers' compensation program, discrepancies were identified in reports used by the County to summarize workers' compensation activity for the projection of reserves by the County's actuary. Discrepancies identified relate to a technical glitch in the systems of the County's claims administrator resulting in the omission of approximately \$6.8 million of claim activity. The omission of this claim activity skewed the results of the actuary's projection of losses, resulting in an understatement of approximately \$2.1 million.

The County obtained an actuarial analysis of its claims to obtain an estimate of its workers compensation losses. Failure to provide the proper information for analysis increases the potential that significant loss estimates may be incorrectly calculated and recorded.

Recommendation

We recommend that the County review the information that it provides to third parties for analysis to ensure that the information reconciles to County records so an accurate analysis can be performed.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section II – Financial Statement Findings

Finding No.: 06-04

Grant Management

Based on procedures performed on the County's schedules monitoring grant activity (State, Federal, Construction), out of 18 programs tested, we noted seven programs with exceptions. The following summarizes the exceptions noted:

1. Failure to properly close the grant (three programs)
2. Failure to post expenditures to the correct grant (two programs)
3. Failure to properly reclassify expenditures to the grant (four programs)

The primary reason for the errors noted above was the failure to communicate expenses relating to qualified grant expenditures, especially when the grant administrator is not the fiscal officer of the department/agency. It was also noted that not all grant administrators reconcile their data to the general ledger.

For fiscal year 2006, approximately 32% of the County's projects and operations were funded through grants. Failure to properly track grant activity can impair planning and budgeting decisions due to the inaccuracy of information on available funds.

Recommendation

We recommend that the County place in operation controls to ensure project activity is reconciled to the general ledger in conjunction with the submission of grant reports to oversight bodies. It is further recommended that each department/agency review all of its grants at least annually to validate grant balances.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs

Finding No.: 06-05

CFDA No.: 97.067, 97.004

Program: State Homeland Security Grant Program

Federal Agency: Department of Homeland Security

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Capital Asset Management

During our testing of controls over equipment and real property management, we noted that the physical inventory of the Kauai Civil Defense Agency capital assets did not account for all items received as of year-end, including items purchased with program funding. As mentioned in finding 06-01, physical inventory observations are also intended to support the completeness of the County's fixed asset register. Failure to identify assets not currently recorded may lead to material omissions.

We further note that the completeness of the capital asset inventory is critical for the Kauai Civil Defense Agency in relation to this particular program as assets purchased relate to equipment used by other agencies (police, fire, etc.):

The failure to recognize and record fixed assets by the County affects the County's ability to properly manage, maintain, and safeguard its capital resources.

Recommendation

We recommend that the County have its departments and agencies revisit existing physical inventory procedures and further emphasize that all depreciable property not included on the capital register should be identified as a discrepancy for further investigation.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs

Finding No.: 06-06

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

HUD Income Targeting

Based on our review of new admissions to the Housing Choice Voucher Program from the waitlist, we noted the County was not in compliance with HUD Income Targeting Requirements which requires at least 75% of new admissions to be in the extremely low income range. Based on the results of 2006 program admissions, only 54% of new admissions fell into the extremely low income range.

Based on our understanding, the reason Kauai County Housing Authority (KCHA) did not meet HUD Income Targeting Requirements was because of efforts to improve utilization of housing vouchers in order to maintain the same level of Federal funding. This effort included turning over the waitlist twice and changing KCHA's waitlist preference policy from an income basis to a first-come first-serve basis. After instituting the changes to the preference policy and turning over the entire waitlist, the County currently does not maintain the necessary information or have procedures in place to ensure compliance with HUD Income Targeting Requirements.

Based on discussions with a representative of the Honolulu HUD Office, KCHA should maintain the data and controls to monitor compliance with income targeting requirements. It was further noted that although a one-time violation does not lead to any sanctions, continued violations could jeopardize program funding as it would display a divergence from the program objectives. Given the County's circumstances it is also noted that waivers may be obtained from HUD.

Recommendation

We recommend the County maintain information on the income level of new admissions and establish controls to monitor its compliance with HUD Income Targeting Requirements. If similar efforts are made to expand the program in future periods, we recommend that the County attempt to obtain a waiver from HUD or come to an agreement on plans for program expansion.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs

Finding No.: 06-07

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: \$9,938

Eligibility

Similar to prior year finding 05-01, the County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. During our testing, we noted that certain of the County's controls to monitor eligibility were ineffective which led to the following:

1. For three participants, forms required to substantiate dependent allowance were not included in the file.
2. For one participant, outdated data was utilized to calculate self-employment income.
3. For seven participants, annual income was incorrectly calculated.
4. For ten participants, one or more required documents to verify self-employment income were missing.
5. For one participant, the name of the household member per reflected on the Disability Certificate did not agree to the Family Report.
6. For one participant, the disability allowance was applied without the doctor's acknowledgment on the Disability Certificate form.
7. For two participants, commissions and/or overtime wages were incorrectly excluded from participants' annual income.
8. For one participant, no documentation was on file to support a dependent allowance for an adult member of the household.
9. For two participants, utility allowance was incorrectly calculated.
10. For one participant, income was incorrectly entered into HAPPY system.
11. For one participant, the Child Support/Alimony Certification form required to support head of household status and household income was not in the file.
12. For one participant, the qualifying medical expenses were not deducted from participant's annual income.
13. For two participants, there were no indications that the Housing Quality Standards were met.
14. For one participant, the bank account balance was incorrectly entered into the HAPPY system.
15. For one participant, the required identification documents were not included in the file.
16. For four participants, forms required to verify assets were not included in the file.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs (continued)

Recommendation

We recommend that the County enforce the implementation of its quality control program described in its prior year corrective action plan. Implementation of its corrective action plan would identify areas requiring more attention by management and ultimately reduce the number of errors.

Finding No.: 06-08

CFDA No.: 20.205

Program: Highway Planning and Construction

Federal Agency: Department of Transportation

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Davis-Bacon Act and Sampling Requirements

During our review of the County's Federal Highway projects, it was noted that records for one project were not complete and up to date. This project was missing required records for compliance with Davis-Bacon and Sampling requirements. Exceptions noted are isolated to one particular project due to the unique model of project management.

Per discussion with County engineers it was noted that controls over file maintenance for this particular project were neglected to address staffing shortages and heavy workloads. Mitigating controls over monitoring the job were deemed sufficient given the circumstances of the project. Mitigating controls in place include a County building inspector on-site daily to monitor project progress. Documented in the building inspector's reports were observations for corroboration against project records received from the contractor to support the Davis-Bacon and sampling requirements.

Despite the existence of mitigating controls, records to support sampling and Davis-Bacon requirements must be maintained to comply with federal regulations. It was noted that by the end of audit fieldwork, all files related to this project were properly filed and up to date.

Failure by the County to maintain records could jeopardize funding for future projects.

Recommendation

We recommend that the County work to ensure that project files are maintained properly to ensure compliance with the Davis-Bacon and sampling requirements.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 06-09

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

HQS Inspections

Pursuant to Kauai County Housing Agency (KCHA) policies and procedures, all failed HQS inspections noted during the year are to be filed in a separate binder for review by program management. Based on our review of the folder and discussions with program management, no failed inspections were reported. However, during our eligibility testing we noted two out of 96 participant files included a notice of failed HQS inspection. It is further noted that these instances were not communicated to program management. In both cases failure to file the failed HQS inspections were an oversight by the housing inspectors. Based on our discussion with the County's Housing Inspectors, these were the only two instances of failed inspections and in both instances, the inspectors properly performed follow up visits to ensure the deficiencies were corrected.

Unreported failed HQS inspections impair management's ability to monitor program activity and may compromise the safety of participants.

Recommendation

We recommend that the KCHA revisit HQS Inspection policies and procedures with its inspectors to emphasize the need to communicate failed inspections with program management.

Finding No.: 06-10

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Housing Assistance Payment Register

In obtaining an understanding of controls over the Housing Assistance Payment (HAP) Register, it was noted that certain controls to ensure the accuracy of amounts paid to landlords and ultimately billed to HUD, were not in place. Based on the Kauai County Housing Agency's policies and procedures, controls over the HAP Register include:

1. Vouch disbursements for 3% of participants each month to the HAP contract to ensure the disbursement amount and payee are correct.
2. For a sample of participants, vouch HAP reported to HUD to the HAP contract and HAP disbursement register.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs (continued)

During the year it was noted that these control procedures were not performed. Procedures performed were limited to reconciliations for monthly disbursements in total to the HAP Register and did not include a review of details.

Performance of these controls is critical in maintaining the integrity of the HAP Register and HAP disbursements. Any discrepancies in the HAP register and/or HAP disbursements would be considered a questioned cost for the program.

Recommendation

We recommend that the County enforce controls as outlined in the Kauai County Housing Agency's policies and procedures with regard to its Housing Choice Voucher Program.

Finding No.: 06-11

CFDA No.: 14.871

Program: Section 8-Housing Choice Voucher Program

Federal Agency: U.S. Department of Housing and Urban Development

Award Period: July 1, 2005 – June 30, 2006

Questioned Costs: None

Reporting

In obtaining an understanding of controls over program reporting, we noted that there were no controls in place to monitor the County's reporting submissions. It was noted that during the year, HUD changed report submission procedures moving to a strict electronic/paperless process. In prior years, report submissions included a paper submission with upper-management sign-off facilitating a review process. As no paper submission was required, reports were submitted upon completion and not subject to any review.

It is noted that reports capture key program statistics. Failure to monitor program reporting compromises the County's ability to identify early, performance deficiencies. Failure to review program reporting could potentially compromise the accuracy and completeness of the reported information.

Recommendation

We recommend that the County place in operation controls that require a second person review of program reports prior to submission. This review and its results should be documented and signed off. Such a control could include a report preparation checklist that is used and signed off by the preparer and signed off by the reviewer upon comparison with the report.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section IV – Summary Schedule of Prior Audit Findings

Finding No.: 05-01

CFDA No.: 14.871

Program: Housing Choice Vouchers Program

Federal Agency: Department of Housing and Urban Development

Award Period: July 1, 2004 – June 30, 2005

Questioned Costs: \$4,008

Monitoring Eligibility

The County is required to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, County caseworkers assess whether or not applicants are eligible to participate in the program based on Federal and County eligibility guidelines. When caseworkers complete the application and assessment process, management reviews the participant files to ensure completeness and eligibility. During our testing, we noted that certain of the County's controls to monitor eligibility were ineffective which led to the following:

1. For three participants, compliance with Housing Quality Standards (HQS) cannot be substantiated as final determination of Pass or Fail status was not completed.
2. For two participants, utility allowance was incorrectly calculated.
3. For four participants, forms required to verify income were not included in the file.
4. For six participants, annual income was incorrectly calculated.
5. For two participants, interest income was incorrectly excluded.
6. For one participant, asset valuation calculation was performed incorrectly.
7. For one participant, bank account balance was incorrectly entered into HAPPY system.
8. For one participant, income was incorrectly entered into HAPPY system.
9. For three participant files, age and number of dependents could not be substantiated.
10. For one participant, savings account information incorrectly excluded from Family Report
11. For one participant, asset valuation was not verified.
12. For one participant, food stamp benefit amount incorrectly excluded from Family Report.
13. For four participants, income incorrectly excluded from Family Report.
14. For one participant, prior year's pension income was utilized in current year HAP calculation.
15. For one participant, social security number did not agree to Family Report.
16. For one participant, date of birth did not agree to Family Report.
17. One participant was not provided with a Privacy Act notice as required by 24CFR 5.212.
18. For one participant, two required fields in Family Report were blank.
19. For one participant, the Family Report was not updated for a change in rent.

The results above are based on our testing of 92 randomly selected participant files. In addition to the items noted above, the actual questioned costs of \$4,008 indicate that the likely questioned costs represent a material noncompliance with respect to allowable costs for this program.

County of Kauai

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section IV – Summary Schedule of Prior Audit Findings (continued)

Corrective Action Plan

The County has taken further measures to improve and implement its system of quality control, as described in the prior year corrective action plan, to reduce the number of errors and/or omissions that are negatively affecting the program. Such measures include stricter document submission requirements for program admissions and re-examinations, requiring caseworker sign-offs on participant file checklists, and filling the vacant program manager position.

Status

We inquired with program management regarding the status of the corrective action plan and were informed that the program manager that was hired at the beginning of the year was terminated in the middle of the year. It was also noted that one of the four caseworkers retired in the beginning of the year. As such, the County was unable to fully implement its system of quality controls as described in its prior year corrective action plan. It was however able to implement its controls over required documentation submissions and caseworker sign-offs.

During the year the assistant program manager was promoted to program manager and a new assistant manager was hired subsequent to year-end. As such, program management hopes to be able to fully implement its system of quality control in fiscal year 2007.

Finding still applicable. See Finding 06-07.

Finding No.: 05-02

CFDA No.: 93.044, 93.045

Program: Special Programs for the Aging (Cluster)

Federal Agency: Department of Health and Human Services

Award Period: July 1, 2004 – June 30, 2005

Questioned Costs: None

Reporting

In accordance with its contract with the State of Hawaii, the County is required to submit quarterly performance reports within 20 calendar days after quarter end and an annual financial report within 60 days after year end. During our testing we noted that the County did not submit 3 out of 4 performance reports. We further noted that the annual financial report was submitted subsequent to the required 60 day timeline. Failure to submit the required reports may jeopardize the programs funding.

Corrective Action Plan

The County has filled the post that was vacant in the prior year, which was the major contributing reason for the deficiency in reporting.

Status

The County has hired additional personnel in the Department filling vacant positions that contributed to the late report filings. We noted all reports for the current year were filed in a timely manner.

Finding no longer applicable.