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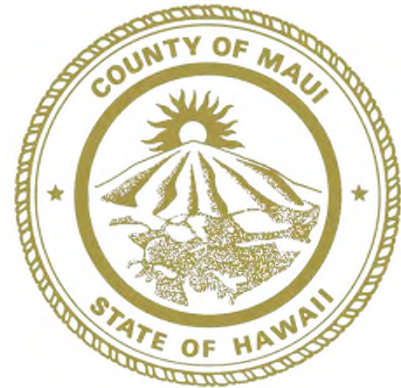
F R O M: Kauanoë Batangan, Chair   
Government Relations, Ethics, and Transparency Committee

SUBJECT: **TRANSMITTAL OF INFORMATIONAL DOCUMENT RELATING TO  
COUNTY OF MAUI FRAUD RISK ASSESSMENT** (GREAT-5(8))

The attached informational document pertains to Item 5(8) on the Committee's agenda.

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Attachment



# **COUNTY OF MAUI**

## **FRAUD RISK ASSESSMENT**

Submitted by Spire Hawaii LLP for  
the Office of the County Auditor,  
County of Maui, State of Hawai'i  
February 2026

## **PREFACE**

This engagement was designed to assess executive departments of the County of Maui (Maui County or County) for countywide fraud risks and antifraud processes. We would like to thank all who participated in the surveys, interviews, and data requests, especially the Mayor and Councilmembers, department heads, and County fiscal and procurement professionals.

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## EXECUTIVE SUMMARY

Maui County's awareness of fraud risk has increased in recent years because of incidents involving County employees. We were engaged to assess the fraud risks and antifraud processes of 20 of the 21 executive departments<sup>1</sup> to determine whether existing controls address fraud risks.

We found that the County's existing controls are not adequate to mitigate likely fraud risks because they do not cover significant areas of fraud exposure. We identified significant coverage gaps in the current controls:

- There are no controls designed to mitigate fraud risk when Hawai'i Revised Statutes (HRS) chapter 103D and Hawai'i Administrative Rules (HAR) section 3-122, subchapter 10 (collectively called the Procurement Law) are suspended by emergency proclamations.
- There is no countywide nepotism policy.
- Comprehensive fraud monitoring programs and procedures have not been established for vendors who perform outsourced County services.
- Except for public safety, law enforcement, parks and recreation, and selected fiscal positions, existing hiring processes do not focus on screening job applicants for fraud risk.
- There are gaps in countywide procedures for approving and monitoring overtime to ensure overtime is properly paid, fraudulent claims are prevented, and compliance risks from federal and State overtime laws are mitigated.
- Conflicting statements and unclear oversight roles between the Department of Water Supply (DWS) and the Department of Finance (DOF) have created uncertainty about how DWS's fiscal and procurement processes are reviewed and monitored.

*Key ideas found in the full report:*

*Gaps in antifraud internal controls.....pg. 6*

*Fraud Risk Management Framework .....pg. 11*

*County's disconnected perception of fraud risk.....pg. 15-16*

*No consistent fraud reporting process .....pg. 18*

We also found that there is no countywide process for reporting, investigating, and responding to fraud. Instead, multiple County entities receive, investigate, and make decisions on fraud incidents.<sup>2</sup> Each uses their own processes and standards, resulting in confusion and potentially inconsistent dispositions of fraud incidents and sanctions.

<sup>1</sup> The Salary Commission was excluded from the scope because it does not have staff.

<sup>2</sup> The DOF, Department of Management (DOM), Mayor, Department of Personnel Services (DPS), Department of the Corporation Counsel (COR), Department of Police (MPD), Department of the Prosecuting Attorney (PA), individual department heads, and the Ethics Commission all receive and respond to reports of alleged fraud.

Our findings were based on information and documents submitted by the County, results of surveys issued to County officials and employees, and information provided by department heads in interviews. We also conducted research on fraud mitigation measures utilized by other organizations.

We made five recommendations to address these findings. Although the County disagrees with certain findings, it agrees with the recommendations.

### **Report Attachments**

Attachment A is a complete copy of Management's Response.

Other attachments provide greater detail about the assessment methodology (Attachment B), survey responses (Attachment C), departmental enhancements to prevent fraud and potential departmental fraud risks (Attachment D), and a glossary of relevant acronyms and terms (Attachment E).

## **CHAPTER 1 – INTRODUCTION**

### **Assessment Objectives, Scope, and Methodology**

The scope of the engagement was to assess the fraud risks and antifraud processes of 20 of the 21 departments identified in Article 8 of the Charter County of Maui 2021 Edition (Maui County Charter).<sup>3</sup> Risks and processes assessed included, but were not limited to, processes for employee training and familiarity with antifraud policies (or the lack thereof), department-level antifraud procurement processes, management’s ability to override antifraud controls, and processes to prevent cash larceny, skimming, purchasing, billing, payroll, expense reporting schemes, theft and misappropriation of assets, corruption, and conflicts of interest.

The period under assessment was the calendar year 2024. Where calendar year 2024 data was unavailable, fiscal year 2024 or 2025 data was used to complete the analysis. Substituted data was reviewed to ensure it aligned with the assessment objectives and provided a consistent basis for identifying fraud risks.

Attachment B describes the methodology used in the assessment.

### **Assessment Authority and Standards**

This assessment was included in the County Auditor’s Plan of Audits for Fiscal Year 2025 pursuant to the County Auditor’s authority in Maui County Charter section 3-9.2. The assessment was conducted under the American Institute of Certified Public Accountants’ Statement on Standards for Consulting Services No. 1, CS Section 100 Consulting Services: Definitions and Standards.

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<sup>3</sup> The Salary Commission was excluded from the scope because it does not have staff.

## CHAPTER 2 – ASSESSMENTS/FINDINGS

### Finding 1

**The County’s existing controls are not adequately designed and operating to mitigate identified fraud risks. The County’s policies and procedures are not sufficient to mitigate likely fraud risks because they do not cover significant areas of fraud exposure.**

We determined the County’s existing controls were not adequately designed to mitigate identified fraud risks through the following process. First, we gathered information about the state of the County’s existing controls by requesting and analyzing policies and other information and documents submitted by the County, interviewing department heads and key County accounting and procurement personnel, and analyzing responses to surveys issued to elected officials, department heads, and employees identified by the departments as having accounting or procurement duties (the latter collectively called fiscal personnel). Next, we analyzed the information gathered to assess the adequacy of the controls.

The policies and procedures produced by the County, when read together, are not adequate to mitigate likely fraud risks because they do not cover significant areas of fraud exposure. When we reviewed the policies, we identified significant coverage gaps in the current controls. They are listed below. The list also identifies the department or departments that should be responsible for filling the coverage gaps as risk owners. Other gaps probably exist, but they cannot be identified because according to DOF, many County policies and procedures are not in writing.<sup>4</sup>

- **There are no controls in place designed to mitigate fraud risk when the Procurement Law is suspended in emergencies.** The Procurement Law and other statutory fiscal procedures are often suspended through proclamations to expedite emergency repairs or deliver essential services, causing some officials to believe that they are free to procure goods and services without any restrictions. If the emergency response includes grants to individuals or non-governmental organizations, grant funds may be distributed without adequate screening. The County could consider developing an appropriate level of fraud control in emergencies. Fraud control measures could include issuing written guidance on the types of goods and services that can be appropriately procured during emergencies and when emergency circumstances cease to exist and typical competitive procurement procedures should be used. Alternatively, the County could work with the Governor’s Office to ensure that the emergency procurement requirements in HRS section 103D-307 are not suspended in emergency proclamations or if suspended, are removed when no longer necessary. Either could help mitigate fraud risk, ensure compliance with requirements attached to federal, State and County funding, and provide assurance to the public that public funds are being used appropriately and prudently even in emergencies. Risk owners: DOM, DOF, COR, and the Maui County Emergency Management Agency (MEMA).

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<sup>4</sup> DOF represents that County employees know what to do even if policies and procedures are not in writing.

- **There is no countywide nepotism policy.** Hawai‘i County adopted a nepotism policy in 2025, leaving Maui as one of the two State government entities without a nepotism policy. The State nepotism policy is a part of the State Ethics Code and is designed to prevent favoritism. The policy prohibits executive branch employees and board and commission members from taking employment actions affecting relatives or household members or being involved in contracts awarded to businesses owned by relatives or household members.<sup>5</sup> Risk owner: DPS.
- **Comprehensive fraud monitoring programs and procedures have not been established for vendors who perform outsourced County services.** Current programs are focused on monitoring County officials and employees, but there are no overall programs or procedures to monitor vendors to detect billing or other fraud. Vendor monitoring should also include checking whether vendors have appropriate antifraud controls within their own organizations. These controls are especially important for vendors who collect fees or fares for the County. Audits or reviews of County vendor records could also be considered for vendors who have these requirements in their contracts with the County.<sup>6</sup> Risk owner: DOF.
- Except for public safety, law enforcement, parks and recreation, and selected fiscal positions, **existing hiring processes do not focus on screening job applicants for fraud risk.** While certain departments utilize added screening for employees, including those with financial responsibilities or cash handling, the practice is not countywide and does not appear to follow any uniform risk-based criteria. Further, employees in non-financial roles can still commit fraud, such as theft of physical assets, data breaches, time and leave abuse, and vendor/procurement fraud. The County cites DPS’s adherence to HRS section 846-2.7 Criminal history record checks and HRS section 378-2.5 Employer inquiries into conviction record. However, the County should be aware that most people who commit fraud do not have a criminal record prior to their first offense. The County also states that hiring departments may conduct employment verification, education verification, previous employment reference checks, and professional/personal reference checks for candidates prior to hiring. However, we are not aware of any policies or procedures that provide guidance on when departments “may” or should conduct such procedures. Risk owner: DPS.

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<sup>5</sup> A resolution (HR 65) was introduced in the 2025 State legislature to urge counties to adopt ethics standards like the State’s.

<sup>6</sup> Examples of contract provisions allowing audits and examinations of records include the County’s General Conditions for Goods and Services, paragraph 32 (Ver. 9/17/2023) and General Conditions for Construction, Special Conditions for Contracts Utilizing Federal Funding Including FEMA Funding paragraph O (Ver. 9/11/2023).

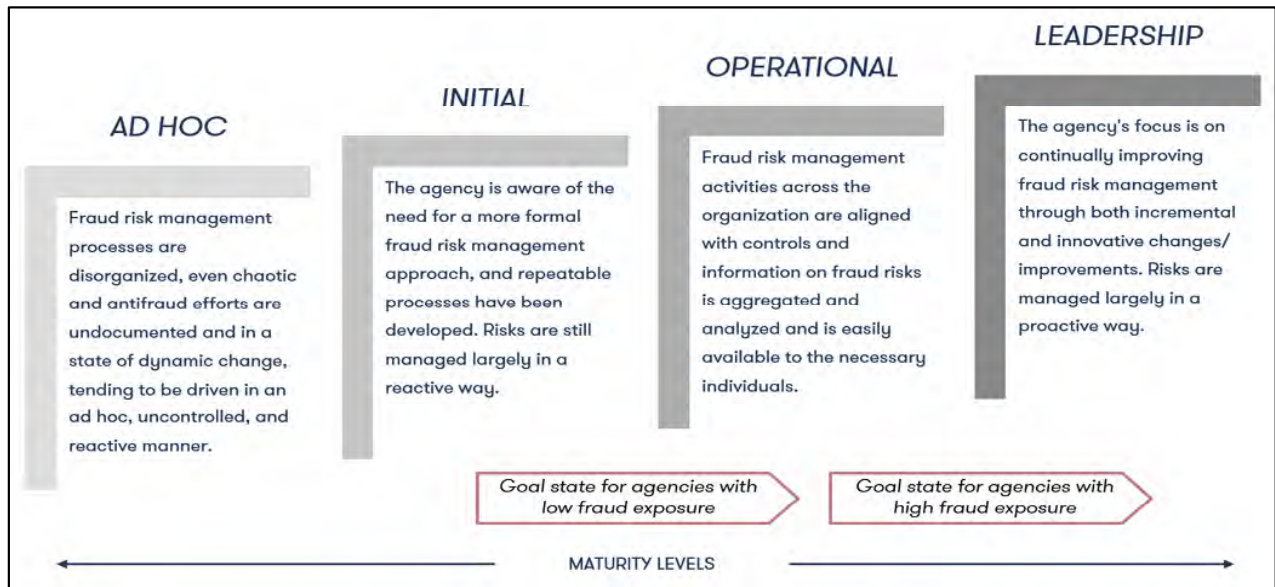
- **There are gaps in countywide procedures for approving and monitoring overtime** to ensure overtime is properly paid, fraudulent claims are prevented, and compliance risks from federal and State overtime laws are mitigated. The County’s Payroll Policies and Procedures (“PPP”) have the following inconsistencies and gaps related to overtime approval and monitoring:
  - The PPP states that the Overtime Request Form “must be submitted in advance for pre-approval by employee anticipating overtime work, and includes estimated work times and description of overtime work to be performed... The supervisor reviews and approves the O/T form if the overtime work is warranted, then sends it for division head and director approval. A copy is returned to the employee to inform him/her of pre-approval.” However, the Overtime Request Form itself lists the supervisor as the Requestor. This inconsistency can lead to an employee requesting overtime for work that they chose to do (as opposed to it being required and requested by the supervisor).
  - Manual timesheets require the Overtime Request Form to be attached to the timesheet. However, for Automated Timesheets, the PPP does not state that the Overtime Request Form needs to be attached to the timesheet in any form, and that the employee should only retain a copy for his/her records. The PPP does not state how long the copies should be retained for.
  - The PPP does not have any explicit exception process if overtime is worked without an approved form. In addition, there is no guidance on whether a re-approval should occur if, for example, a pre-approval was for two hours of overtime, but an employee worked four hours of overtime.
  - The PPP approval process does not include any risk-based or threshold approvals. For example, the approval process appears to be the same whether the request is for two hours or 20 hours.
  - While the County states that directors and deputies “have the ability” to monitor overtime incurred, the PPP does not provide guidance on maintaining evidence that overtime has been monitored. Further, the PPP does not provide guidance on what constitutes “authorized overtime,” and how supervision or other approvers should be trained in recognizing overtime abuse or liability. Risk owner: DPS.

- **Conflicting statements and unclear oversight roles between the DWS and the DOF have created uncertainty about who is responsible for reviewing and monitoring DWS's fiscal and procurement processes.** The DWS accounts for eight percent of the County's budget and employs seven percent of the County's employees. It is also responsible for more than 17 percent of the total procurement transactions of the departments under assessment. The DWS Director stated that DOF reviews transactions before approval; however, DOF reported that its involvement with DWS transactions is limited to issuing checks. This discrepancy suggests a need for clarification of fiscal oversight responsibilities between the two departments. The billing and collection process for water and sewer fees is managed entirely within DWS and not overseen by the DOF. The DOF states it has no fiscal responsibility for DWS because DWS was given its own fiscal officer in 1993. However, after this position was created, DWS lost its semi-autonomous status and became a department of the executive branch through a charter amendment, effective December 5, 2002. From that date, it is unclear why the fiscal processes and transactions of DWS were not subject to the same DOF oversight and guidance as the other County departments.<sup>7</sup> Risk owners: DOF, DWS.

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<sup>7</sup> The State procurement law has not been changed to reflect the 2002 charter amendment, since HRS subsection 103D-203(b)(3) still lists the Maui manager and chief engineer as DWS's chief procurement officer. However, the State Procurement Office's list of chief procurement officers on its website does not include the current DWS manager and chief engineer.

Another way of measuring the adequacy of the County’s existing antifraud efforts is by using criteria developed by the federal government:<sup>8</sup>



Based on the information gathered during fieldwork, we concluded that the County’s antifraud program was at the lowest, or ad hoc, level of maturity because the County’s existing controls were not the products of a design process but were developed and implemented in an ad hoc and reactive manner. However, the County is making progress toward advancing to the next (“Initial”) level by recognizing the need for this fraud risk assessment, implementing a countywide security policy, and forming a group to review and improve existing policies.

<sup>8</sup> Program Integrity: The Antifraud Playbook, <https://www.cfo.gov/assets/files/Interactive-Treasury-Playbook.pdf>.

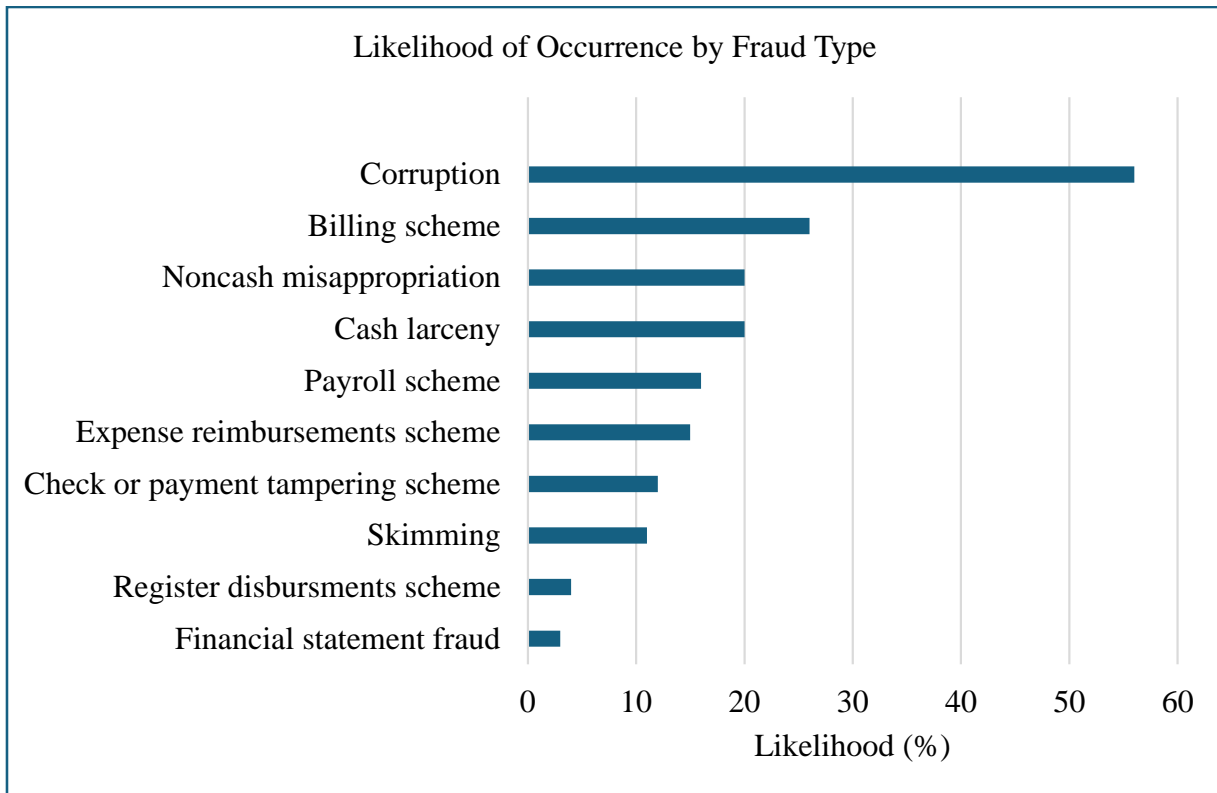
To produce controls that are adequately designed to mitigate identified fraud risks, gap-free, and effective, the County should consider developing a fraud mitigation program through a process of continual improvement, where fraud risks are identified, mitigation strategies are developed and evaluated for effectiveness, and efforts are made to create and maintain an organizational culture that supports fraud risk management. Leading practices and guidance for fraud mitigation programs are illustrated in the GAO framework<sup>9</sup> shown below. The Antifraud Playbook also offers concrete suggestions for antifraud program development.



“Assess” process: This process requires the County to assess its risks. Resources from internationally recognized antifraud organizations such as the Association of Certified Fraud Examiners (ACFE) could provide helpful information for the assessment. As examples, the ACFE’s studies<sup>10</sup> on occupational fraud identify the fraud types most likely to occur in governments and the likelihood of their occurrence.

<sup>9</sup> Internal control framework diagram from GAO’s [The Framework for Managing Fraud Risks in Federal Programs](https://www.gao.gov/assets/gao-15-593sp.pdf), <https://www.gao.gov/assets/gao-15-593sp.pdf>, page 2.

<sup>10</sup> The latest study is entitled [Occupational Fraud 2024: A Report To The Nations](#) (ACFE Report).



Definitions for the top five fraud types are listed below. Definitions for the other fraud types can be found in the Glossary, Attachment E.

1. **Corruption** - A scheme in which an employee misuses their influence in a business transaction in a way that violates their duty to the employer to gain a direct or indirect benefit (e.g., schemes involving bribery or conflicts of interest).
2. **Billing scheme** - A fraudulent disbursement scheme in which a person causes their employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases (e.g., employee creates a shell company and bills employer for services not actually rendered; employee purchases personal items and submits an invoice to employer for payment).
3. **Noncash misappropriation** - Any scheme in which an employee steals or misuses noncash assets of the victim organization (e.g., employee steals inventory from a warehouse or storeroom; employee steals or misuses confidential customer information).
4. **Cash larceny** - A scheme in which an incoming payment is stolen from an organization after it has been recorded on the organization's books and records (e.g., an employee steals cash and checks from daily receipts before they can be deposited in the bank).
5. **Payroll scheme** - A fraudulent disbursement scheme in which an employee causes their employer to issue a payment by making false claims for compensation (e.g., employee claims overtime for hours not worked; employee adds ghost employees to the payroll).

Noncash misappropriation and corruption were identified by respondents to our surveys as fraud risks with a medium or high probability of occurring.<sup>11</sup>

Our evaluation of the County’s existing controls related to the top five fraud risks is summarized below:

<b>Fraud Risk</b>	<b>Controls/Policies in Place</b>	<b>Gaps/Risks</b>
Corruption	Partially addressed by Purchasing Policy and Procedures Manual (Purchasing Manual); Gifts Protocol Quick Guide; Mandatory Provisions – Purchasing (Mandatory Provisions); Campaign Restrictions For All County Employees (Campaign Restrictions); Maui County Charter, Article 10, Code of Ethics and Maui County Code Chapter 2.56 (collectively, County Ethics Laws), HRS 103D	There is no nepotism policy, campaign restrictions require compliance with County and State ethics laws although the two are not identical; board and commission members are required to file financial disclosures but are not subject to antifraud controls in the County Ethics Laws; Purchasing Manual excludes the DWS and legislative branch; conflicting statements and unclear fiscal and procurement oversight roles between DWS and DOF; unclear whether the Mandatory Provisions is a policy or procedure.
Billing scheme	Partially addressed by Request For Payment Reimbursement (Request for Reimbursement); Travel Policy and Procedures Manual (Travel Policy); Mandatory Policy – Purchases; County Ethics Laws	No countywide procedures for approving and monitoring overtime; unclear whether the requirement in the Request for Reimbursement that all purchases be made by purchase orders or contracts is enforced or monitored.
Non-cash misappropriation (including theft of equipment and proprietary information)	Partially addressed by County of Maui Security Policy (Security Policy); Computer Usage Policy; County Ethics Laws	Security Policy sanctions are based on outdated circulars issued in 1996 and 1997; Security Policy sanctions do not apply to FPS and MPD; no evidence that fraud detection tools are in use.
Cash larceny	Partially addressed by Cash Handling Policy and Procedures Manual (Cash Handling Manual); Treasury – Real Property Tax Collections - Tax Relief Section (Real Property Tax Collection Processes); County Ethics Laws	No evidence that the draft Cash Handling Manual has been fully implemented; Cash Handling Manual does not state it is applicable to DWS or vendors and volunteers who collect cash for the County; the documents produced by the County do not verify that all departments follow policies similar to the Real Property Tax Collection Processes; there is no evidence that fraud detection tools are in use.
Payroll scheme	Partially addressed by County Ethics Laws	No antifraud processes specific to the payroll function were provided so gaps and issues could not be identified.

<sup>11</sup> Based on the survey of department heads and their fiscal personnel.

A finding by the ACFE could help the County begin to identify where fraud could occur. The finding is that organizations experience losses of five percent of revenues due to fraud each year.<sup>12</sup> This finding indicates that fraud risk is related to revenues, so departments with the most revenues could be expected to experience the greatest fraud losses.

Using the ACFE’s approach, we ranked the departments that pose the greatest potential for fraud risk using the FY 2025 budget. The rankings indicate that the five departments with the greatest potential exposure to fraud risk are the DOF, Department of Environmental Management (DEM), Department of Public Works (DPW), MEMA, and DWS.

<b>Department</b>	<b>County Funds</b>	<b>Grant Revenue Fund</b>	<b>Total</b>
Department of Finance	\$381,182,332	\$1,858,562	\$383,040,894
Department of Environmental Management	\$162,454,970	\$972,396	\$163,427,366
Department of Public Works	\$127,207,336	\$20,633,000	\$147,840,336
Maui County Emergency Management Agency	\$17,054,328	\$102,000,000	\$119,054,328
Department of Water Supply	\$106,986,394	\$9,350,000	\$116,336,394
Department of Management	\$102,395,502	\$300,000	\$102,695,502
Department of Fire and Public Safety	\$80,369,974	\$6,930,000	\$87,299,974
Department of Police	\$80,484,618	\$5,224,882	\$85,709,500
Department of Transportation	\$37,718,036	\$19,225,000	\$56,943,036
Department of Parks and Recreation	\$56,409,855	\$150,000	\$56,559,855
Department of Housing	\$8,501,163	\$32,614,093	\$41,115,256
Department of Human Concerns	\$27,014,794	\$4,471,267	\$31,486,061
Department of the Prosecuting Attorney	\$9,652,926	\$1,320,000	\$10,972,926
Department of Planning	\$8,486,464	\$508,912	\$8,995,376
Department of Agriculture	\$8,231,016	\$0	\$8,231,016
Department of the Corporation Counsel	\$5,380,568	\$0	\$5,380,568
Department of Liquor Control	\$3,702,468	\$0	\$3,702,468
Department of Personnel Services	\$2,410,981	\$0	\$2,410,981
Department of ‘Ōiwi Resources	\$1,428,359	\$0	\$1,428,359
Maui County Community Water Authorities	\$590,160	\$0	\$590,160

CAVEAT: Calculations of the departments’ fraud risk rankings using the ACFE finding illustrate relative financial exposure and do not reflect known fraud or actual risk.

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<sup>12</sup> ACFE Report, page 5.

We want to emphasize that the rankings should only be used as a starting point for a wider assessment of other factors that could contribute to departmental fraud risk. For example, new departments, departments with new programs or experiencing structural change, and departments that have or will receive significant new revenues may have increased risk potential because the effectiveness of their processes and procedures have not been verified under the new conditions. Departments that may have increased risk potential because of these factors are:

- New departments: The Department of ‘Ōiwi Resources (OR) was established on July 1, 2024, and the Maui County Community Water Authorities (MCCWA) were established on July 1, 2023.
- Departments with new programs or experiencing structural change: DOM, DOH, and DOC. DOM’s Office of Recovery was established after the wildfires on December 27, 2023. DOH and DHC were organizationally split on July 1, 2024.
- Departments with significant new revenues: DOH will reportedly receive \$47 million for affordable housing in FY 2026.

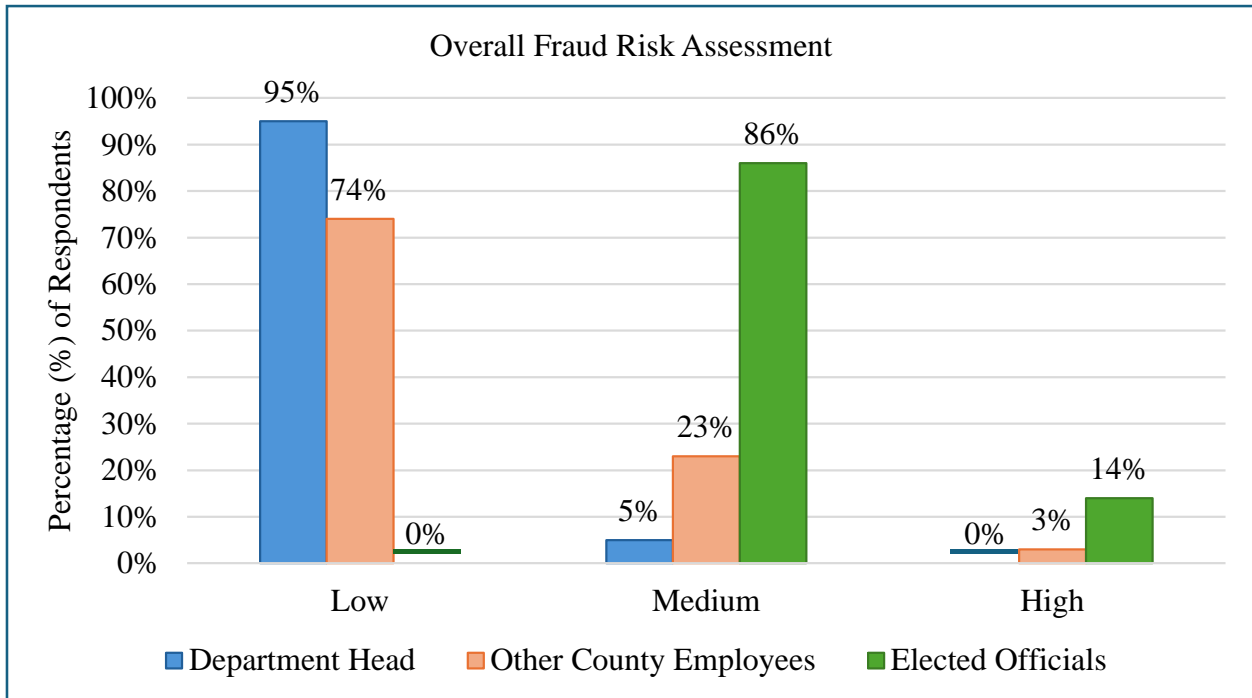
*“Design and Implement” Process:*<sup>13</sup> This process consists of designing and implementing a strategy specifically aimed at mitigating the fraud risks identified in the “Assess” process. The process involves establishing collaborative relationships with stakeholders to help ensure effective strategy implementation. The primary stakeholders are the department heads and their fiscal personnel, who will be expected to implement the strategy. However, they may not be motivated to act because they believe that fraud risk is low.

We surveyed department heads and their fiscal personnel about their departments’ overall fraud risk. The responses show that they felt that the risk was low (95 percent for department heads and 74 percent for fiscal personnel). No department head responded that their department had a high fraud risk. Given their belief that fraud risk is low, it is not surprising that 73 percent of the department heads said they were not considering actions to implement specific fraud risk management in their departments. Another indication that fraud risk management is not a priority is that four department heads did not participate in our interviews. Two department heads cancelled their scheduled interviews and did not provide alternate interview dates. The other two department heads did not respond to our requests for interviews.

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<sup>13</sup> Internal control framework diagram from GAO’s [The Framework for Managing Fraud Risks in Federal Programs](https://www.gao.gov/assets/gao-15-593sp.pdf), <https://www.gao.gov/assets/gao-15-593sp.pdf>, page 2.

Elected officials have a more realistic assessment of the County’s fraud risk. They rated the County’s fraud risk as medium (86 percent) or high (14 percent). No elected officials responded that the County had a low fraud risk.



*“Evaluate and Adapt” and “Commit” Processes:* “Evaluate and Adapt” involves evaluating fraud risk management activities and making improvements. “Commit” consists of creating an organizational culture and structure conducive to fraud risk management. The processes are not a part of the County’s existing antifraud efforts, so additional resources will need to be provided.

The County could mitigate its fraud risk by developing a countywide internal control system. In government, internal control systems provide reasonable assurance that government units will achieve their objectives, increase their operational effectiveness and efficiency, safeguard public funds, maintain compliance, and minimize waste and abuse.<sup>14</sup> According to the DOF, Maui County has not developed a countywide internal control system.<sup>15</sup>

<sup>14</sup> <https://osc.colorado.gov/internal-control-system>, Colorado Office of the State Controller, Effective Date: 10/25/24.

<sup>15</sup> HRS subsection 40-2(c) requires counties to establish and maintain internal control systems.

Additionally, the County could provide training to help employees recognize fraud and understand the importance of fraud prevention to the County. The ACFE Report found that organizations without fraud awareness training experienced fraud losses nearly two times more than those who did, and that tips occurred two times more frequently when training was provided.<sup>16</sup>

Survey responses showed that 58 percent of department heads feel that the lack of training is a barrier to fraud prevention. Training content recommended by department heads includes fraud and fraud prevention, how to identify and target fraud risks, and how to assess the impact of fraud on operations and fiscal conditions.

**Recommendations:**

1. To address the inadequacy of current controls, the County should consider developing and implementing fraud mitigation and internal control systems following guidance from organizations such as the GAO and COSO, who have issued frameworks for developing such systems.
2. Gaps in existing policies and procedures should be addressed as part of the process for developing fraud mitigation and internal control systems. Unwritten policies should be put in writing so gaps can be identified and addressed.
3. The County could consider providing training to its employees about what fraud is and why fraud prevention is important to the County.

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<sup>16</sup> ACFE Report, page 42.

**Finding 2 - There is no countywide process for reporting, investigating, and responding to fraud. Instead, multiple County entities receive, investigate, and make decisions on fraud incidents using their own processes and standards, resulting in confusion and potentially inconsistent dispositions of fraud incidents.**

Within the executive branch, the DOF, DOM, Mayor, DPS, COR, MPD, PA, individual department heads, and the Ethics Commission all receive and respond to reports of alleged fraud. The investigative and decision-making processes and standards these entities use may differ, so whether fraud is found and what sanctions are imposed could vary. To prevent confusion and forum shopping, the executive branch could consider clarifying the processes for reporting, investigating, and responding to fraud and the role of each entity in the process.

Currently, both the PA and COR receive reports of fraud, but their roles in the intake process are not formally defined. On the opposite side, departments must decide where to report fraud. Clarification would relieve the departments from having to make decisions on their own and ensure that entities know why fraud reports are sent to them. The clarification should also provide transparency to prospective complainants and the public about how fraud complaints are managed.

COR submits the complaints it receives to the Mayor, Managing Director, and the Ethics Commission, but there is no written policy or procedure for deciding where complaints should be directed. There are also no written policies and procedures to explain to departments how jurisdictional overlaps are resolved.

For example, department heads have traditionally been responsible for disciplinary action in their departments. MPD uses its Criminal Investigation Division and Internal Investigation Division to investigate and handle instances of criminal conduct and policy violations. Now that the Ethics Commission has received resources to investigate and determine the disposition of reported violations of County ethics requirements, it is unclear whether cases of potential fraud by uniformed MPD employees should be handled by the internal MPD process, the Ethics Commission, or both. As another example, the security policy implemented in April 2025 requires that departments report potentially criminal employee violations to MPD, the Managing Director, and the Managing Director's designee. This directive raises the question of whether department heads are prevented from investigating and determining the appropriate disciplinary actions for cases of fraud until MPD and the Managing Director act on the reported incident.

Clear explanations describing the countywide policies and processes to prevent, detect, report, and respond to fraud would improve the effectiveness of antifraud efforts by providing guidance, transparency, and reassurance to departments, complainants, and the public.

**Recommendations:**

1. The County should consider convening a group consisting of representatives from key departments to develop a countywide policy for reporting, investigating, and responding to fraud. Jurisdictional overlaps and conflicts should be addressed in this policy. From this review, the group could propose strategies for addressing these issues, including changes to the Maui County Code and departmental and agency rules, policies, and procedures. If a countywide policy is developed, it should be tested with employees from the departments and entities who will be responsible for administering the various aspects of the policy.
2. If a countywide policy is adopted, a communications and training plan could also be developed to ensure that the public, all employees, and other stakeholders are aware of how fraud should be reported, investigated, and addressed.

## ATTACHMENT A – MANAGEMENT RESPONSE

A draft report was provided to the County on August 28, 2025. The Managing Director requested an opportunity to discuss the report and provide further information, so discussions were held on October 17 and 27, 2025.

The Managing Director provided additional information. We reviewed the information and retransmitted the draft report to the Managing Director on December 8, 2025. On January 9, 2026, the Managing Director provided the County’s response. After reviewing the response, we stand by our findings.

The County disagrees with certain findings in the report but agrees with the recommendations, stating that it looks forward to working with the County Council and Auditor on these matters.

The table below lists the recommendations and the County’s responses to the recommendations.

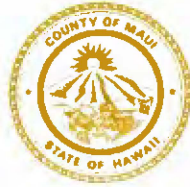
Recommendation to the County	County Administration’s Written Response
To address the inadequacy of current controls, the County should consider developing and implementing fraud mitigation and internal control systems following guidance from organizations such as the GAO and COSO, who have issued frameworks for developing such systems.	Agrees. DOF’s Internal Control Office will work with the Executive Director of the Board of Ethics to improve upon existing processes.
Gaps in existing policies and procedures should be addressed as part of the process for developing fraud mitigation and internal control systems. Unwritten policies should be put in writing so gaps can be identified and addressed.	Agrees.
The County could consider providing training to its employees about what fraud is and why fraud prevention is important to the County.	Agrees. The County has offered fraud, waste, and abuse training to department heads and key personnel, but will continue to further expand these efforts.

<p>The County should consider convening a group consisting of representatives from key departments to develop a countywide policy for reporting, investigating, and responding to fraud. Jurisdictional overlaps and conflicts should be addressed in this policy. From this review, the group could propose strategies for addressing these issues, including changes to the Maui County Code and departmental and agency rules, policies, and procedures. If a countywide policy is developed, it should be tested with employees from the departments and entities who will be responsible for administering the various aspects of the policy.</p>	<p>Agrees.</p>
<p>If a countywide policy is adopted, a communications and training plan could also be developed to ensure that the public, all employees, and other stakeholders are aware of how fraud should be reported, investigated, and addressed.</p>	<p>Agrees.</p>

**RICHARD T. BISSEN, JR.**  
Mayor

**JOSIAH K. NISHITA**  
Managing Director

**ERIN A. WADE**  
Deputy Managing Director



**DEPARTMENT OF MANAGEMENT**  
COUNTY OF MAUI  
200 SOUTH HIGH STREET  
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January 7, 2026

Mr. Tyler Kimura, Partner  
Spire Hawaii LLP  
700 Bishop Street, Suite 2001  
Honolulu, Hawaii 96813

Subject: **MANAGEMENT RESPONSE TO COUNTY OF MAUI FRAUD RISK ASSESSMENT DRAFT REPORT, Spire Hawaii LLP (12/2025)**

Aloha Mr. Kimura,

Thank you very much for your firm's work on assessing potential fraud risks in the County of Maui (County). We take this matter very seriously and your observations and recommendations are very helpful as we all work to ensure we maintain trust and integrity in government and properly protect the public's resources.

We appreciate the opportunity to provide you with our written comments to your draft report, County of Maui Fraud Risk Assessment. Respectfully submitted, herein are our comments to your report pursuant to your letter of December 9, 2025.

The County would also like to extend our appreciation to your team for your professionalism during this assessment, and to the County Auditor and his staff for their foresight in bringing more awareness to these issues and for their ongoing and diligent work in serving the people of Maui County.

#### **Comments on the Draft Report**

The Administration is committed to safeguarding the County of Maui and we hold ourselves and each other to the highest standards of moral excellence to earn the trust and confidence of our fellow citizens. Every action and decision that is made strives to reflect our

commitment to ethical conduct. Doing what is *pono*, we aim beyond compliance to protect the public's confidence through the integrity of our decision-making and actions.

The Administration would like to acknowledge that the recommendations and observations provided by Spire Hawaii are extremely helpful and insightful and lend credence and validity to our efforts to restore and maintain the trust and integrity in government, and help to reflect on and provide insight into a system established and managed over decades and multiple County Councils and Administrations. While no actual instances of fraud or potentially fraudulent activities were discovered or identified during the assessment, the Administration appreciates the ability to receive a third party's assistance/review in these matters which helps us identify outdated legacy systems, processes and procedures that need to be updated, documented and addressed to reflect modern best practices.

Although it was not identified in the assessment and can't be further elaborated on in this response, the Administration has demonstrated a willingness and ability to properly deal with instances of confirmed fraudulent or potentially fraudulent activity. We have not hesitated to act to address all infractions with appropriate disciplinary consequences. The assessment focused primarily on fraud prevention related activities - while incredibly important - the Administration would note that when fraud or potential fraud is discovered or reported, it is also significantly and equally important for leadership to properly address the issue with zero tolerance for it. The Administration believes it has demonstrated this - the ability and willingness to administer appropriate disciplinary measures, which also serve as a deterrent and assist in fraud prevention.

We note that the scope of work performed by Spire Hawaii's assessment was very limited. As articulated in the Executive Summary of the report, the findings "**were based on information and documents submitted by the County, results of surveys issued to County officials and employees, and information provided by departments heads in interviews.**" From this scope of work, conclusions were drawn on limited employees interviewed and the information they provided. I would like to document here that the determinations made from the interviews were not validated through any form of audit test work to substantiate its actual existence and/or attest to the frequency of occurrence and degree of risk. We were informed key departmental personnel identified to Spire Hawaii by the County of holding significant roles and having primary responsibility and accountability in fraud related control efforts such as county wide cash handling and accounting were not contacted for an interview, thereby preventing the ability of the assessment to have a complete and accurate picture for its findings.

The Administration would also note that the period of the assessment was calendar year 2024, which was prior to the County's receipt and award of Community Development Block Grant - Disaster Recovery funds from the Department of Housing and Urban Development. Additionally, the year under review was prior to the Administration's implementation of the

County Charter Article 10, Code of Ethics, Section 10-2.6, which established the executive director and staff positions for the Board of Ethics. The Executive Director hired by the County on July 1, 2025 is a licensed attorney and one of the staff positions created is an investigator position. These newly added resources augment our existing controls to provide additional professional and technical skillsets and capabilities in preventing, pursuing and investigating ethics violation complaints.

For purposes of this response and as reflected in the draft report received (“Confidential Draft – Subject to Change”), the Administration did not broadly circulate the draft assessment amongst departments to maintain confidentiality at this stage of the assessment and thus would reserve the right to provide additional comments to the assessment once it is appropriate for a broader audience of Departmental leadership and staff to review and provide feedback.

The Administration’s comments below address the findings, assessments and observations reported in Spire Hawaii’s Countywide Fraud Risk Assessment Draft Report issued December 9, 2025. The draft report did not include page numbers; and as such, the following comments follow in the order of presentation as discussed in the draft report.

#### **Finding 1**

**The County’s existing controls are not adequately designed and operating to mitigate identified fraud risks. The County’s policies and procedures are not sufficient to mitigate likely fraud risks because they do not cover significant areas of fraud exposure.**

**Assessment: There are no controls in place designed to mitigate fraud risk when the Procurement Law is suspended in emergencies.**

The County strongly disagrees that there are “no” controls in place. The plain reading/interpretation of this implies that there is not a single control in place to mitigate fraud risk, not one.

As but one example in an emergency when the procurement law is suspended (use of emergency purchasing card), there are limits to when a suspension is allowed under the law (control), emergency purchasing card spending limits (control), documentation, inspection and review of expenditures and sign off (or rejection) by multiple approvers (control), review of all expenditures by the Maui County Council (control), review of all payment/reimbursement requests by the State of Hawaii and FEMA (control), potential for external audits by OIG and others (control), public transparency requests – FOIA/UIPA (control), etc.

The County of Maui fully complies with the Hawaii Revised Statutes (HRS) §103D Hawaii Public Procurement Code and Maui County Code Chapter 3.12 Purchasing Procedures which mandate requirements for emergency procurement.

Pursuant to HRS §103D-307 and Hawaii Administrative Rules 3-122-90, suspension of procurement rules to expeditiously address the immediate and critical needs in emergency situations are expressly permitted. HRS §103D-307 allows for the temporary suspension but only under very restrictive conditions: *“(1) A situation of an unusual or compelling urgency creates a threat to life, public health, welfare, or safety by reason of major natural disaster, epidemic, riot, fire, or such other reason as may be determined by the head of that purchasing agency; (2) The emergency condition generates an immediate and serious need for goods, services, or construction that that cannot be met through normal procurement methods and the government would be seriously injured if the purchasing agency is not permitted to employ the means it proposes to use to obtain the goods, services, or construction; and (3) Without the needed good, service, or construction, the continued functioning of the government, the preservation or protection of irreplaceable property, or the health and safety of any person will be seriously threatened.”*

The limitations on waiver of any provisions should be dictated by the emergency at hand, with protection of life and property of the public being of the utmost importance. As an example, the limitations caused by the August 2023 fires (communication systems being down, vital public services being destroyed – such as medical facilities and food/fuel centers, etc.) would necessitate a different type of response and waivers needed in the immediate aftermath, than a landslide over a roadway or the possibility of an approaching tsunami. The need for swift and immediate action to address disaster and most importantly, life or death situations justifies the temporary suspension of procurement rules as authorized under statute and/or Emergency Proclamation, for only as long as necessary to respond to the emergency at hand, even if the authorization through the Emergency Proclamation still exists. Inflexibility to address the emergency as needed, with disregard to the unique needs of the situation, could further the disaster and negative impacts on residents.

In emergency procurement situations, the Purchasing Office’s emergency procurement procedures include internal controls through its documentation and pre-approval directives. The completion of a standard form documenting the nature of the emergency, description and justification of the items and certification signature by the Department Director requesting the emergency procurement are mandated. Additionally, the form requires approval by the Chief Procurement Officer before items may be purchased. The documentation requirements places responsibility and accountability on the requestor of the emergency items. Purchasing Handbook-Policy Procedure Guidelines addresses Emergency Procurement (Section 8).

The assessment recommended that **“Alternatively, the County could work with the Governor’s Office to ensure that the emergency procurement requirements in HRS Section 103D-307 are not suspended in emergency proclamations or if suspended, are removed when no longer necessary.”** The Administration would note that we do communicate with the Governor, Hawaii Emergency Management Agency and the State Attorney General’s Office regarding emergency provisions needed to effectuate proper response to an emergency, including when it is no longer needed by the County. Furthermore, the provisions in the Governor’s Emergency Proclamation apply to both State and County agencies, as well as may be applicable Statewide to other Counties. So, while the County of Maui directly may not need suspension of various provisions and/or may already be in compliance with existing State law provisions, the State of Hawaii may need to keep emergency provisions in for longer or broader than necessary for the County of Maui, due to its own agencies or other Counties’ needs.

Additionally, according to DOF, independent, external audits conducted annually by N&K CPAs, Inc, also have not reported deficiencies in our procurement practices and controls.

However, the County does acknowledge that the potential for improvement and further documentation always exists, and we will strive for that, while balancing the needs of our community in disasters. We appreciate that Spire Hawaii has provided at least one example of another community looking to retool in this area, and although we strongly disagree that there are “no controls in place”, we wholeheartedly agree that the opportunity for improvement always exist.

**Assessment: There is no countywide nepotism policy.**

We concur with this assessment.

The Administration confirms that the County currently does not have a nepotism policy that is countywide governing all departments and concurs that such a policy warrants further consideration.

The Administration agrees to support the County Council in establishing appropriate parameters and guidelines that could be uniformly and consistently applied countywide to every department in both branches of the County government.

**Assessment: Comprehensive fraud monitoring programs and procedures have not been established for vendors who perform outsourced County services.**

Again, as in the assessment above, the County strongly disagrees with this assessment. The draft report states that there are “no overall programs or procedures to monitor vendors to

detect billing or other fraud”, which appears to indicate that nothing has been established and there is nothing in place at all.

As one example, all departments are required to review and approve vendor bills prior to submitting to the Department of Finance for payment and the Department of Finance will not process payments for invoices without departments’ approval. In the course and scope of reviewing vendor payment requests, Departments may conduct site inspections, review records, invoices, and receipts, and conduct QA/QC on goods or services being received. Department of Finance’s review also includes tax clearance and other reviews, ensuring vendors are in good standing with the state. As an example, State law requires construction projects greater than \$2,000 to pay prevailing wages and file certified payrolls.

The establishment of programs out of the Community Development Block Grant – Disaster Recovery funds, and requirements for receipt and use of these funds, have provided the County with additional tools for monitoring and controls into vendors, including the use of subrogation agreements and capacity assessments. The County is actively looking at ways that the tools established through its federally funded programs could be utilized for countywide programs to strengthen awareness, prevention and detection of fraudulent activities. CDBG-DR policies have been developed and are comprehensive, following HUD guidelines.

**Assessment: Except for public safety, law enforcement, parks and recreation, and selected fiscal positions, existing hiring processes do not focus on screening job applicants for fraud risk.**

Within the section of this assessment in the draft report, the County’s response to this assessment is appropriately reflected.

Additionally, the County agrees that more documentation and direction, and countywide uniformity (where possible), can and should be assessed.

**Assessment: There are gaps in countywide procedures for approving and monitoring overtime.**

The County appreciates Spire Hawaii’s identification of potential improvements in the current Payroll Policies and Procedures and will review this with departments to identify where and how any of these recommendations may be able to be incorporated.

**Assessment: Conflicting statements and unclear oversight roles between DWS and the DOF have created uncertainty about who is responsible for reviewing and monitoring DWS fiscal and procurement processes.**

The report states there is a discrepancy in oversight responsibilities and clarification is needed. Both departments have indicated that they fully understand their fiscal roles and responsibilities. This assessment may be a miscommunication and/or misinterpretation from the fieldwork interviews conducted. Additional detailed testing and/or follow-up with key personnel responsible for the fiscal operations in DWS and DOF may have clarified the issue.

The Department of Water Supply and the Department of Finance have been organized and have operated under their existing structure for several decades. The Department of Water Supply is accounted for as a proprietary fund and is staffed with its own fiscal resources to perform all accounting and auditing requirements. Furthermore, independent external audits are conducted annually by N&K CPAs, Inc, and they have not reported any deficiencies that would dictate additional oversight than that being provided currently.

Although operating separately from DOF, the DWS does receive support from DOF and various other county departments, providing additional controls, monitoring and oversight over the DWS compliance on rules, regulations and policies, including those related to the following areas:

<u>Subject Matter</u>	<u>Department/Division</u>
Purchasing	Finance/Purchasing Division
Payroll	Finance/Accounts Division
Cash Handling	Finance/Treasury Division
Personnel Hiring, Terminations	Personnel Department
Budget	Mayor's Office/Budget Office
Admin Rules	Board of Water Supply
EEOC	Management
Worker's Comp	Corporation Counsel/Risk Management
Code of Professional Conduct	Mayor's/Management
Computer Usage	Management/ITSD
County Vehicle Usage	Management
Contracts form & legality	Corporation Counsel

**Ad Hoc Conclusion:** “Based on the information gathered during fieldwork, we conclude that the County’s antifraud program was at the lowest, or ad-hoc, level of maturity because the County’s existing controls were not the products of design process but were developed and implemented in an ad hoc and reactive manner.”

The Table in the report defines “ad hoc” as “fraud risk management processes are disorganized, even chaotic and antifraud efforts are undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner”. The County

disagrees with the assessment, though as stated throughout the report, we agree there are many ways in which to improve.

Based on the limited scope of work performed that was restricted to interviews, information unconfirmed with key personnel and missing actual validation testing, etc. elaborated earlier, it would be impossible for an assessment to affirmatively determine this. An actual full and complete understanding of the County's maturity level in antifraud efforts would require objective validation, testing and substantiation, as well as other measures.

The clarification provided in this report affirms that we are compliant with State and County requirements and while further improvements can and should be made, the County does have long-standing policies and procedures. A comprehensive review and update of or further documentation toward existing policies and procedures may be warranted, and we will continue to look to find ways to improve controls, efficiencies and communication.

**Table on County's existing controls related to the top five fraud risks:**

Spire Hawaii's report presents a table listing a number of gaps/risks found in its evaluation related to the top five fraud types (corruption, billing scheme, non-cash misappropriation, cash larceny, payroll scheme) recognized by the Association of Certified Fraud Examiners. While we will not go through every point presented in detail, a few examples were drawn out.

(1) Billing scheme Gaps/Risks - Unclear gaps/risks identified.

Draft report states "*no countywide procedures for approving and monitoring overtime*".

The County disagrees with the assessment that there are no countywide procedures and that nothing is in place.

Our long-standing procedures have multiple checks and balances, and segregation of authority spread among several functions allowing for both preventive and detective controls that work in concert to maintain a stringent control framework. However, the specific processing details of inconsistencies that the assessment has raised in the County Payroll Policies and Procedures will be further examined and revised as warranted.

The Department of Finance Payroll Policies and Procedures established June 1, 2014 addresses overtime approval requirements. The long-standing countywide directive for overtime is that it be pre-approved by the employee's supervisor or the department supervisor/director of the program that is being charged for the overtime work prior to the work being performed.

Additionally, overtime is recorded in *WorkDay* (HR/timekeeping system) and approval of the actual time by the employee's supervisor or respective department incurring the overtime is mandatory. This review and approval by the respective department's management of all time worked by its employees occurs regularly, for each pay period. The Payroll Procedures is reviewed and updated by the Payroll Section in the Accounts Division of the Department of Finance and is made easily accessible to all employees on the County intranet.

In addition to pre-approving (scheduled/anticipated) overtime, directors and deputies can monitor overtime via the Labor Cost Analysis dashboard in Workday. The reports provide access to gross pay by division, premium pay by type, overtime by division/department, and overtime as a % of base pay by division. Also, managers have the capability to drill down to details of each employee, the number of hours, and OT by pay period.

Stipulations are also included in collective bargaining agreements and executive orders that overtime is at the direction of the proper authority. Furthermore, through COM's annual budget development process, every department forecasts its manpower needs for its operations with the Budget Office, which includes overtime requirements, to ensure it is funded appropriately for the upcoming fiscal year. This exercise requires the departments to historically analyze trends of actual overtime incurred which is then further scrutinized by the Budget Office. By County Ordinance, the departments' expenditure of expenses, including overtime, is limited to its Council Adopted Budget, and is ultimately reviewed, questioned and approved by the County Council. Large overtime expenses are also scrutinized further by the Administration and Council when pension spiking bills are received from the Employee Retirement System (ERS), upon which justification and necessity for the overtime may be questioned by the Council.

All of these separate processes, performed internally and externally, allow for the identification of potentially unusual trends that the administration can further review and investigate as warranted.

Draft report states: *"Unclear whether the requirement in the Request for Reimbursement that all purchases be made by purchase orders or contracts is enforced or monitored"*

The Administration is unclear on this gap/risk identified. To clarify and provide a complete understanding of the request for reimbursement process, purchase orders and contracts are made prior to expenditures. Requests for payment reimbursements do not include purchase order and contract payments. Request for payments require department head and finance approval according to the payment guidelines and memo.

Finance has issued procedures for the PCard (PCard Policy) and Request for Payment for Claims.

(2) Noncash misappropriation Gaps/Risks identified.

Report states *“Security Policy sanctions are based on outdated circulars issued in 1996 and 1997; Security Policy sanctions do not apply to FPS and MPD; no evidence that fraud detection tools are in place.”*

The circulars referenced are the Discipline Policy for which a working group comprised of senior members from the Department of Management, Department of Personnel Services and highly experienced department personnel officers (DPO), has been actively working on updating the policy which is targeted to be completed mid-2026.

The Security Policy governs all departments of the Executive Branch (section XV). The sanctions (Discipline Policy) do not include FPS and MPD because they are subject to their own rules, which do include sanctions.

Fraud detection tools are in place. As an example, the Security Policy addresses the limitations to access to the County buildings and mandatory use of employee identification and access badges, and the County’s security system allows us to audit access logs and unauthorized entry.

(3) Cash larceny Gaps/Risks - Unclear gaps/risks identified.

Draft report states *“No evidence that the draft Cash Handling Manual has been fully implemented.”*

The Cash Handling Manual was completed by the Department of Finance in July 2024, and we confirm that it is a countywide policy.

An updated version is currently being reviewed and will be disseminated in the near future. This draft version was provided to Spire Hawaii.

Draft report states *“the documents provided by the County do not verify that all departments follow policies similar to the Real Property Tax Collection Processes”.*

As confirmed previously, Real Property Tax is not collected by other departments and agencies and so those applicable policies and procedures would not apply to non-RPT collecting departments and agencies.

(4) Payroll Scheme Gaps/Risks – Unclear gaps/risks identified.

Draft report states *“No antifraud processes specific to the payroll function were provided so gaps and issues could not be identified.”*

As discussed previously, the Department of Finance Payroll Policies and Procedures established June 1, 2014, addresses time reporting and approval requirements, further elaborated above.

Draft report states: *"Another indication that fraud risk management is not a priority is that four department heads did not participate in interviews. Two department heads cancelled and did not provide alternate interview dates. The other two department heads did not respond to requests for interviews."*

We strongly disagree with the assertion that fraud risk management is not a priority, and the evidence that the assessment is being based on, at least in part, on participation in interviews. Fraud risk and dealing with suspected or proven fraud, waste and abuse is a priority. Departments have noted instances such as communications going to "junk" mail, inaccurate email addresses being sent by Spire Hawaii, so no communication was received by the Department, communications being received and/or missed while out of office, and Spire Hawaii not responding to communications. The Administration would have appreciated being informed of any communication issues throughout the process and provided the opportunity to address the lack of communication or participation directly with each employee or Department, to ensure full participation in the assessment and ensure no communication was inadvertently missed or was not received in the course of the assessment.

As some examples and recent evidence of this being a priority, as well as to start implementing some of the recommendations of Spire Hawaii's work:

The Administration has already been putting through Community Development Block Grant-Disaster Recovery program staff through rigorous training and policy development and has developed training materials and scheduled trainings to help educate departments and key staff on prevention of fraud, waste and abuse of federal funding, that has direct correlation and applicability to State or Local funds as well.

Fraud, waste and abuse mandatory trainings were recently held in October and November 2025 by national experts in the field, for all department heads and key personnel.

As part of our ongoing efforts through the Community Development Block Grant-Disaster Recovery program, as examples, the County has already reviewed the GAO's Standards for Internal Control and the COSO framework and is looking for ways to incorporate the framework and recommendations into our existing policies and frameworks. Additionally, the County is going through a significant amount of training and policy development for its Community Development Block Grant-Disaster Recovery Programs with the U. S. Department of Housing and Urban Development, and we will ensure to carryover what is learned and developed into our countywide programs.

Additionally, supplemental policies and manuals being developed for our federal programs are also being reviewed for inclusion, including polices or manuals related to grants administration, compliance and monitoring, and fiscal management.

**Recommendations for Finding 1**

**Recommendation (1): To address the inadequacy of current controls, the County should consider developing and implementing fraud mitigation and internal control systems following guidance from organizations such as the GAO and COSO, who have issued frameworks for developing such systems.**

The Administration appreciates and agrees with the recommendation.

Additionally, primary responsibilities of the Internal Control Officer position in the Department of Finance are to develop, install and establish accounting and internal control systems and procedures for countywide fiscal operations. This position serves as the principal staff to the Director of Finance for internal controls.

Furthermore, with the new creation of the staffing for the Board of Ethics, the Administration will work with the Executive Director on any recommendations they may have to improve upon existing processes.

Further discussion on work in this area is also elaborated on above.

**Recommendation (2): Gaps in existing policies and procedures should be addressed as part of the process for developing fraud mitigation and internal control systems. Unwritten policies should be put in writing so gaps can be identified and addressed.**

The Administration appreciates and agrees with the recommendation.

**Recommendation (3): The County could consider providing training to its employees about what fraud is and why fraud prevention is important to the County.**

The Administration appreciates and agrees with the recommendation.

As mentioned previously, we have offered fraud, waste and abuse training to our department heads and key personnel, but we will continue to look at ways to further expand these efforts.

## **Finding 2**

**Finding:** There is no countywide process for reporting, investigating, and responding to fraud. Instead, multiple County entities receive, investigate, and make decisions on fraud incidents using their own processes and standards, resulting in confusion and potentially inconsistent dispositions of fraud incidents.

The Administration agrees that there is not a single countywide process established for any potential case of fraud but would also identify that each case or potential case of fraud comes with significantly different jurisdictional responsibilities and authorities. For example, an incident of fraud may rise to the level of criminal conduct, versus an incident of fraud that may be an ethical violation of the Code Ethics. In any case, the Administration strongly condemns and disciplines fraudulent or unethical behavior, but the facts of the circumstances may make it difficult to establish a single uniform policy for all cases of fraud. Additionally, it could be that a decentralized control of fraud reporting (allowing employees to confide in and report incidents to those in authority positions they trust instead of a single person or entity), and trust in the County being responsive to fraud complaints, can lead to a greater comfort by employees in reporting suspected incidents of fraud.

However, the Administration acknowledges that greater clarity, consistency and transparency can be researched and provided and believe some of the recommendations below may be good first steps in evaluating that.

**Recommendation (1):** The County should consider convening a group consisting of representatives from key departments to develop a countywide policy for reporting, investigating, and responding to fraud. Jurisdictional overlaps and conflicts should be addressed in this policy. From this review, the group could propose strategies for addressing these issues, including changes to the Maui County Code and departmental and agency rules, policies, and procedures. If a countywide policy is developed, it should be tested with employees from the departments and entities who will be responsible for administering the various aspects of the policy.

The Administration appreciates and agrees with the recommendation.

**Recommendation (2):** If a countywide policy is adopted, a communications and training plan could also be developed to ensure that the public, all employees, and other stakeholders are aware of how fraud should be reported, investigated, and addressed.

The Administration appreciates and agrees with the recommendation.

### **Attachments**

There were a number of attachments to the draft report regarding survey and departmental responses. As noted earlier, for purposes of this response and as reflected in the draft report received (“Confidential Draft – Subject to Change”), the Administration did not broadly circulate the draft assessment amongst departments to maintain confidentiality at this stage of the assessment and thus would reserve the right to provide additional comments to the assessment once it is appropriate for a broader audience of Departmental leadership and staff to review and provide feedback. Additional comments, questions or concerns, especially to this portion of the report, may be addressed later by individual departments when a broader circulation is more appropriate.

### **Conclusion**

The Administration is appreciative of Spire Hawaii and the County Auditor for the assessment and their hard work behind it, as well as working with us on time constraints due to ongoing operational needs.

Ethical conduct is foundational to this Administration’s ethos. We fully agree that internal controls should be regularly assessed and continuously monitored. We acknowledge that the opportunity for improvement always exists and that we are dedicated to maintaining strict internal controls. Please be assured that we are committed to upholding a culture of the highest ethical standards and have zero-tolerance for any fraud or ethical violations. As such, we look forward to assessing and/or implementing fraud risk management best practices, including:

1. Creating an **organizational culture** and structure conducive to fraud risk management.
2. Establishing a **Fraud Risk Management policy** that demonstrates the organization’s commitment to high integrity and ethical values regarding managing fraud risk.
3. Planning more regular **fraud risk assessments** and assess risks to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.
4. Designing and implementing a strategy with additional specific **preventive** and **detective** fraud control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.

*Mr. Tyler Kimura*  
*January 9, 2026*  
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5. Establishing a more unified or centralized **communication process** to obtain information about potential fraud and deploy a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.
6. Evaluating outcomes using a **risk-based approach** and adapt activities to improve fraud risk management. Performing ongoing evaluations to ascertain that all fraud risk management components are present and communicate deficiencies to the parties responsible for taking corrective action.

Again, the Administration appreciates your firm's assessment of the County's fraud risks and anti-fraud processes, and for the County Auditor's vigilance in this matter. The Administration takes your observations seriously and welcomes your recommendations. Though we may disagree on some areas within the draft report, the additional improvements and recommendations provided will help us in our commitment to further enhance and strengthen our internal controls framework, maintain moral integrity, and mitigate fraud risks to protect our taxpayers' interests and maintain their trust.

We look forward to working with the County Council and Auditor on these matters. Should you have any questions, please feel free to contact me at [Josiah.K.Nishita@co.maui.hi.us](mailto:Josiah.K.Nishita@co.maui.hi.us).

Sincerely,



**JOSIAH K. NISHITA**  
Managing Director  
County of Maui

## ATTACHMENT B – METHODOLOGY

We have developed an overall plan and risk-based strategy to approach and address the objectives. The plan included three distinct stages: planning, fieldwork, and reporting. Some work on the stages occurred concurrently.

### **Stage 1: Planning**

1.1 Conferred with the County Auditor to establish an understanding about our protocols for communicating with County personnel and clarify questions about the nature, scope, and limitations of our services.

1.2 Obtained a basic understanding of fraud-related requirements applicable to County departments, including, but not limited to, the Hawai'i Revised Statutes and Hawai'i Administrative Rules relating to procurement and hiring, Maui County Charter and Maui County Code sections relating to ethics and County employment, the Rules of the Maui County Board of Ethics, and Maui County procurement directives.

1.3 Developed a work plan for approval by the County Auditor.

### **Stage 2: Fieldwork and Analysis**

2.1 Held an entrance conference on December 16, 2024, with the directors and key employees of the departments under assessment to explain the purpose of the assessment, describe the assessment process, and answer any questions about the assessment.

2.2 Issued document requests for:

- Policies regarding fraud and procedures in place to manage fraud risk
- Current departmental tables of organization
- Current collective bargaining agreements and amendments
- County accounting manual and written accounting procedures
- County procurement policies and directives
- County hiring policies and procedures
- Content for fraud-related employee training classes (if any)
- County bonding requirements
- Other documents identified in the survey responses from the departments

2.3 Developed and conducted four surveys. The surveys adopted elements of the ACFE Fraud Risk Assessment Tool which covers 15 areas relating to potential internal fraud:

- Employee assessment
- Management and key employee assessment
- Physical controls to deter employee theft and fraud
- Skimming
- Cash larceny schemes
- Check tampering schemes
- Cash register schemes
- Purchasing and billing schemes
- Payroll schemes
- Expense schemes
- Theft of inventory and equipment
- Theft of proprietary information
- Corruption
- Conflicts of interest
- Fraudulent financial reports

The surveys were issued to (1) elected officials, (2) heads of departments with countywide oversight responsibilities, such as the DOF, DPS, DOM, and COR; (3) heads of the other departments, and (4) departmental employees identified by their departments as having accounting and/or procurement duties.

2.4 Conducted interviews of department heads and county fiscal personnel as necessary to obtain further information or clarification about documents produced and survey responses. We also asked questions about the work of individual officials and departments and antifraud measures.

2.5 Conducted research on fraud mitigation measures utilized by other organizations to perform the analyses required by the assessment objectives. We reviewed audit reports from other government audit organizations to help us identify fraud risks, linked the identified fraud risks to applicable preventive and detective controls when possible, and formulated recommendations when appropriate. White papers from antifraud organizations such as ACFE were also reviewed for the same purposes.

## ATTACHMENT C – SURVEY QUESTIONS AND RESPONSES

The surveys were issued to 382 County officials and employees. Response rates for each group were:

<b>GROUP</b>	<b>RESPONSE RATE</b>
Mayor (n=1)	100%
Councilmembers (n=9)	67%
Department heads (n=20)	95%
Fiscal personnel <sup>17</sup> (n=352)	43%

Summaries of the responses to the surveys are provided on the following pages.<sup>18</sup>

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<sup>17</sup> Employees identified by the departments as having accounting or procurement duties.

<sup>18</sup> Percentages may not add up to 100 percent due to rounding.

**ELECTED OFFICIALS**

**What is your perception of the County’s overall fraud risk?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Low	0%
Medium	86%
High	14%

**What is the likelihood of the following types of fraud occurring in the County?**

<b>ANSWER CHOICES</b>	<b>VERY LOW</b>	<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>	<b>VERY HIGH</b>
Fraud resulting from violations of policies and procedures by non-supervisory employees in the County	0%	57%	29%	14%	0%
Fraud resulting from violations of policies and procedures by supervisory employees in the County	0%	29%	57%	0%	14%
Theft and fraud because of insufficient physical controls over departmental supplies, vehicles, and computer systems	0%	29%	57%	14%	0%
Skimming	14%	43%	29%	14%	0%
Cash larceny schemes	0%	71%	14%	14%	0%
Check tampering schemes	29%	29%	29%	14%	0%
Cash register schemes	0%	71%	14%	14%	0%
Purchasing and billing schemes	14%	43%	14%	29%	0%
Payroll schemes	29%	14%	14%	43%	0%
Expense schemes	0%	43%	29%	14%	14%
Theft of inventory and equipment	0%	29%	43%	14%	14%
Theft of proprietary information	14%	43%	14%	29%	0%
Corruption	0%	43%	43%	14%	0%
Conflicts of interest	0%	0%	71%	14%	14%
Fraudulent financial reports	14%	43%	29%	0%	14%

**How concerned are you about the state of fraud risk management in the County?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Not concerned	0%
Somewhat concerned	86%
Very concerned	14%
Have no opinion	0%

**Do you feel the County has sufficient policies, procedures, or guidance on:**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
County ethics requirements	57%	29%	14%
Procurements/purchases under emergency proclamations	14%	71%	14%
How to recognize and avoid conflicts of interest/favoritism with vendors	29%	71%	0%
What to do when potential fraud is reported	42%	42%	14%
What kind of management follow up is necessary when fraud is detected	29%	29%	42%
How to train employees about fraud and fraud prevention	0%	71%	29%
What “internal controls” mean and what the department needs to do to maintain them	42%	14%	42%
How to identify and target fraud risks	29%	57%	14%
How to assess the impact of fraud on operations and fiscal condition	29%	14%	57%

**Which of the following do you see as barriers to preventing fraud in the County?**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
Limited understanding of fraud risks by employees	71%	14%	14%
Lack of resources	29%	57%	14%
Lack of employee education on fraud prevention and ethics	86%	14%	0%
Low priority given to fraud awareness or prevention	100%	0%	0%

**Are you considering actions to address County fraud risk? If so, describe the actions being considered.**

<b>RESPONSES</b>
1)This audit, 2) raising awareness in our departments through training, 3) investigating and following up on reported allegations
Not at this time
Support investigators for Ethics Commission
Seeking the \$2M restitution owed to the sewer fund by a former Director of Environmental Management
Considering filing complaint with Board of Ethics
Unsure of the best way to proceed
Due to the significant amount of federal funding (CDBG-DR), the Council is carefully scrutinizing how it is appropriated
No

**Has the County met with or contacted the State, federal government, or other counties to learn about ways to improve fraud risk management?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Yes	0%
No	29%
Do not know	71%

**Do you think there should be a specific County official assigned to implement and monitor these improvements?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Yes	86%
No	14%
Do not know	0%

**Since you answered yes to the previous question, please describe who you believe this official should be.**

<b>RESPONSES</b>
Managing Director or his designee
An independent contractor
Ethics commission
Board of Ethics independent staff once hired and until then probably corp counsel in coordination with the Managing Director
Managing Director
County Auditor's Office

**DEPARTMENT HEADS**

**What is your perception of your department’s overall fraud risk?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Low	95%
Medium	5%
High	0%

**What is the likelihood of the following types of fraud occurring in your department?**

<b>ANSWER CHOICES</b>	<b>VERY LOW</b>	<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>	<b>VERY HIGH</b>
Fraud resulting from violations of policies and procedures by non-supervisory employees in the department	58%	42%	0%	0%	0%
Fraud resulting from violations of policies and procedures by supervisory employees in the department	42%	47%	11%	0%	0%
Theft and fraud because of insufficient physical controls over departmental supplies, vehicles, and computer systems	47%	47%	5%	0%	0%
Skimming	68%	26%	5%	0%	0%
Cash larceny schemes	84%	16%	0%	0%	0%
Check tampering schemes	79%	21%	0%	0%	0%
Cash register schemes	89%	5%	5%	0%	0%
Purchasing and billing schemes	47%	47%	5%	0%	0%
Payroll schemes	68%	32%	0%	0%	0%
Expense schemes	63%	37%	0%	0%	0%
Theft of inventory and equipment	32%	58%	11%	0%	0%
Theft of proprietary information	74%	21%	5%	0%	0%
Corruption	68%	32%	0%	0%	0%
Conflicts of interest	42%	42%	16%	0%	0%
Fraudulent financial reports	68%	32%	0%	0%	0%

**Do you feel that your department has sufficient policies, procedures, or guidance on:**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
County ethics requirements	84%	16%	0%
Procurements/purchases under emergency proclamations	74%	26%	0%
How to recognize and avoid conflicts of interest/favoritism with vendors	79%	16%	5%
What to do when potential fraud is reported	79%	16%	5%
What kind of management follow up is necessary when fraud is detected	84%	16%	0%
How to train employees about fraud and fraud prevention	26%	58%	16%
What “internal controls” mean and what the department needs to do to maintain them	79%	21%	0%
How to identify and target fraud risks	32%	47%	21%
How to assess the impact of fraud on operations and fiscal condition	26%	47%	26%

**How concerned are you about the state of your department’s fraud risk management activities?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Not concerned	58%
Somewhat concerned	37%
Very concerned	0%
Have no opinion	5%

**Which of the following do you see as barriers to preventing fraud in your department?**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
Limited understanding of fraud risks by employees	53%	47%	0%
Lack of resources	32%	68%	0%
Lack of employee education on fraud prevention and ethics	58%	42%	0%
Low priority given to fraud awareness or prevention	26%	68%	5%

**Are you considering actions within your department to implement specific fraud risk management?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Yes	26%
No	47%
Do not know	26%

**Since you answered yes to the previous question, please explain what actions are being considered.**

**RESPONSES**

We rely on County-issued policy and guidelines for our fraud risk management. We are currently performing a top-to-bottom re-write of all department-specific policies and procedures. We need to include policies and guidance specific to fraud prevention into those department-specific policies and procedures along with a regular training protocol

Will implement recommendations of fraud report

DEM is considering the addition of security measures at some of our facilities. This includes security cameras and lighting. We have been in communication with the Mayor's security officer along with security vendors under management

Received Council authorization for new position, Accountant III, to oversee financial management within the Department, in concert with the Director and Deputy Director, consistent with Department and County Policy

I will request refresher training for staff on fraud risks and conflict of interest issues. Deputy Director and I regularly discuss ethical issues with senior leadership, but we should also ensure training for division level staff

## **FISCAL PERSONNEL**

**Please identify which fiscal function you perform.**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Accounting	16%
Procurement	36%
Both	30%
Neither	18%

**What is your perception of your department's overall fraud risk?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Low	74%
Medium	23%
High	3%

**What is the likelihood of the following types of fraud occurring in your department?**

<b>ANSWER CHOICES</b>	<b>VERY LOW</b>	<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>	<b>VERY HIGH</b>
Fraud resulting from violations of policies and procedures by non-supervisory employees in the department	58%	34%	7%	1%	0%
Fraud resulting from violations of policies and procedures by supervisory employees in the department	57%	32%	10%	1%	0%
Theft and fraud because of insufficient physical controls over departmental supplies, vehicles, and computer systems	56%	32%	10%	1%	0%
Skimming	85%	15%	0%	0%	0%
Cash larceny schemes	88%	11%	1%	0%	0%
Check tampering schemes	90%	10%	0%	0%	0%
Cash register schemes	90%	10%	1%	0%	0%
Purchasing and billing schemes	71%	26%	3%	0%	0%
Payroll schemes	77%	21%	2%	0%	1%
Expense schemes	73%	24%	2%	0%	0%
Theft of inventory and equipment	60%	27%	11%	2%	0%
Theft of proprietary information	71%	23%	5%	1%	0%
Corruption	66%	24%	9%	1%	0%
Conflicts of interest	53%	29%	12%	5%	1%
Fraudulent financial reports	73%	23%	4%	0%	0%

**Do you feel that your department has sufficient policies, procedures, or guidance on:**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
County ethics requirements	77%	9%	15%
Procurements/purchases under emergency proclamations	69%	10%	22%
How to recognize and avoid conflicts of interest/favoritism with vendors	65%	14%	21%
What to do when potential fraud is reported	56%	16%	27%
What kind of management follow up is necessary when fraud is detected	53%	15%	32%
How to train employees about fraud and fraud prevention	41%	23%	36%
What “internal controls” mean and what the department needs to do to maintain them	56%	17%	27%
How to identify and target fraud risks	48%	16%	36%
How to assess the impact of fraud on operations and fiscal condition	43%	15%	42%

**How concerned are you about the state of your department’s fraud risk management activities?**

<b>ANSWER CHOICES</b>	<b>RESPONSES</b>
Not concerned	56%
Somewhat concerned	26%
Very concerned	4%
Have no opinion	14%

**Which of the following do you see as barriers to preventing fraud in your department?**

<b>ANSWER CHOICES</b>	<b>YES</b>	<b>NO</b>	<b>DO NOT KNOW</b>
Limited understanding of fraud risks by employees	38%	41%	21%
Lack of resources	22%	52%	26%
Lack of employee education on fraud prevention and ethics	43%	35%	22%
Low priority given to fraud awareness or prevention	35%	43%	23%

**OTHER (PLEASE LIST)**

Not wanting to be the whistleblower

Continuous and heightened reminders of significance particularly as department is going through growth with new personnel

The idea of fraud in this department never entered my head until this survey

I don't understand this question the way it is phrased

To be fair, employees don't even have access to get a new pen, so risk is very low. Pretty much no one has access to any type of spending that doesn't have to go through multiple check points. So lack of education to employees who can't even get a pen without asking I don't think is an issue

Need leadership by example from executive level management

## ATTACHMENT D – DEPARTMENTAL SUMMARIES

The following section summarizes department-level antifraud enhancements and potential risks based on information gathered during the assessment.

### **Department of Agriculture (MDOA)**

#### *Enhancements*

The department has installed a fence around its Kula Ag Park to protect its equipment from theft. The fence also discourages crop theft.

#### *Risks*

The department is relatively new, compared to departments such as DOF and FPS. Self-monitoring of its policies, processes, and procedures could be considered to identify and address any post-implementation fraud risks.

The department is working with DP, DOF/real property tax, and DWS since it will be involved in inspections that will help determine whether preferential agricultural taxes or rates should be granted. The department might consider providing employees involved in the process with training in the methodology used to calculate taxes and water rates.

### **Department of Environmental Management (DEM)**

#### *Enhancements*

The department plans to have cameras installed in pay booths to prevent theft.

Departmental policies and procedures for grants are created internally using a grants portal software. The electronic process documents scoring for grants.

Installation of a GPS system to track County vehicles is underway. An independent vendor will monitor the fleet with GPS.

P-cards are issued with various limits based on the price of expected items to be purchased.

#### *Risks*

To eliminate the need to hire an outside vendor at toll gates, DEM planned to install automatic gates that use a credit card instead of cash. The gate would also count the number of vehicles crossing, reducing human error. Due to the lack of oversight on the scope of work, it was found that the electronic accounting system that the toll gates used was not compatible with the overall county financial system. The new gates were not installed.

## **Department of Finance (DOF)**

### *Enhancements*

The department instituted a new process where its new internal control lead and one analyst are proactively working with other departments to evaluate high risk areas.

The department created a policies and procedures committee to review and revise procedures. The committee includes the DOF and COR. A list of procedures to be reviewed has been compiled and is now being addressed.

### *Risks*

The DOF states that its role does not include (1) developing countywide controls to prevent fraud, (2) providing training to County employees on financial controls, and (3) actively going out to all the departments to review and monitor whether all policies and procedures are followed. If the DOF's understanding has not been widely communicated, it is likely that these activities have not been assigned to any other department.

The DOF states that financial policies and procedures are followed but may not be documented in writing.

The County's Single Audit for the Fiscal Year ended June 30, 2024, included a material weakness<sup>19</sup> related to Schedule of Expenditures of Federal Awards reporting, and significant deficiencies<sup>20</sup> related to (1) improving controls over financial reporting, (2) accounting misstatements related to Maui County Transient Accommodations Tax (MCTAT), (3) exercising greater care when performing its policies and procedures over accounting for capital assets, and (4) following policies and procedures over subrecipient monitoring.

When the DOF authorizes exemptions from County financial policies, the reasons for the exemptions should be documented for the protection of the County and the affected employee(s). In our fieldwork, we were made aware of an undocumented instance of management override. In this instance, an employee's P-card was removed for inappropriate parceling but was reinstated by "higher-ups" in the DOF. We reported the incident to the County Auditor.

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<sup>19</sup> A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

<sup>20</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Department of Fire and Public Safety (FPS)**

### *Enhancements*

Certain staff members have transaction limits on their P-cards, which are communicated verbally due to frequent position changes.

Different P-cards are restricted to specific vendors; for example, some cards are authorized for use at Home Depot, while others are not.

Transactions over \$25,000 require a formal contract.

All staff members report to a supervisor, but only certain supervisors have the authority to approve overtime. Checks and balances are in place to ensure oversight of most staff activities.

### *Risks*

The department's payroll calculations for firefighters are complex, due to the nature of firefighter scheduling, numerous premium pay and allowance requirements, and the evolving interpretations of the effect of state and federal overtime laws. The complexity of the payroll calculations could affect FPS's ability to detect fraud, especially if calculations are not fully automated.

## **Department of Housing (DOH)**

### *Enhancements*

The department hired positions for vigilance to review administrative rules. The department states employees involved in invoice review have been doing it for a long time and are aware of the different requirements for reviewing invoices associated with federal and county grants.

### *Risks*

In FY 2026, the department is expecting \$47 million to address affordable housing.<sup>21</sup> If the funds are used to create new programs, self-monitoring of the new policies, processes, and procedures could be considered to identify and address any fraud risks.

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<sup>21</sup> <https://www.civilbeat.org/2025/06/affordable-housing-gets-a-big-boost-in-maui-countys-1-56-billion-budget/>

## **Department of Human Concerns (DHC)**

### *Enhancements*

A program overseer collects voluntary contribution boxes that are labeled by class and location and then counted by two program volunteers who sign off on the amount. The money is turned into the accountant and deposited.

Policies and procedures are in place for donations.

A spreadsheet of donations is updated monthly. Certain donors are consistent with their monthly donation amounts. The two people counting and logging take account of any deviations from the pattern that may be a sign of fraud.

Immigrant services only accept money orders and other non-cash payments. The amounts collected are reconciled with the number of applications at the end of each day and deposited into the revolving fund.

### *Risks*

The department should consider making certain that there are written policies and procedures for volunteers handling donations or cash payments. Written policies would provide consistency and protection for volunteers and the County.

## **Department of Liquor Control (DLC)**

### *Enhancements*

All front-counter payments are processed through the Inova point-of-sale system, which issues printed receipts, and mailed direct-shipment fees are evidenced by the approved permit, ensuring every transaction is traceable to a receipt.

The department uses the Hawai'i Criminal Justice Data Center to conduct criminal history checks using fingerprints before employment is offered.

Interviews with prospective employees include questions about taking money and free meals.

Purchasing-card access is restricted to two cards, used mainly for postage or items without an approved County vendor, while all other purchases flow through online requisitions or formal RFPs, providing second-level vendor review.

Inspectors submit daily activity logs that supervisors review, providing same-day visibility of field work and control over unapproved overtime.

Vehicle use is documented through start- and end-shift mileage plus pre-trip inspection forms, deterring personal use and recording any damage immediately.

### *Risks*

Coverage. Since the department is small, the Accountant 1 and Account Clerk 3 positions are formal backups for each other; if both are absent, cash-handling is suspended so that segregation of duties is not compromised.

## **Department of Management (DOM)**

### *Enhancements*

DOM developed a security policy in May 2024 and implemented it in April 2025. The department is currently undergoing an assessment of their security systems, protocols, and an inventory of security assets to provide awareness of any issues in current policies.

### *Risks*

The DOM's Office of Recovery is a new activity, established in 2023. Self-monitoring of its policies, processes, and procedures could be considered to identify and address any post-implementation fraud risks.

The security policy states that the type of discipline imposed on all employees is based on personnel directives issued in 1996 and 1997. However, the 1996 directive states that its terms do not apply to the police and fire departments. Further, the directives note that some of the offenses and the discipline prescribed are subject to negotiation with the unions. Therefore, using personnel directives that have not been updated for almost thirty years creates additional risk because provisions might be inapplicable or might not reflect changes made through negotiations, labor arbitrations, and court proceedings in the intervening period.

## **Department of ‘Ōiwi Resources (OR)**

### *Enhancements*

A selection committee composed of members from other departments is formed to choose the vendor.

### *Risks*

For grants, five members from the local community are assigned to review and judge the applications. The department should consult with the DOF and COR to ensure that documentation exists to ensure that each community member agrees to comply with County ethics and grant requirements. Additionally, the community members should be required to undergo training in State and County requirements regarding the use of public funds.

## **Department of Parks and Recreation (DPR)**

### *Enhancements*

The department’s Planning and Development Division has a process for regular review of contracts and invoices. The department now conducts post-project evaluations so that change orders are not rubber-stamped. Change orders go through a back-and-forth review process internally or involving a project management firm. Each change order is reviewed by the department’s internal CIP coordinator, and the department head provides final approval.

### *Risks*

The department controls large amounts of equipment from large to small. For this reason, it identified equipment theft (noncash conversion) as its greatest day-to-day fraud risk.

Control environment: the department did not fully respond to requests.

## **Department of Personnel Services (DPS)**

### *Enhancements*

No enhancements were reported at the time of assessment.

### *Risks*

Control environment: the department did not fully respond to requests.

## **Department of Planning (DP)**

### *Enhancements*

No enhancements were reported at the time of assessment.

### *Risks*

Control environment: the department did not fully respond to requests.

## **Department of Police (MPD)**

### *Enhancements*

Inconsistencies in requests for travel, training, and equipment involving criminal conduct are investigated by the department's Criminal Investigation Division. If policies are violated, the Internal Affairs Division investigates.

The department performs criminal and firearms checks, and all listed references are contacted.

### *Risks*

Control environment: the department did not fully respond to requests.

## **Department of Public Works (DPW)**

### *Enhancements*

No enhancements were reported at the time of assessment.

### *Risks*

Control environment: the department did not fully respond to requests.

## **Department of the Corporation Counsel (COR)**

### *Enhancements*

The department has retained a consultant to assist with FEMA compliance and feels that its reimbursement rate has increased as a result.

The department provides Hawai'i Occupational Safety and Health (HIOSH) compliance and ethics training for departments.

### *Risks*

The department conducts investigations on request. If the investigations result in litigation, the department's ability to represent the County in related litigation could be affected.

The department has recommended short-form terms and conditions for short-term purchase orders, but the department noticed that it seems that some purchase orders have them and some do not.

When we tested DWS's direct pay transactions, we found a contingent fee payment to a law firm that was misidentified as a settlement, raising questions about whether the settlement amount for the case was properly recorded, whether attorney's fees were properly paid by the department, and whether departments need guidance on how the payments should be categorized for financial reporting purposes.

## **Department of the Prosecuting Attorney (PA)**

### *Enhancements*

The department had issues with grant recordkeeping, but changes were made to ensure grant compliance, including additional documentation. The department also corrected issues with the dates of onsite monitoring for subgrantees.

The department has revised its internal confidentiality policy, and the revision went out to all employees.

One of the department's goals for 2025 is to completely revamp internal policies and protocols for the entire department.

### *Risks*

None identified at the time of assessment.

## **Department of Transportation (DOT)**

The current Deputy Director provides guidance about processing reimbursements and payments through her notes, which she regularly updates as procedures evolve.

The CIP staff reviews any change orders from contractors, particularly focusing on hours and materials, and coordinates with the consultant to assess their reasonableness. Both the CIP staff and the Department Director review the change order, with final approval given by the Director.

The department can compare ridership data with the revenue collected from one of the contractors, as the income appears significantly lower compared to the other contractor.

For the Park Maui Program, the department contracted with a company to manage operations. The contractor collects and remits revenue to the department, which monitors the funds by analyzing monthly reports from previous periods.

### *Risks*

There are no requirements for vendors to ensure that they have adequate cash handling policies and training.

If directed by the County Council, the department provides vendors with County funds to purchase vehicles used to provide County transportation services. In some cases, the vendor is the title holder for the vehicle. The department could consider developing requirements to ensure that the vehicles purchased with County funds are used for County purposes.

## **Department of Water Supply (DWS)**

### *Enhancements*

The department recently hired a consultant to support capital project management.

A consultant hired by the department recently completed a full condition assessment of all assets. The department is making improvements to this area. The department is working toward implementing a more automated work order system that will help track asset conditions more effectively. The goal is to use this system to support more strategic asset replacement planning.

### *Risks*

The department noted that based on the experience of other water departments, copper theft is a concern.

The department uses a procurement method called “Direct Pay.” The department provided the following explanation of when and how Direct Pay is used: “Direct Pay – requires just the invoice from the vendor and an approved requisition, used when there is no time to generate a PO due to the urgency of need (i.e., auto parts when county vehicles break down, one-time or emergency purchase, etc.); division head’s cell phone reimbursement for business use. No authorized vendors’ list just for Direct Pay, but vendor is issued a temporary vendor # or is already a vendor with the County.” The department also states that Direct Pay is used when vendors do not accept County P-cards. In CY 2024, the department conducted 6,223 direct pay transactions for a total of \$21,407,676.27. In contrast, there were 1,051 purchase order transactions for \$3,718,633.54 and 1,268 contract transactions for \$34,235,980.11. These statistics indicate that the Direct Pay procurement method may be used for more than emergency purchases or urgent needs. The department may benefit from DOF assistance to align its use of direct pay with other departments.

## **Maui County Community Water Authorities (MCCWA)**

### *Enhancements*

New department. No enhancements were reported at the time of assessment.

### *Risk*

The department is new. Self-monitoring of its policies, processes, and procedures could be considered to identify and address any post-implementation fraud risks.

## **Maui County Emergency Management Agency (MEMA)**

### *Enhancements*

An Account Clerk was hired to improve the P-card process. The department is looking to hire a finance chief position.

Tetra Tech consultants oversee public assistance (PA) grant management for the department, including management of the contract, and the management of those funds. PA grants have set thresholds and triggers that are authorized through FEMA and Tetra Tech to ensure that those guidelines are met. They go under further review by e-mail and FEMA reporting related to each cost being qualifiable under FEMA guidance under the PA program.

The department is in the process of writing internal policies that are not covered by procurement. Policies shaped by purchasing and procurement are inefficient for internal use, such as the policy on the quantity of uniforms that need to be purchased for employees.

### *Risks*

MEMA's lack of accounts clerk and finance chief positions. These positions were part of MEMA's reorganization as far back as January 2024, but as of April 2025, those positions have not been filled. The result is that employees without procurement and purchasing experience doing their best to fill in based on the guidance that is provided by the DOF and Purchasing. MEMA states that getting those two positions filled is necessary to ensure that the policies are followed.

## ATTACHMENT E – GLOSSARY

**ACFE** - Association of Certified Fraud Examiners

**Asset misappropriation** - A scheme in which an employee steals or misuses the employing organization's resources (e.g., theft of company cash, false billing schemes, or inflated expense reports).

**Billing scheme** - A fraudulent disbursement scheme in which a person causes their employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases (e.g., employee creates a shell company and bills employer for services not actually rendered; employee purchases personal items and submits an invoice to employer for payment).

**Cash larceny** - A scheme in which an incoming payment is stolen from an organization after it has been recorded on the organization's books and records (e.g., an employee steals cash and checks from daily receipts before they can be deposited in the bank).

**Check or payment tampering scheme** - A fraudulent disbursement scheme in which a person steals their employer's funds by intercepting, forging, or altering a check or electronic payment drawn on one of the organization's bank accounts (e.g., employee steals blank company checks and makes them out to themselves or an accomplice; employee re-routes an outgoing electronic payment to a vendor to be deposited into their own bank account).

**Corruption** - A scheme in which an employee misuses their influence in a business transaction in a way that violates their duty to the employer to gain a direct or indirect benefit (e.g., schemes involving bribery or conflicts of interest).

**COSO** - Committee of Sponsoring Organizations

**Expense reimbursements scheme** - A fraudulent disbursement scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses (e.g., employee files fraudulent expense reports, claiming personal travel, nonexistent meals).

**Financial statement fraud** - A scheme in which an employee intentionally causes a misstatement or omission of material information in the organization's financial reports (e.g., recording fictitious revenues, understating reported expenses, or artificially inflating reported assets).

**GAO** - Government Accountability Office

**Noncash misappropriation** - Any scheme in which an employee steals or misuses noncash assets of the victim organization (e.g., employee steals inventory from a warehouse or storeroom; employee steals or misuses confidential customer information).

**Payroll scheme** - A fraudulent disbursement scheme in which an employee causes their employer to issue a payment by making false claims for compensation (e.g., employee claims overtime for hours not worked; employee adds ghost employees to the payroll).

**Register disbursements scheme** - A fraudulent disbursement scheme in which an employee makes false entries on a cash register to conceal the fraudulent removal of cash (e.g., employee fraudulently voids a sale on a cash register and steals the cash).

**Segregation of duties** - A fundamental internal control principle in which key responsibilities for financial transactions are divided among different individuals to reduce the risk of error or fraud (e.g., one employee processes vendor invoices, while a different employee approves payments).

**Skimming** - A scheme in which an incoming payment is stolen from an organization before it is recorded on the organization's books and records (e.g., an employee accepts payment from a customer but does not record the sale and instead pockets the money).