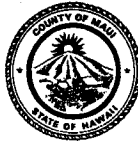


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COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

March 16, 2018

Mr. Mark Walker, Director
Department of Finance
County of Maui
Wailuku, Hawaii 96793

Dear Mr. Walker:

**SUBJECT: INDEPENDENT AUDIT OF THE DIRECTOR OF
FINANCE'S ACCOUNTS (BF-94)**

At its meeting of March 14, 2018, the Budget and Finance Committee reviewed a document, entitled "REPORT TO THE COUNTY OF MAUI OFFICE OF COUNCIL SERVICES AUDIT OF THE FORMER DIRECTOR OF FINANCE'S ACCOUNTS PURSUANT TO SECTION 9-13 OF THE REVISED CHARTER OF THE COUNTY OF MAUI," prepared by N&K CPAs, Inc. ("Auditor"). A copy of the report is attached for your reference.

As it relates to item 5.b.iii on pages 8 and 9 of the report, may I please request you respond to the following:

1. It is noted that the final completed Travel Order Form for seven of nine transactions related to the Director, and two of nine transactions unrelated to the Director, were not provided to the Auditor for review. Did the Department process final completed Travel Order Forms for the transactions? If so, please provide copies of the forms and explain why they were not submitted to the Auditor. If not, please explain why the completed Travel Order Forms were not processed.
2. If a final completed Travel Order Form was not submitted but advanced per diem was paid and lodging expenses were charged to the purchasing card, is the County owed the amounts indicated on

Mr. Mark Walker
March 16, 2018
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pages 8 and 9 by the former Director of Finance, Employee A, and Employee B? Explain.

May I further request you provide your response no later than **Wednesday, March 28, 2018**. To ensure efficient processing, please include the relevant Committee item number in the subject line of your response.

Should you have any questions, please contact me or the Committee staff (Michele Yoshimura at ext. 7663, or Yvette Bouthillier at ext. 7758).

Sincerely,

A handwritten signature in black ink, appearing to read "Riki Hokama", with a long, sweeping flourish extending to the right.

RIKI HOKAMA, Chair
Budget and Finance Committee

bf:ltr:094afn01:mmmy

Attachment

cc: Mayor Alan M. Arakawa

**REPORT TO THE COUNTY OF MAUI
OFFICE OF COUNCIL SERVICES
AUDIT OF THE FORMER DIRECTOR OF FINANCE'S ACCOUNTS
PURSUANT TO SECTION 9-13 OF THE REVISED CHARTER
OF THE COUNTY OF MAUI**



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

AMERICAN SAVINGS BANK TOWER | 1001 BISHOP STREET, SUITE 1700 | HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

Chair and Members of the County Council
County of Maui, Hawai'i

Background

Section 9-13 of the Revised Charter of the County of Maui (1983), as amended, (Charter) states "In case of the death, resignation, or removal of the director of finance, the council shall cause an independent audit to be made of the finance director's accounts." The Office of Council Services (OCS) engaged N&K CPAs, Inc. (N&K) upon the resignation of the former Director of Finance to perform these services. We performed our services in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants. The following discusses our engagement objective, scope, the results of the procedures performed and our recommendation.

Engagement Objective

The objective of the engagement was to review the former Director of Finance's (Director) accounts for the period January 1, 2011 through September 30, 2017 to identify if there are any outstanding debts owed to the County of Maui (County).

Engagement Scope

The scope of the engagement included the Director's personal financial disclosures; his Division of Motor Vehicles and Licensing accounts; his sewer, water, and solid waste accounts; and any real property he owns and the related real property tax accounts. The engagement also included the Director's purchasing card accounts, the procurement of contracts he handled, and the reimbursements he received from the Department of Finance during his tenure in office.

Engagement Approach and Results

We performed the procedures enumerated below to review the Director's accounts pursuant to Section 9-13 of the Charter, for the period January 1, 2011 through September 30, 2017.

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County of Maui, Hawai'i

The procedures and associated results are as follows:

1. We inspected the following accounts of the County for the Director and determined whether or not the accounts reflect amounts due to the County at September 30, 2017.
 - a. Division of Motor Vehicles and Licensing (DMVL) accounts
 - b. Sewer, water, and solid waste accounts
 - c. Any real property and the related real property tax (RPT) accounts

Results:

- a. There was no outstanding balance from the Director for the DMVL accounts as of September 30, 2017.
 - b. There were no outstanding balances from the Director for the sewer and solid waste accounts. There was a \$0.15 balance from the Director for the water account as of September 30, 2017.
 - c. There was no outstanding balance from the Director for the real property and related RPT accounts as of September 30, 2017.
2. We inspected the Director's Personal Financial Disclosure Statements for the period January 2011 through September 30, 2017, and noted any businesses that the Director served on the Board of Directors or owned a financial interest in.

Results:

The Director served as an Executive Officer and/or a Board Member during various years for I-View, Inc. located in Pasig City, Metro Manila, Philippines. The Director's relationship to I-View, Inc. during the period from January 1, 2011 through September 30, 2017 is summarized as follows:

Year	Entity	Relationship
2011	I-View, Inc.	Executive Officer / Chairman of Board
2012	I-View, Inc.	Executive Officer / Chairman of Board
2013	I-View, Inc.	Board of Director Member
2014*	N/A	N/A
2015	I-View, Inc.	Board of Director Member
2016	I-View, Inc.	Board of Director Member
2017	I-View, Inc.	Board of Director Member

* - Spouse was employed by I-View Market Research Group.

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County of Maui, Hawai'i**

3. For contracts procured during the Director's tenure in office, we determined whether there were any contracts executed with any businesses or company noted in the procedure above.

For these contracts identified, if any, we will:

- Report the business that obtained the contract.
- Report the amount of the contract.
- Report the purpose of the contract.
- Report the type of procurement used to procure the contract.
- Report the proposal or bid evaluation team involved with procuring the contract.

Results:

We were provided a listing of contracts procured during the Director's tenure for the period January 1, 2011 through September 30, 2017 and reviewed this listing to determine if there were any contracts executed with the entity noted in procedure 2 above noting there were none.

4. We inspected reimbursements issued to the Director during his tenure in office. For each reimbursement issued to the Director, we:
 - a. Determined whether or not the check amount issued to reimburse the Director agreed to the reimbursement request.
 - b. For individual transactions over \$250, inspected the supporting documentation for reasonableness.

Results:

We were provided the County check register for the period January 2011 through September 30, 2017, pre-filtered for the Director's reimbursements. For each reimbursement to the Director, we determined that the check amount issued to reimburse the Director agreed to the reimbursement request.

There were fifty-one (51) transactions in total that were reimbursed to the Director during his tenure, fifteen (15) of which exceeded \$250 warranting further inspection of supporting documentation. There was one instance in which the reimbursement amount should have been \$15 more than what was requested. This was due to an incorrect per diem rate used in the calculation of the reimbursement request.

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County of Maui, Hawai'i

Year	Number of Reimbursements	Reimbursement Total	Over (Under) Reimbursement
2011	3	\$ 269	\$ --
2012	3	3,417	--
2013	6	313	--
2014	9	450	--
2015	14	4,468	(15)
2016	8	2,430	--
2017	8	3,349	--
Total	<u>51</u>	<u>\$ 14,696</u>	<u>\$ (15)</u>

5. We inspected purchase card (pCard) transactions on the Director's secretary's pCard during his tenure in office that appear to be unrelated to County business, recurring transactions to a particular business, and single transactions over \$1,500. For each transaction, we inspected the supporting documentation for reasonableness.

Results:

We were provided the pCard statements for the period January 2011 through October 2017 for Finance Admin (card ending 0819 through July 2011) and Director of Finance Secretary (card ending 4706 from August 2011 through October 2017). The billing cycle for the pCard statements begins on the 29th of the month and ends on the 28th of the following month.

We were also provided the Travel Policy and Procedures updated July 2016 (TPP 2016). Prior versions of the Travel Policy and Procedures in effect during the Director's tenure were requested. However, this information was not provided to us by the Department of Finance as of March 6, 2018.

In addition, we were provided the County of Maui Purchasing Card Program and Procedures dated July 2008 (PCPP 2008). As of March 6, 2018, we were provided the May 2015 (PCPP 2015) and July 2017 (PCPP 2017) versions for a total of three (3) versions applicable during the period January 2011 through September 30, 2017.

a. Unrelated to County Business

We scanned the pcard statements and noted that there were three (3) transactions that appeared to be unrelated to County Business and were selected for testing. Two (2) out of the three (3) transactions appear to be unrelated to County business.

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County of Maui, Hawai'i

The pCard was used in September 2016 to purchase two (2) additional tickets from Maui to Nashville, Tennessee for \$901 per ticket. The two additional tickets were for travelers related to the Director.

On September 22, 2016, a reimbursement in the form of a check (#1277) was made payable to the County from the Director of Finance in the amount of \$1,819 (inclusive of related fees). On October 6, 2016, the check was deposited into the County's checking account per review of the bank statement. According to the Treasury Deposit Slip, the sub object code was 6201 (airfare).

According to TPP 2016, "Side trips, or trips booked by family members should be booked separately. Side trips should be booked to and from the business destination and not intermingled with the business travel."

According to PCPP 2008 and PCPP 2015, "it is the cardholder's responsibility to ensure that the pCard is used within the guidelines of the Purchasing Card Program and Procedures and agency's policy and procedures."

According to PCPP 2015, under Conditions for Use, it states the following:

1. Personal use of the County pCard is not allowed.
2. Use for official County of Maui business only.

In addition, under Responsibilities, it states, "The responsibilities of the cardholder are as follows:

- Use the pCard in an ethical manner consistent with the County of Maui policies and procedures and maintain support documentation for all transactions.
- Understand what can and cannot be purchased with the pCard.
- Shall not misuse the pCard."

According to PCPP 2017, under pCard Restrictions, it states, "Unless specifically exempt by this policy:

- Cardholders shall not use pCards for personal purchases.
- Cardholders shall not use pCards for any purchase or service that is not for official County business."

In addition, under pCardholder, it states, "The responsibilities of the pCardholder are as follows:

- Not use the pCard in any way contrary to the County pCard Policy and Procedures."

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b. Recurring Transactions to a Particular Business

- i. There were six (6) instances totaling approximately \$500 to two airline companies in which the "Preferred Seating" option related to air travel was purchased. We reviewed the supporting documentation noting there was no documentation of the rationale for the additional costs.

According to TPP 2016, "It is the responsibility of the Department and the traveler to obtain the most cost effective airfare possible, and the considerations such as personal preferences or personal mileage programs must have no influence in the decision."

- ii. There were also twelve (12) instances totaling approximately \$11,200 in which the pCard was used to purchase lodging. It appears that the Merchant Category Code for these transactions were not blocked which allowed the purchase to process.

According to TPP 2016, "Hotel reservations and payment are the responsibility of the traveling party." It also states, "It is expressly prohibited to use the Office pCards for paying for a hotel room. The traveler has the sole responsibility for paying for a room. The reason for this is that there have been situations where a traveler will pay for a room with the County credit card and cash a check for the full per diem amount."

According to PCPP 2008 and PCPP 2015, "The primary restriction that the County will employ is to limit the cards use to a specific Merchant Category Code (MCC). If the cardholder attempts to use the card for any other purpose, the purchase will be declined."

A Merchant Category Code (MCC) is a unique code assigned to a specific group/type of merchant (i.e. 5044 - Business Supply, 5734 - Computer Software Stores, 5812 - Food Restaurants, 5921 - Retail Liquor, 5111 - Stationary, Office, School Supply, etc.). Merchant category codes are not vendor specific.

We requested the final completed Travel Order Form and related supporting documents for the twelve (12) pCard hotel charges from the Department of Finance. As of March 6, 2018, we were provided three (3) out of twelve (12) transactions requested. Final completed Travel Order Forms for the remaining nine (9) transactions could not be located.

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We were informed by the Department of Finance that any per diem advanced for the remaining nine (9) transactions was not adjusted pursuant to Section 2.48.050 of the Maui County Code. Per the Department of Finance, a Travel Order Form is not required to be resubmitted if there is no post-travel reimbursement requested.

For the three (3) transactions reviewed, we noted that one (1) of the three (3) transactions did not appear to be accurately computed.

We noted the following errors:

- Quarterly per diem did not appear to adjust for the meals that were included with the conference (amount not known)
- Actual airport parking expense was not prorated (\$11.25)
- Additional rental car expense was not accurately deducted (\$1.66)

The Director was overpaid \$12.91 for the related travel in May 2015. The amount reimbursed to the Director should have been \$82.25 instead of \$95.16. However, it appears that an additional \$104.25 could have been claimed as excess lodging but was not requested.

Based on the documentation reviewed, the conference or training agendas are not consistently attached to the Travel Order Form for conferences attended.

- iii. Summaries of the remaining nine (9) transactions are segregated as follows:

We requested and did not receive the final completed Travel Order Form for seven (7) of the nine (9) remaining transactions related to the Director as shown below.

	Post Date	Lodging Amount	Employee	Lodging Allowance	Per Diem Advanced
1	11/19/2015	\$ 618.07	Director	\$ 340.00	\$ 761.25
2	11/19/2015	350.16	Director	170.00	--
3	4/4/2016	1,855.12	Director	680.00	870.00
4	4/9/2016	914.85	Director	Unknown	Unknown
5	6/27/2016	360.66	Director	100.00	180.00
6	7/15/2016	1,144.65	Director	425.00	870.00
7	8/22/2016	237.17	Director	--	--
		\$ <u>5,480.68</u>		\$ <u>1,715.00</u>	\$ <u>2,681.25</u>

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We requested and did not receive the final completed Travel Order Form for two (2) of the nine (9) remaining transactions unrelated to the Director. As such, it is not clear whether per diems were advanced in these two (2) instances as shown below.

	Post Date	Lodging Amount	Employee	Lodging Allowance	Per Diem Advanced
1	5/4/2012	\$ 827.58	Employee A	\$ 255.00	\$ Unknown
2	5/25/2015	<u>1,889.34</u>	Employee B	<u>425.00</u>	Unknown
		\$ <u>2,716.92</u>		\$ <u>680.00</u>	

c. Single Transactions Exceeding \$1,500

There were ten (10) transactions in excess of \$1,500. We noted that there were two (2) transactions which were missing supporting documentation and three (3) transactions where we noted that the pCard was used to pay for lodging as discussed in procedure 5.b.ii. above.

i. Missing Supporting Documentation

For the two (2) transactions totaling \$3,910 to United Airlines and the Government Finance Office in which the supporting documentation could not be located, we received the Mayor's Transmittals indicating that the supporting documentation for the transactions could not be located at the off-site facility as of the dates of the transmittal letters. The Department of Finance has not been able to obtain the requested copies.

According to PCPP 2008 and PCPP 2015, "The cardholder and/or the administrator or his or her designee shall reconcile the statement and return it with the appropriate receipts and the completed transaction log to the program coordinator in the Purchasing Division no later than the 8th of the following month."

ii. pCard Used to Pay For Lodging

Three (3) pCard transactions totaling \$5,346 were used to pay for lodging.

d. Other Items Noted

i. During our review of the above lodging transactions, we noted four (4) transactions in which the transaction did not appear to be properly coded.

	Date	Amount	Vendor	Subobject Code (Description)
1	5/25/2015	\$ 1,087	US Airway	6230 (Registration/Training Fees)
2	11/19/2015	\$ 618	Hilton Garden Inn	6129 (Other Services)
3	11/19/2015	\$ 350	Hilton Garden Inn	6129 (Other Services)
4	4/4/2016	\$ 1,855	Expedia	6201 (Airfare, Transportation)

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County of Maui, Hawai'i

According to PCPP 2008, PCPP 2015 and PCPP 2017, "cardholders must ensure that for each transaction the index and sub object codes are correct."

- ii. During our review of the transactions, we noted three (3) instances totaling approximately \$100 in which travel protection, booking fees and travel fees were assessed.

According to the State of Hawai'i, Procurement Circular 2003-06, Amendment 5, (dated March 22, 2005), "Agencies should not be charged for any transaction fees/discount rate fees, or be required to purchase a minimum amount before a vendor will accept the pCard."

According to TPP 2016, "The County of Maui will not pay for full or refundable fares. We've found that it's much more cost effective to pay for economy fares and then suffer the occasional loss of use of ticket if plans change. Our experience is that we lose less than the cost of 1 mainland ticket per year, which is much cheaper than if everyone always paid full fares to fly to the mainland."

"It is the responsibility of the Department and the traveler to obtain the most cost effective airfare possible, and the considerations such as personal preferences or personal mileage programs must have no influence in the decision."

Recommendation:

The County should adhere to its Purchasing Card Program and Procedures and annually review its Merchant Category Codes on a consistent basis to ensure that the blocked categories are indeed properly blocked. In addition, the County should adhere to its Travel Policy and Procedures. Seat upgrades, travel protection and booking fees should also be specifically addressed in the next revision of the Travel Policy and Procedures.

N&K CPAs, Inc.

Honolulu, Hawai'i
March 6, 2018