

County Auditor
Lance T. Taguchi



RECEIVED

2019 MAR -5 PM 3:04

OFFICE OF THE COUNTY AUDITOR

COUNTY OF MAUI
2145 WELLS STREET, SUITE 106
WAILUKU, MAUI, HAWAII 96793
<http://www.mauicounty.gov/auditor>

OFFICE OF THE
COUNTY CLERK

March 5, 2019

The Honorable Kelly T. King, Chair
and Members of the Council
County of Maui
Wailuku, Hawaii 96793

Dear Chair King and Members:

**SUBJECT: COUNTY OF MAUI SINGLE AUDIT REPORT,
MANAGEMENT ADVISORY REPORT, AND REQUIRED
AUDITOR'S COMMUNICATION LETTER**

We have received the County of Maui Single Audit Report, Management Advisory Report, and required Communication Letter for the Fiscal Year Ended June 30, 2018, submitted by N&K CPAs, Inc., the County's contractor.

Transmitted are 19 copies of the reports and letter.

May I request that the reports be referred to the appropriate standing committee for discussion and action.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lance Taguchi".

LANCE T. TAGUCHI
County Auditor

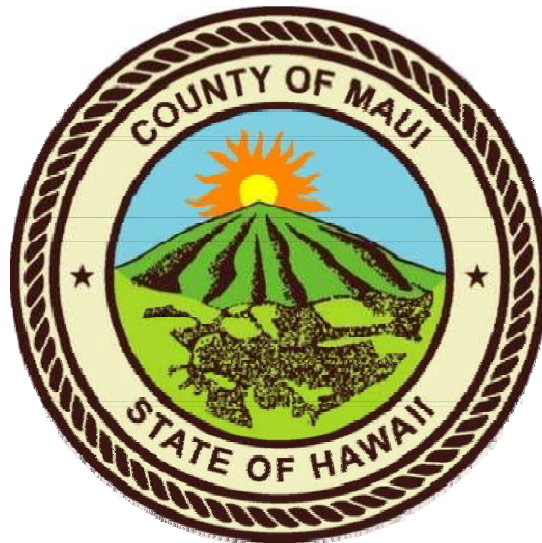
i:\financial audit\fy 2018\190305amc01_single.docx:cs

Enclosures

COUNTY COMMUNICATION NO. 19-139

COUNTY OF MAUI

STATE OF HAWAII



SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

January 25, 2019

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

We have completed our financial audit of the basic financial statements and other supplementary information of the County of Maui, State of Hawai'i (the County), as of and for the fiscal year ended June 30, 2018. Our report containing our opinions on those basic financial statements is included in the County's *Comprehensive Annual Financial Report*. We submit herein our reports on the County's internal control over financial reporting and on compliance, the County's compliance with requirements that could have a direct and material effect on each of its major federal programs and internal control over compliance, and our report on the schedule of expenditures of federal awards.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the County's basic financial statements as of and for the fiscal year ended June 30, 2018, and to comply with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the County's financial statements.
2. To report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts in accordance with *Government Auditing Standards*.
3. To report on internal control over compliance related to major federal programs and an opinion on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major federal program in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the County for the fiscal year ended June 30, 2018.

ORGANIZATION OF THE REPORT

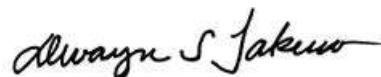
This report is presented in five parts as follows:

- Part I - Our report on internal control over financial reporting and on compliance and other matters.
- Part II - Our report on compliance for each major federal program and on internal control over compliance; and report on the schedule of expenditures of federal awards required by the Uniform Guidance.
- Part III - The schedule of findings and questioned costs.
- Part IV - The corrective action plan.
- Part V - The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the staff of the County.

Sincerely,

N&K, CPAs, INC.



Dwayne S. Takeno
Principal

COUNTY OF MAUI, STATE OF HAWAII

TABLE OF CONTENTS

	<u>Page</u>
PART I REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5 - 6
PART II REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	
Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	8 - 10
Schedule of Expenditures of Federal Awards	11 - 17
Notes to Schedule of Expenditures of Federal Awards	18
PART III SCHEDULE OF FINDINGS AND QUESTIONED COSTS	20 - 27
PART IV CORRECTIVE ACTION PLAN	
Response of County of Maui	29 - 33
PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
Status Report	35 - 36

PART I

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2018-004 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2018-001 through 2018-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's Response to Findings

The County's response to the findings identified in our audit is described in Part IV, Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawai'i
December 21, 2018

PART II

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the County of Maui, State of Hawai'i's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the fiscal year ended June 30, 2018. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report thereon dated December 21, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

N&K CPAs, Inc.

Honolulu, Hawai'i
January 25, 2019

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PROGRAMS				
Retired Senior Volunteer Program			\$ 50,875	\$ --
Retired Senior Volunteer Program			<u>16,970</u>	<u>--</u>
Total Retired and Senior Volunteer Program	94.002		<u>67,845</u>	<u>--</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PROGRAMS			<u>67,845</u>	<u>--</u>
DEPARTMENT OF AGRICULTURE PROGRAMS				
Pass-through State - Summer Food Service Program for Children:				
Play and Learn Sessions (PALS)	10.559	17177HIHIN1099	<u>101,063</u>	<u>--</u>
Community Facilities Loans and Grants:				
USDA Rural 1st Responder Lanai			9,083	--
USDA Rural 1st Responder Molokai			<u>3,548</u>	<u>--</u>
Total Community Facilities Loans and Grants	10.766		<u>12,631</u>	<u>--</u>
TOTAL DEPARTMENT OF AGRICULTURE PROGRAMS			<u>113,694</u>	<u>--</u>
DEPARTMENT OF COMMERCE PROGRAMS				
Pass-through State - Coastal Zone Management Administration Awards:				
Coastal Zone Management FY17		NA16NOS4190093	154,778	--
Coastal Zone Management FY18		NA17NOS4190102	<u>282,084</u>	<u>--</u>
Total Coastal Zone Management Administration Awards	11.419		<u>436,862</u>	<u>--</u>
TOTAL DEPARTMENT OF COMMERCE PROGRAMS			<u>436,862</u>	<u>--</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS				
Pass-through State - Special Programs for the Aging Title III, Part B:				
Grants for Supportive Services and Senior Centers:				
Aging Title III Programs		MA201503	19,308	--
Aging Title III Programs		MA2016N03	12,132	--
Aging Title III Programs		MA2016N03	196,002	--
Aging Title III Programs		MA2016N03	<u>211,825</u>	<u>--</u>
Total Special Programs for the Aging Title III, Part B, Grants for Supportive Services Senior Centers	93.044		<u>439,267</u>	<u>--</u>
Pass-through State - Substance Abuse and Mental Health Services Projects of Regional and National Significance:				
Strategic Prevention Framework	93.243	2016D-PFSHTH	<u>118,153</u>	<u>88,590</u>
Pass-through State - State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health (PPHF)				
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health (PPHF)	93.757	6 NU58DP005502-02-02	<u>18,978</u>	<u>--</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS			<u>\$ 576,398</u>	<u>\$ 88,590</u>

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
EXECUTIVE OFFICE OF THE PRESIDENT PROGRAMS				
High Intensity Drug Trafficking Areas Program:				
High Intensity Drug Trafficking Areas			\$ 48,909	\$ --
High Intensity Drug Trafficking Areas			<u>82,908</u>	<u>--</u>
Total High Intensity Drug Trafficking Areas Program	95.001		<u>131,817</u>	<u>--</u>
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT PROGRAMS			<u>131,817</u>	<u>--</u>
DEPARTMENT OF JUSTICE PROGRAMS				
Drug Enforcement Administration (DEA):				
Drug Enforcement Agency			45,000	--
Asset Forfeitures Program			(1,541)	--
Federal Justice Police Forfeitures			<u>123,658</u>	<u>--</u>
Total Drug Enforcement Administration	16.000		<u>167,117</u>	<u>--</u>
Juvenile Justice and Delinquency Prevention Allocation to States:				
Positive Outreach Intervention	16.540		<u>84,045</u>	<u>--</u>
Pass-through State - Crime Victim Assistance:				
Special Needs Advocacy Program		14-VA-01	8,217	--
Special Needs Advocacy Program Supplemental		15-VA-01	<u>589,604</u>	<u>169,295</u>
Total Crime Victim Assistance	16.575		<u>597,821</u>	<u>169,295</u>
Pass-through State - Byrne Formula Grant Program:				
Police Against Street Sales	16.579	05-DJ-05	<u>423</u>	<u>--</u>
Pass-through State - Violence Against Women Formula Grants:				
Domestic Violence Strangulation		13-WF-06	46,895	--
Sex Assault		14-WF-06	22,394	--
Domestic Violence Stalking/Homicide		15-WF-06	21,255	--
Domestic Violence Investigation		15-WF-02	<u>53,022</u>	<u>--</u>
Total Violence Against Women Formula Grants	16.588		<u>143,566</u>	<u>--</u>
Edward Byrne Memorial Justice Assistance Grant Program:				
E. Byrne Memorial JAG FY15			1,239	--
E. Byrne Memorial JAG FY16			2,526	--
Body Worn Camera Implementation Project			44,660	--
Hawaii Narcotics Task Force			13,628	--
Statewide Marijuana Eradication			34,402	--
Statewide Multi Jurisdictional Drug			<u>1,994</u>	<u>--</u>
Total Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>\$ 98,449</u>	<u>\$ --</u>

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF JUSTICE PROGRAMS (Continued)				
Other Federal Awards:				
Pass-through State:				
HI Intragency Mobile Police 02		12PHIP503	\$ 2,507	\$ --
HI Intragency Mobile Police 03		13PHIP503	4,279	--
Total	07.999		6,786	--
Police Forfeitures	16.999		9,175	--
Total Other Federal Awards	07.999/16.999		15,961	--
TOTAL DEPARTMENT OF JUSTICE PROGRAMS			<u>1,107,382</u>	<u>169,295</u>
ENVIRONMENTAL PROTECTION AGENCY PROGRAMS				
Pass-through State - Capitalization Grants for Clean Water State Revolving Funds:				
Lahaina WWRF Mod St 1A	66.458	CS-15000117	10,033,000	--
Pass-through State - Capitalization Grants for Drinking Water State Revolving Funds:				
Iao Water Treatment Facility Replacement	66.468	DW212-0015	3,853,341	--
TOTAL ENVIRONMENTAL PROTECTION AGENCY PROGRAMS			<u>13,886,341</u>	<u>--</u>
DEPARTMENT OF TRANSPORTATION PROGRAMS				
Pass-through State - Highway Planning and Construction:				
FHWA Projects State Reviews		FHWA CENG	8,159	--
FHWA Various Projects County		FHWA CENG	27,511	--
FHWA Maui Metro Planning Org		PL-0053(017)	89,008	--
FHWA Maui MPO FY18 UPWP		PL-0053(018)	10,302	--
Kahooloopoo Bridge Replacement		BR0900-078	4,792	--
Lono Avenue Pavement Rehabilitation Phase 2		STO-3950(007)	180	--
Kamehameha Traffic Signal		STP-3940(002)	26,133	--
Lahaina Watershed Project Diversification Phase 3		STP-0900(083)	240,864	--
South Kihei Road Pavement Rehabilitation		STP-3100(013)	2,136	--
Wakea Ave at Hina Traffic		STP-0900(082)	3,507	--
Papa Avenue Pavement Rehabilitation		STP-3910(001)	308,038	--
Hansen Road Pavement Reconstruction		STP-3600(001)	13,551	--
Bridge Inspection Program		BR-NBIS(062)	5,081	--
Kokomo Road Pavement Reconstruction		STP-0366(001)	2,500	--
Old Haleakala Hwy Pavement Rehabilitation		STP-0900(084)	51,125	--
Kuikahi Drive Pavement Rehabilitation		STP-3210(001)24	1,721,825	--
Baldwin Avenue Pavement Rehabilitation Phase 2		STP-0390(002)24	1,675,887	--
Kokomo Road Pavement Reconstruction Phase 2		STP-0900(086)	817,971	--
Total Highway Planning and Construction	20.205		\$ 5,008,570	\$ --

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF TRANSPORTATION PROGRAMS (Continued)				
Pass-through Bus and Bus Facilities Formula Program:				
FTA SEC 5339 Bus / Bus Fac Form	20.526	HI-34-0001HI-2016-002-00	\$ 425,489	\$ --
Pass-through UMTA Technical Studies:				
FTA SEC 5305 Metropolitan Transit		49 USC SEC5305(D)	102,759	--
FTA Maui MPO FY18 UPWP		FAIN 1623-2017-2	178,714	--
Total UMTA Technical Studies	20.505		<u>281,473</u>	<u>--</u>
Pass-through State - Formula Grants for Rural Areas:				
FTA SEC 5311 Non-Urbanized	20.509	HI-18-X032	<u>6,721</u>	<u>--</u>
Highway Safety Cluster				
Pass-through State - State and Community Highway Safety:				
MPD Traffic Services		PT17-01(03-M-01)	33,194	--
MPD Traffic Data Records		TR17-03(05-M-01)	63,788	--
MPD Speed Enforcement		SC17-06(01-M-03)	47,290	--
Distracted Driving Enforcement		DD17-10(03-M-01)	6,405	--
MPD Seatbelt Program		OP17-05(01-M-03)	2,725	--
MPD Traffic Services		PT18-01(03-M-01)	49,852	--
MPD Speed Enforcement		SC18-06(01-M-03)	96,442	--
Distracted Driving Enforcement		DD18-10(03-M-01)	57,644	--
MPD Seatbelt Program		OP18-05(01-M-03)	52,147	--
MPD Child Restraint Program		OP18-05(02-M-01)	15,559	--
Total State and Community Highway Safety	20.600		<u>425,046</u>	<u>--</u>
Pass-through State - National Priority Safety Programs:				
MPD Roadblock Program		AL17-02(01-M-03)	84,578	--
MPD Child Restraint Program		OP17-05(03-M-01)	8,111	--
DPA 2017 Traffic Records		TR17-03(10-M-01)	9,635	--
Maui Prosecutors Office		AL17-02(05-M-01)	6,939	--
MPD Traffic Data Records		TR18-03(04-M-01)	32,508	--
MPD Roadblock Program		AL18-02(01-M-03)	190,640	--
DPA 2018 Traffic Records		TR18-03(10-M-01)	2,878	--
Total National Priority Safety Programs	20.616		<u>335,289</u>	<u>--</u>
Total Highway Safety Cluster			<u>760,335</u>	<u>--</u>
TOTAL DEPARTMENT OF TRANSPORTATION PROGRAMS			<u>\$ 6,482,588</u>	<u>\$ --</u>

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF HOMELAND SECURITY PROGRAMS				
Pass-through State - Emergency Management Institute Training Assistance:				
FEMA Fire Training Funds	97.026	11-106-036	\$ 1,476	--
Disaster Grants - Public Assistance (Presidentially Declared Disasters):				
2016 Hawaii Severe Storms	97.036		162,655	--
Emergency Management Performance Grants				
Emergency Management Performance Grant			19	--
Emergency Management Performance Grant			92,356	--
Total Emergency Management Performance Grants	97.042		92,375	--
Assistance to Firefighters Grants	97.044		527,046	--
Homeland Security Grant Program:				
State Homeland Security			101,030	--
State Homeland Security			232,754	--
State Homeland Security			58,809	--
Total Homeland Security Grant Program	97.067		392,593	--
TOTAL DEPARTMENT OF HOMELAND SECURITY PROGRAMS			1,176,145	--
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS				
Community Development Block Grants / Small Cities Program:				
CDBG Program Administration FY2011	14.219		(1,521)	--
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii:				
CDBG Program Admin FY15			(141)	--
CDBG Program Admin FY16			1,200	--
Housing Rehabilitation Loan Project Inc			11,863	--
Lahaina Surf Preservation			185,148	185,148
The Maui Farm Rehabilitation			242,242	242,242
Khako Staircase Safety			260,461	260,461
Cameron Center Rehabilitation and Improvement			1,690	1,690
CDBG Program Admin FY17			19,541	--
CDBG Program Admin FY18			345,640	--
Rehabilitation of MFSS Building			72,900	72,900
Total Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228		\$ 1,140,544	\$ 762,441

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS (Continued)				
Pass-through State - Home Investment Partnerships Program:				
Home FFY14 Administration		M-2014-MAUI ADMIN	\$ 40,240	\$ --
Home FFY14 Kulamalu AH Project		M-2014-MAUI KULAMALU	24,519	--
Total Home Investment Partnership Program	14.239		<u>64,759</u>	<u>--</u>
Section 8 Housing Choice Vouchers:				
Section 8 Housing Voucher FY2016			2,040	--
Section 8 Family Self-Sufficient			52,153	--
Section 8 Housing Voucher FY18			17,886,293	--
Section 8 Housing Admin FY18			1,170,608	--
Section 8 Housing Assistance Payments (HAP)-NRA			2,689	--
Total Section 8 Housing Choice Vouchers	14.871		<u>19,113,783</u>	<u>--</u>
Family Self-Sufficiency Program:				
FSS Coordinator Grant	14.896		<u>22,424</u>	<u>--</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS			<u>20,339,989</u>	<u>762,441</u>
DEPARTMENT OF LABOR PROGRAMS				
Pass-through State - Workforce Investment Act:				
WIOA Admin PY2015		WIOA-15-LAC-M	3,985	--
WIOA Admin PY2016		WIOA-16-LAC-M6/30/2018	15,217	--
WIOA Admin PY2017		WIOA-17-LAC-M6/2019	19,982	--
Total Workforce Investment Act	17.000		<u>39,184</u>	<u>--</u>
WIOA Cluster				
Pass-through State - WIA/WIOA Adult Program:				
WIOA Adult & Dislocated Worker		WIOA-15-A&DWP-M	9,825	--
WIOA Adult Program		WIOA-16-AP-M6/30/2018	144,698	--
WIOA Adult Program		WIOA-17-APM6/30/2019	22,000	--
Total WIOA Adult Program	17.258		<u>176,523</u>	<u>--</u>
Pass-through State - WIA/WIOA Youth Activities:				
Workforce Innovation Opportunity		WIOA-15-YPM	7,109	--
WIA Youth Activities		WIOA-16-YPM	162,412	--
Total WIOA Youth Activities	17.259		<u>169,521</u>	<u>--</u>
Pass-through State - WIA/WIOA Dislocated Worker Formula Grants				
WIOA Dislocated Worker	17.278	WIOA-17-DWP-M6/30/2019	28,000	--
Total WIOA Cluster			<u>\$ 374,044</u>	<u>\$ --</u>

The accompanying notes are an integral part of this schedule.

**County of Maui
State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2018**

Federal Grantor/Pass-through Grantor/Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
DEPARTMENT OF LABOR PROGRAMS (Continued)				
Pass-through State - WIA Dislocated Workers				
WIOA Dislocated Worker	17.260	WIOA-16-DWP-M6/30/2019	\$ <u>141,779</u>	\$ <u>--</u>
TOTAL DEPARTMENT OF LABOR PROGRAMS			<u>555,007</u>	<u>--</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>44,874,068</u>	\$ <u>1,020,326</u>

The accompanying notes are an integral part of this schedule.

County of Maui
State of Hawai'i
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activities of the County under programs of the federal government for the fiscal year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to, and does not present the financial position, changes in financial position, or cash flows of the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COST RATE

The County has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	no
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	none reported

Noncompliance material to financial statements noted?

	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
--	--------------------------	-----	-------------------------------------	----

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
--	--------------------------	-----	-------------------------------------	----

Identification of major federal programs:

CFDA Number	Name of Federal Program
20.205	Highway Planning and Construction Capitalization Grants for Clean Water State Revolving Funds Homeland Security Grant Program
66.458	
97.067	

Dollar threshold used to distinguish between Type A and Type B programs: \$1,346,222

Auditee qualified as a low-risk auditee? yes no

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.

No. **Internal Control Findings**

2018-001 **Internal Controls Over Automated Payroll Processing System - Significant Deficiency**

Criteria: A control environment should be continuously monitored to ensure the completeness and accuracy of the County's payroll processing system. Employee time records, whether manual timesheets or automated time records, should be approved by the employee and their supervisor and properly support the payroll expenditures reflected in the automated pay register used to record expenditures into the County's general ledger.

Condition: The Department of Finance has completed a conversion to a more automated payroll processing system. Included in that conversion was a move toward a fully automated employee time recording system. This conversion also required a change from a more manual, centralized time recording and monitoring system at the Payroll Section to a more decentralized system, with payroll responsibilities disbursed out to individual departments.

Individual departments have either switched to an automated time recording system or have maintained a manual time keeping system for all or some employees based on its operations. This practice has continued to produce inconsistencies between departments which resulted in the following conditions noted during our review of 40 payroll files:

- One instance (out of 40 samples) where an electronic time sheet did not have an approval by the supervisor/department head.

The County has a 'Payroll Policies and Procedures Manual' that indicates the roles and responsibilities of the department/agencies and employees, required forms to be used and procedures to be followed with regard to manual timesheets and automated timesheets. There are certain departments/agencies that will not be able to fully convert to the automated employee time recording system based on logistics and possible bargaining unit restrictions. However, it is still the Department of Finance's goal to convert more departments to the automated payroll processing system by providing continuous training and follow up sessions with each department and its 'Super-Users'.

Cause: The change from a centralized to a decentralized system for capturing employee time has resulted in the implementation of a new internal control environment that requires continuous monitoring.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2018-001 Internal Controls Over Automated Payroll Processing System - Significant Deficiency (Continued)

Effect: The lack of sufficient controls to ensure the completeness and accuracy of the payroll records could lead to incorrect payments to County employees and inaccurate reporting of payroll costs in the County's financial statements.

Identification as a Repeat Finding, if applicable:

See finding 2017-002 included in the Summary Schedule of Prior Audit Findings.

Recommendation

The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2018-002 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency

Criteria: Proper internal controls over miscellaneous cash receipts received directly from the public dictate that adequate segregation of duties exists to ensure that an employee receiving cash is not the same employee that records the receipt transaction into the accounting records and reconciles the cash deposited into the bank. Evidence of this segregation of accounting duties and the appropriate level of supervisory review should be reflected on the daily cash receipt summary report in the form of sign offs by personnel involved.

Condition: During our audit, we noted that the internal controls over miscellaneous cash receipts collected by the various divisions and departments of the County could be improved. There was a lack of adequate segregation of duties over cash receipts, particularly at the Building Permits Section, between employees responsible for receiving the cash from the public and recording the cash transaction into the daily cash summary report and reconciling this summary report to the daily bank deposit.

On January 11, 2018, the Development Services Administration (DSA) within the Department of Public Works, issued a memo indicating the corrective actions taken related to the DSA audit findings. During our audit, the findings which resulted occurred for the time period prior to January 11, 2018. Subsequent to the memo issued date, we did not note any findings.

Cause: Policies and procedures to enhance the segregation of duties over cash receipts have not been fully implemented.

Effect: The lack of adequate internal controls over miscellaneous cash receipts could result in a loss of revenues to the County.

Identification as a Repeat Finding, if applicable:

See finding 2017-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation

Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

**Ref.
No.**

Internal Control Findings

**2018-002 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency
(Continued)**

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

**County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

2018-003 CC&B Logical Access & Access Security - Significant Deficiency

Criteria: Security policies and procedures exist defining controls to ensure the integrity of data and resources of the system.

Condition: Effective March 8, 2018, the Department of Water Supply (DWS) internally documented its semi-annual policies and procedures over the Oracle Utilities Customer Care and Billing System (CC&B) user access review. This semi-annual user access review will occur every June and December which will also entail changing passwords based on the password requirements. We were informed that the internal memo was verbally approved by the Director. Subsequently, this internal memo has been formally approved as of January 15, 2019. A documented review occurred during March 2018 and December 2018. However, we were informed that a visual review was performed for June 2018.

Cause: The DWS has not formally documented and approved its security administration policies and procedures.

Effect: Unauthorized access to these systems could result in the destruction of data, unauthorized transactions being made, transactions being inaccurately recorded, or internal controls being circumvented.

Identification as a Repeat Finding, if applicable:

See finding 2017-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation

We recommend the DWS formally document and approve an information security policy to establish control processes over access to CC&B.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.
No. **Internal Control Findings**

2018-004 Reconcile Accounts and Post-Closing Adjustments - Material Weakness

Criteria: Internal controls safeguard assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal controls are the policies and procedures put in place to assist in achieving an organization's objectives. Management is responsible for establishing and maintaining the control environment.

Effective internal controls prevent or detect and correct misstatements on a timely basis. Preventive controls are designed to discourage errors or irregularities from occurring. These controls would include segregation of duties, approval, authorizations and verifications and security of assets. Detective controls are designed to find errors or irregularities after they have occurred. These controls would include reviews and reconciliations, physical inventories and audits.

Condition: During the audit, we noted that there were many adjustments to properly record transactions that occurred during the year and also adjustments required to properly state beginning net position other than the adoption of the new accounting principle GASB Statement No. 75 (GASBS 75), Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

The adjustments related to transactions that occurred during the year were as follows:

- An adjustment to record unrealized losses on investments.
- An adjustment to loans receivable.
- Adjustments for real property tax transactions between the General Fund and the Fiduciary Fund.
- Adjustments related to the commencement of operations for the Kulamalu Hale Affordable Housing Rentals.

The transactions that were related to prior periods were as follows:

- Revisions related to adjustments related to the implementation of GASBS 75.
- An adjustment to record accrued compensatory time.
- An adjustment to record additional construction in progress costs expensed in prior years.

Cause: The year-end closing process has not been formalized.

County of Maui
State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Ref.

No. **Internal Control Findings**

**2018-004 Reconcile Accounts and Post-Closing Adjustments - Material Weakness
(Continued)**

Effect: Several adjusting journal entries were needed to correct or record transactions properly, resulting in a delay of the issuance of the financial statements.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation

We recommend management develop a formalized year-end closing process including individuals and their responsibilities as well as a timeline for completion of the audit. This may help to ensure that the audits are completed in a timelier manner.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the finding and the recommendation. See Part IV Corrective Action Plan.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

PART IV
CORRECTIVE ACTION PLAN

MICHAEL P. VICTORINO
Mayor



SCOTT K. TERUYA
Acting Director

MAY-ANNE A. ALIBIN
Deputy Director

COUNTY OF MAUI
DEPARTMENT OF FINANCE
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

January 25, 2019

Mr. Dwayne S. Takeno
N&K CPAs Inc.
1001 Bishop Street, Suite 1700
Honolulu, Hawai'i 96813

**SUBJECT: SINGLE AUDIT FINDINGS - CORRECTIVE ACTION PLAN FOR
THE FISCAL YEAR ENDED JUNE 30, 2018**

Dear Mr. Takeno:

The County of Maui appreciates that the Comprehensive Annual Financial Report audits often identify opportunities for improving operations and governance. Attached is our Corrective Action Plan in response to the Single Audit Findings for the fiscal year ended June 30, 2018. It is our goal that every audit have a positive result and that our response to findings and recommendations allow us to take positive action and to improve our operations.

Thank you for the opportunity to respond to your recommendations toward improving operations and governance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott K. Teruya".

Scott K. Teruya
Acting Director of Finance

**County of Maui, Hawaii
State of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2018**

Ref.
No. Internal Control Findings

2018-001 Internal Controls Over Automated Payroll Processing System – Significant Deficiency

Recommendation

The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.

View of Responsible Officials and Planned Corrective Action

The Department of Finance continues to hold quarterly SuperUser meetings to disseminate information, provide necessary training, and communicate the importance of key payroll policies and procedures to new and existing employees. In addition, an internal payroll audit reviewing documentation for proper submission, review and approval has been completed in Fiscal Years 2017 and 2018. As we transition to the new Workday Payroll System, the Department intends to update and monitor the County's payroll policies and procedures.

End Date: Ongoing

Responding Person(s): Danielle Navarro, Payroll Manager
Department of Finance
Phone No. (808) 270-7499

**County of Maui, Hawaii
State of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2018**

Ref.
No. Internal Control Findings

2018-002 Internal Controls Over Miscellaneous Cash Receipts – Significant Deficiency

Recommendation

Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.

View of Responsible Officials and Planned Corrective Action

As mentioned in the *Conditions* section of the Schedule of Findings and Questioned Costs, the Development Services Administration (DSA) within the Department of Public Works, issued a memo indicating the corrective actions taken related to the DSA audit findings on January 11, 2018. The procedures were implemented halfway through the fiscal year and therefore, Department of Public Works intends to continuously monitor the controls in place.

End Date: Ongoing

Responding Person(s): May-Anne Alibin, Treasurer
Department of Finance
Phone No. (808) 270-7464

Lance Nakamura, Assistant Administrator
Development Services Administration

County of Maui, Hawaii
State of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2018

Ref.

No. **Internal Control Findings**

2018-003 CC&B Logical Access & Access Security – Significant Deficiency

Recommendation

We recommend the DWS formally document and approve an information security policy to establish control processes over access to CC&B.

View of Responsible Officials and Planned Corrective Action

As DWS shares the CC&B database with the County of Kauai's Department of Water (DOW), DOW's technical staff is scheduled to change CC&B passwords every six months. In addition, individual County of Maui's DWS user access control is reviewed by the Fiscal Officer on a semi-annual basis. Each user access is verified.

End Date: Ongoing

Responding Person(s): Holly Ho, Fiscal Officer
Department of Water Supply
Phone No. (808) 270-7303

**County of Maui, Hawaii
State of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2018**

Ref.
No. **Internal Control Findings**

2018-004 Reconcile Accounts and Post-Closing Adjustments – Material Weakness

Recommendation

We recommend management develop a formalized year-end closing process including individuals and their responsibilities as well as a timeline for completion of the audit. This may help to ensure that the audits are completed in a timelier manner.

View of Responsible Officials and Planned Corrective Action

The Department of Finance, Accounts Division continues to face some challenges due to a lack of available resources, especially during the preparation of CAFR. However, staff involved with the CAFR preparation must be commended because given the shortage in staffing and other key personnel being involved in the HR/Payroll System Replacement project, the audit was completed by the due date of December 31, 2018. Several adjusting entries mentioned in the Conditions section of the Schedule of Findings and Questions Costs were very unique, one-time occurrence journal entries necessary to be posted during this audit because those transactions were not recognized in prior years. The Management will continue to strive and improve the CAFR process, given the limited resources, to ensure that all accounts are reconciled timely and adjusting entries are completed prior to issuing the draft financial statements. The Management will develop a checklist to ensure that year end closing items are addressed.

End Date: Ongoing

Responding Person(s): Marci M. Sato, Accounting System Administrator
Department of Finance
Phone No. (808) 270-7503

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**County of Maui
State of Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2018**

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2017, dated January 25, 2018.

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Recommendations</u>	<u>Status</u>
<p>2017-001 Internal Controls Over Vacation and Sick Leave Records - Significant Deficiency</p> <p>Adequate internal controls should be maintained to ensure that vacation and sick leave records are accurately documented, calculated, and recorded in the County's general ledger. Evidence of the submission and review of the 'Application for Leave (DF-2) form' for the County of Maui, or 'Application for Leave (DF-1) form' for the Department of Water Supply (DWS), should be documented through signatures of both the employee taking leave and an appropriate approver.</p>	<p>Accomplished.</p>
<p>2017-002 Internal Controls Over Automated Payroll Processing System - Significant Deficiency</p> <p>The Department of Finance should continue to implement and monitor the payroll process to ensure that accurate employee compensation expenditures are recorded in the County's general ledger. Monitoring activities include requiring explicit documentation evidencing supervisory reviews of time records prior to processing and periodic reviews of employee and departmental time sheets at the departmental level.</p>	<p>Not accomplished. Refer to finding 2018-001.</p>
<p>2017-003 Internal Controls Over Procurement Process - Significant Deficiency</p> <p>Adequate internal controls should be maintained to ensure that all policies established and stated by the County of Maui Code are consistently followed and adhered to.</p>	<p>Accomplished.</p>

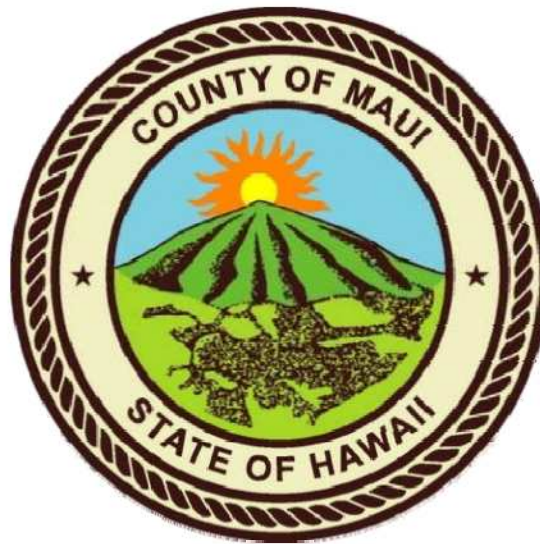
**County of Maui
State of Hawai'i
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

<u>Recommendations</u>	<u>Status</u>
<p>2017-004 Internal Controls Over Miscellaneous Cash Receipts - Significant Deficiency</p> <p>Adequate internal controls should be maintained to ensure that adequate segregation of duties exist and that miscellaneous cash receipts are accurately collected, deposited and recorded in the County's general ledger. Evidence of the performance and review of the various employees should be documented on daily cash summary reports in the form of sign offs by personnel involved.</p>	<p>Partially accomplished. Refer to finding 2018-002.</p>
<p>2017-005 CC&B Logical Access & Access Security - Significant Deficiency</p> <p>We recommend the DWS develop an information security policy to establish control processes over access to CC&B, have the policy approved by the appropriate level of management and communicated to employees.</p>	<p>Partially accomplished. Refer to finding 2018-003.</p>

MANAGEMENT ADVISORY REPORT

County of Maui, Hawai'i



**For the Fiscal Year Ended
June 30, 2018**

COUNTY OF MAUI

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT ADVISORY REPORT	
Management Letter	3
 CURRENT FINDINGS AND RECOMMENDATIONS	
2018-001 Improve Monitoring over Departments to Ensure Compliance with the County's Cash Overage and Shortage Policy and Procedures	4
 CORRECTIVE ACTION PLAN	
Response of County of Maui	6
 STATUS OF PRIOR YEAR'S RECOMMENDATIONS	
Status Report	8

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

In planning and performing our audit of the financial statements of the County of Maui, State of Hawai'i (the County) as of and for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our findings and recommendations regarding these matters. We previously communicated to you about the County's internal control in our report dated December 21, 2018. This letter does not affect our report dated December 21, 2018, on the financial statements of the County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

This communication is intended solely for the information and use of management, County Council, and others within the County, and is not intended to be, and should not be, used by anyone other than these specified parties.

N&K CPAs, Inc.

Honolulu, Hawai'i
December 21, 2018

County of Maui, Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2018

2018-001 Improve Monitoring over Departments to Ensure Compliance with the County's Cash Overage and Shortage Policy and Procedures

Criteria: Under the County of Maui's Cash Overage and Shortage Policy and Procedures, cash overages and shortages should be promptly communicated to management, investigated to determine the cause and properly recorded in the accounting records.

Condition: The Department of Finance - Division of Motor Vehicles (Division) utilizes iNovah as their cashiering system. Cash receipt reports generated from iNovah must be used to reconcile against actual cash collections to ensure accuracy and completeness of the County's accounting records, and proper safeguarding of the County's assets. During our current year audit, we noted the following:

- Two (2) instances where an overage was identified by an employee, but not timely communicated to the appropriate personnel to reconcile and post into the County's accounting records.

Cause: Due to high turnover within the Division, an employee that was in-training for both instances inadvertently did not notify their supervisor of the overage. Therefore, a reconciliation to verify the overage was not performed and the additional revenue was not posted in the County's accounting records.

Effect: Lack of communication to employees over the County of Maui's Cash Overage and Shortage Policy and Procedures resulted in untimely reconciliation of the County's records and improper cash handling practices.

Recommendation

Adequate training should be provided to employees at all levels in the cash handling process to ensure that the cash overage and shortage policy and procedures are being followed and consistently applied.

Views of Responsible Officials and Planned Correction Action

The County agrees with the finding and the recommendation. See Corrective Action Plan on page 6.

CORRECTIVE ACTION PLAN

County of Maui, Hawai'i
Management Advisory Report
Current Findings and Recommendations - Corrective Action Plan
Fiscal Year Ended June 30, 2018

2018-001 Improve Monitoring over Departments to Ensure Compliance with the County's Cash Coverage and Shortage Policy and Procedures

Recommendation

Adequate training should be provided to employees at all levels in the cash handling process to ensure that the cash coverage and shortage policy and procedures are being followed and consistently applied.

View of Responsible Officials and Planned Corrective Action

The Division of Motor Vehicle & Licensing's (DMVL) Fiscal Section experienced a high turnover in FY 2018, primarily due to promotions of the incumbents to other divisions within the Department of Finance.

Currently, the overall DMVL Training programs and protocols are adequately provided to employees at all levels. However, given these audit findings, the Fiscal Training Deposit Processing Checklists and Procedures is now augmented with additional emphasis in the preparation and processing of the manual Treasury Deposit Summary (TDS) to post revenues timely into the County's IFAS system.

The Division of Treasury is currently in discussion with System Innovators about the automation of the interface between iNovah Cashiering System and IFAS to eliminate the need of manual TDS.

End Date: Ongoing

Responding Person(s): Carmelito Vila, DMVL Administrator
Department of Finance
Phone No. (808) 270-7362

May-Anne A. Alibin, Treasurer
Department of Finance
Phone No. (808) 270-7697

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

County of Maui, Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2018

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the management advisory report for the fiscal year ended June 30, 2017, dated December 13, 2017.

<u>Recommendations</u>	<u>Status</u>
2017-001 IMPROVE MONITORING OVER WORKER'S COMPENSATION CLAIMS (page 4) When using a third-party vendor to support County functions, the County's Risk Management Department should assign an individual with appropriate oversight to manage the relationship. This includes maintaining frequent contact with key vendor personnel, following up on unusual items, resolving issues in a timely manner, and reporting any issues to the County.	Accomplished.



RECEIVED

19 FEB 28 P12:10

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

OFFICE OF THE
COUNTY AUDITOR

To the Council Chair,
and members of the Council
County of Maui
Wailuku, Maui, Hawai'i

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, State of Hawai'i (County) for the fiscal year ended June 30, 2018. We have also audited the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County for the fiscal year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, relating to the accounting and financial reporting for postemployment benefits. Accordingly, the cumulative effect of the accounting change as of the beginning of the fiscal year resulted in a restatement of the beginning net position as of June 30, 2017. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

- Allowance for doubtful accounts
- Useful lives of the County's capital assets used to compute depreciation expense
- Liability for postretirement benefits other than pensions (OPEB)
- Liability for the County's net pension liability
- Loss reserves for claims and judgments
- Landfill closure, post-closure care cost liability, and pollution remediation obligation.

Management's estimates were based on the following:

- The allowance for doubtful accounts is based on an analysis of past due accounts, the County's historical experience with the account, and other relevant factors to arrive at an overall assessment of whether the past due accounts will be collected.
- Depreciation recorded on capital assets is based in part on the estimated useful lives of those capital assets.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

- The net OPEB liability, deferred inflows of resources, and deferred outflows of resources of the post-retirement benefits other than pensions administered by the Hawaii Employer – Union Health Benefits Trust Fund (EUTF) was determined by an actuarial valuation. The County's proportionate share of the net OPEB liability, deferred inflows of resources, and deferred inflows of resources was based on the County's contributions to the EUTF.
- The collective net pension liability, deferred inflows of resources, and deferred outflows of resources of the cost-sharing multiple employer defined pension plan administered by the State of Hawaii's Employee Retirement System was determined by an actuarial valuation. The County's proportionate share of the collective net pension liability, deferred inflows of resources, deferred outflow of resources was based on the County's contributions to the pension plan relative to the contributions of all participating employers during the measurement period.
- The claims and judgments liability is based on the assessment of the County's legal counsel and an analysis of workers' compensation, automobile and general liability insurance claims.
- The landfill closure, post-closure care cost liability, and pollution remediation obligation was determined by the County's engineers and the third party contractor.

We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the adoption of GASB Statement No. 75 in Note 15 to the financial statements and the effect the change had on the presentation of the County's financial statements as of June 30, 2018. The effect of the change reduced beginning net position by \$292,106,556 as of June 30, 2017.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedules summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- 1) Adjustment to properly record pension liability and properly state pension expense and the related deferred inflows and deferred outflows (County and Department of Water Supply).
- 2) Adjustment to properly record the net OPEB liability and properly state the OPEB expense and related deferred inflows and deferred outflows (County and Department of Water Supply).
- 3) Adjustment to properly record the Ka Hale A Ke Ola Homeless Resource Centers, Inc.'s loan (County).
- 4) Adjustment to properly record the cash and real property tax revenues (County).
- 5) Adjustment to properly reflect the balances of the Trust and Agency funds (County).
- 6) Adjustment to properly record the Kulamalu Hale Housing assets, liabilities and net position accounts (County).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 21, 2018 and January 25, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the following, which are required supplementary information (RSI) that supplements the basic financial statements:

- Management's Discussion and Analysis (MD&A),
- Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
- Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Highway Fund
- Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Sewer Fund
- Notes to the Budgetary Comparison Schedules
- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions (Pension)
- Notes to Required Supplementary Information Required by GASB Statement No. 68
- Schedule of Changes in the Net OPEB Liability and Related Ratios
- Schedule of Contributions (OPEB)
- Notes to Required Supplementary Information Required by GASB Statement No. 75

Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining statements; as well as Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual; Schedules of Revenues – Budget and Actual; Schedules of Appropriations, Expenditures, and Encumbrances; and Capital Assets Used in Operations of Governmental Activities, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory and Statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Chair and Members of the County Council and management of the County of Maui, Hawai'i, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

N&K CPAs, Inc.

Honolulu, Hawaii
January 25, 2019