

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

April 20, 2018

Committee
Report No. _____

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on March 28, 2018, makes reference to County Communication 18-87, from the County Auditor, transmitting from the County's designated independent auditor, N&K CPAs, Inc. ("N&K"), the following:

1. A report entitled "COUNTY OF MAUI STATE OF HAWAII: SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2017."
2. A report entitled "MANAGEMENT ADVISORY REPORT COUNTY OF MAUI, HAWAII, For the Fiscal Year Ended June 30, 2017."
3. Required communication letter for the Fiscal Year Ended June 30, 2017.

Your Committee notes the Single Audit Report ("Report") resulted from the consolidated audit process required by the Federal government as a condition of Federal grants of funds to the County. The Report consists of the following parts: (1) a report on internal controls over financial reporting; (2) a report on compliance for each major program, a report on internal control over compliance, and a report on the schedule of expenditures of Federal awards; (3) a schedule of findings and questioned costs; (4) a summary schedule of prior audit findings; and (5) a corrective action plan.

The independent auditor provided an overview of the Report. The independent auditor issued an unmodified opinion on the County's compliance for each major Federal program. An unmodified opinion reflects the independent auditor's judgment that the County is in

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compliance with its major Federal programs requirements for Fiscal Year 2017.

Your Committee notes 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.

The independent auditor, in its review of the internal controls over financial reporting, identified five significant deficiencies relating to: (1) adequate internal controls over vacation and sick leave requests; (2) proper approval of timesheets by employee and supervisor; (3) proper implementation of Chapter 3.12, Maui County Code, which outlines purchasing procedures; (4) adequate internal controls over miscellaneous cash receipts; and (5) access security for the Department of Water Supply's Oracle Utilities Customer Care and Billing ("CC&B") System. The first four findings were reported by the independent auditor in prior years' audits.

Regarding internal controls for vacation and sick leave requests, N&K's representative said the concern is the lack of documentation that provides evidence that employees' leave requests were authorized. The representative said there were no instances where the lack of documentation resulted in an employee taking unauthorized leave.

Regarding proper approval of time sheets, your Committee noted the Department of Finance issued the Payroll Policies and Procedures in March 2015. The Department stresses the importance of accurate payroll reporting and proper authorization of timesheets to the administrators of the payroll system.

Your Committee noted the County's new payroll system, "Workday," will be implemented in October 2018. The representative said the new payroll system should assist the County with eliminating the significant deficiency relating to timesheet approval.

Regarding proper implementation of purchasing procedures, the Report identified an instance of improper implementation of the County's

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purchasing procedures where a contract was improperly awarded through the County's sole source procurement system instead of the Request for Proposals process. The contract identified in the audit was executed by the Department of Housing and Human Concerns. Although this impropriety was a repeat finding, previous audits attributed the impropriety to other departments, and not necessarily a repeat impropriety by the Department of Housing and Human Concerns.

Regarding adequate internal controls over miscellaneous cash receipts, N&K's representative said the County does not have a Countywide policy for miscellaneous cash receipts. The Director of Finance informed your Committee the Department of Finance is currently developing a Countywide policy.

Regarding access security for the Department of Water Supply's CC&B System, a representative from the Department of Water Supply said the auditor's finding is being addressed through the development of an access security policy.

Your Committee expressed concern the Report discovered repeat findings of significant deficiencies. A representative from N&K said the number of deficiencies identified decreased from 12 in Fiscal Year 2016 to 5 in Fiscal Year 2017, which shows efforts are being made to address and correct deficiencies.

Your Committee notes the Report includes a corrective action plan that contains the independent auditor's recommendations and actions to be taken by various County departments to address the significant deficiencies.

The independent auditor also issued a Management Advisory Report that reported one finding relating to the need to improve monitoring over workers' compensation claims. The County uses a third-party vendor to calculate and process workers' compensation claims. In Fiscal Year 2015, the County switched vendors. The report states during the transition, manual files maintained by the previous vendor were scanned into the new vendor's online system. The files were incomplete and were not properly

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named; therefore, the documents were difficult to retrieve. The County did not have a monitoring process over the claims throughout the transition from one vendor to the next.

The independent auditor recommended the Risk Management Division assign an employee with appropriate oversight to manage the relationship with the third-party vendor. This oversight of the third-party vendor should include frequent contact with key personnel, follow-up on unusual items, resolving issues in a timely manner, and reporting any issues to the County.

Your Committee voted 9-0 to recommend filing of the communication. Committee Chair Hokama, Vice-Chair White, and members Atay, Carroll, Cochran, Crivello, Guzman, King, and Sugimura voted "aye."

Your Budget and Finance Committee RECOMMENDS that County Communication 18-87 be FILED.

This report is submitted in accordance with Rule 8 of the Rules of the Council.



RIKI HOKAMA, Chair