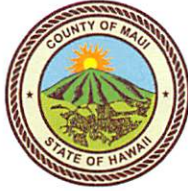


ALAN M. ARAKAWA  
Mayor



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MARK R. WALKER  
Director

JOHN C. KULP  
Deputy Director

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

December 27, 2018

Honorable Mayor Alan Arakawa  
Mayor, County of Maui  
200 South High Street  
Wailuku, Hawaii 96793

For Transmittal to:

Honorable Mike White  
Council Chair  
Maui County Council  
200 South High Street  
Wailuku, Hawaii 96793

Dear Chair White:

**SUBJECT: PERFORMANCE AUDIT - DEPARTMENT OF FINANCE**

Following please find performance audit responses to the subject audit dated November 26, 2018 performed by Moss Adams LLP.

**Objective 1: Staffing**

**Finding 1**

*The Department is adequately staffed to meet core service requirements, with the exception of the Treasury Division. Planned technology replacements will require additional resources to ensure consistent service delivery.*

Recommendation:

- A. Reinstitute and fill the Assistant Accounting System Administrator position to serve as a liaison with the Department and IT during current and future recommendation system implementation, implement ongoing system improvements, and assist user departments with management reporting.

APPROVED FOR TRANSMITTAL  
 12/27/18  
Mayor Date

COUNTY COMMUNICATION NO. 19-58

- B. Develop an annual plan for Finance service delivery, including core services and projects, determine internal and external resource requirements for completion of each activity, and monitor performance measures.
- C. Ensure key functions are staffed adequately to meet business needs, and identify and train employees to back up key roles.

Finance Response:

Management concurs with this finding. At the Finance Directors direction the Budget Office has forwarded a resolution to the Maui County Council requesting funding for the restoration of the Assistant Accounting System Administrator position.

Treasury - Concur with the audit recommendation to add a Revenue Manager and/or Deputy Treasurer position to provide better service delivery, consistency, internal controls, and backup of key managerial functions. A Revenue Manager position was proposed in FY 2019; however, this position was not approved by the County Council. The primary duties of the proposed Revenue Manager include the following: a) Serves as the principal responsible for the day-to-day operations of the countywide cashiering system and electronic payment systems and provide assistance to the Treasurer with planning, coordinating, and supervising special projects as it relates to the cashiering and electronic payment systems; b) Negotiates satisfactory settlement terms with individual delinquent accounts collection for all non-RPT County revenues, which includes coordinating terminations and resumption of services, lien filings, and other collection actions with various County agencies, monitoring delinquent accounts records for interest charges and subsequent payments, and reconciling collection agency account status reports to the County records of delinquencies, and; (c) Manages all major County revenues sources, including developing and recommending administrative policies and procedures relating to collection of receivables and internal controls and monitoring collection of all County revenues. This position has been included in the Treasury Division's FY 2020 Budget submittal.

The Directors Office will work with the various divisions of Finance to identify key positions within each division and to identify and train selected employees to act as back-ups for these positions to help insure continuity of operations.

**Finding 2**

***While undertaking large-scale software system implementations, the County relies exclusively on overtime for existing staff, which impacts the ability to consistently deliver core services.***

Recommendation:

Assess personnel costs of system implementation and add temporary staff accordingly.

Finance Response:

Management partially concurs. Training temporary employees can be burdensome and time consuming for existing employees. Depending on the type of core services required, the work may be very technical and specialized by nature and thus training replacement staff to provide these services in a short period of time may not be feasible. Additionally, there are many other external factors beyond the County's control which may have an impact on the ability to hire temporary staff replacements, such as vendor's resource availability and timing, and County

Council approval of funding for temporary staff. It should be pointed out that for a recent large projects (MAPPS) project funding for temporary staff was requested by IT, however, Council denied the request and instead put additional funds in the budget for overtime for existing staff. Having said that, moving forward the Finance Department will endeavor to work more closely with IT to more fully plan large scale software system implementations and to determine if funding and training of temporary staff to deliver core services is a more viable option then using existing staff.

### **Finding 3**

***The County does not conduct proactive workforce planning, resulting in elevated risk of the Department not being staffed adequately to meet operational needs.***

#### **Recommendation:**

Develop a strategy to address workforce planning for key positions to proactively identify needs, develop employees, and support operational continuity.

#### **Finance Response:**

Management concurs with this finding. The Directors Office will work with Finance's various divisions in conjunction with the Department of Personnel Services to develop a workforce plan for each division.

In this regard, the Purchasing Division, which is a small division, is well aware of the risk of the Division not being adequately staffed. The division is 3 years into a succession plan for the eventual retirement of the Central Purchasing Agent, which has included investing in National Institute of Government Procurement (NIGP) certification for our professional service staff, knowledge transfer, and heightened cross training.

### **Finding 4**

The Department often fills vacant positions with internal staff, but lacks assurance that employees are properly equipped with the appropriate knowledge, skills, and abilities to fulfill position requirements.

#### **Recommendation:**

To ensure the most qualified candidates fill open positions, conduct external recruitments, require internal candidates to apply for open positions, and ensure candidates meet the minimum job qualifications.

#### **Finance Response:**

Management partially concurs with this finding. In general the Finance Department does look internally first to fill vacant positions depending on the importance of the position to overall operations. This approach can significantly reduce recruitment and training time and allows eligible and qualified staff to "move up" within the organization. It should be noted that should a position be filled internally the interested employee(s) must first meet minimum qualifications as determined by the Department of Personnel Services.

**Finding 5**

***Many of the Department's job descriptions are outdated and do not reflect actual duties.***

**Recommendation:**

In collaboration with the Department of Personnel Services, update job descriptions to support employee development and workforce planning efforts.

**Finance Response:**

Management concurs with this finding. The Directors Office will require that each division within Finance review their staff Position Descriptions (PD) to ensure that the tasks, processes and duties being performed in that position are accurately described in the PD. This may include "Desktop Audits" of some positions. The long term goal will be to implement and/or improve procedure and process manuals for each position so that when employee turnover occurs the new hire will have a step by step guide to perform the most important duties for the particular position.

It should be noted that recently the Treasury Division reviewed and updated six PD's within the division and submitted a proposed reallocation of these PDs to DPS. The Treasurer plans to work closely with DPS and the Managing Directors office re-describing the PD's for the Accountant III and Treasurer based on the recent approval of Ordinance No. 4876, Bill No. 66 (2018) as it relates to third party investment consultant.

**Finding 6**

***Employee performance evaluations are conducted inconsistently and could be better leveraged to support employee development and accountability.***

**Recommendation:**

Ensure performance evaluations are conducted annually and are meaningful for employees, the Department, and the County by aligning reviews with annual goals, growth and development plans, and accountability mechanisms.

**Finance Response:**

Management concurs with this finding. The Director will recommend that each employee in a supervisory capacity attend and complete "Performance Evaluation Training" provided by the Department of Personnel Services with a goal of improving the quality of performance evaluations as a tool to advance employee career development.

**Finding 7**

***Finance Department employees are not provided consistent technical and managerial training and development opportunities.***

**Recommendation:**

- A. Invest in professional development to support employee growth and development in alignment with County goals.

- B. Develop a manager training program to ensure supervisors are properly equipped with the knowledge, skills, and tools to manage employees and create highly functioning teams.

**Finance Response:**

Management concurs with this finding. The Directors Office will work with the various Finance Divisions to achieve a goal of having all employees with supervisory responsibilities attend and complete the “Supervisor Training Academy” provided by DPS. Additionally, the Directors Office will request that the Finance Divisions design and implement specific training goals for its employees in coordination with their annual performance evaluations.

**Finding 8**

***Other County departments report opportunities for the Finance Department to strengthen customer service, especially with regard to timeliness and responsiveness of service.***

**Recommendation:**

The Finance Department can improve its customer service and service delivery through documenting procedures, developing a service guide, providing training to County employees, and practicing proactive communication.

**Finance Response:**

Management concurs with this finding. With the guidance of the Directors Office the department will initiate an improved customer service initiative to include both internal and external customers.

**Finding 9**

***The Department relies heavily on antiquated systems and manual processes, which negatively impact efficiency and effectiveness.***

**Recommendation:**

Develop a plan to expand the Department’s capabilities through system upgrades and subsequent process reengineering.

**Finance Response:**

Management concurs with this finding. The County’s IFAS accounting system is 25+ years old and needs to be replaced. This technological upgrade will be a huge undertaking for the Accounts Division, IT and the County as a whole. It needs to be carefully planned and implemented.

The Treasury Division is currently in the process of choosing a third-party investment advisor to assist in the management of the County’s investment portfolio and cash flow. Offloading a good portion of this technical work to the investment advisor will help to reduce the reliance on Excel spreadsheets and manual processes moving forward.

## Objective 2: Organization Structure

### Finding 10

***The County's financial functions are not optimally structured to support appropriate oversight and collaboration.***

#### Recommendation:

Restructure financial functions to align with best practices and improve operational efficiency and stability.

#### Finance Response:

Management is withholding general comment on the larger restructuring/reorganization recommendations until they can be analyzed further. Having said that, the Directors Office, with input from Treasury and DMVL, will engage the new administration and Managing Director in further in depth discussions regarding these recommendations.

Management does concur with the recommendation to move the Grants Specialist role to the Finance Department. This position was originally requested by Finance in its FY2016 budget request. The position was approved, however, the County Council elected to place this position under the auspices of the Budget Office. We believe that it should be housed within Finance as originally envisioned.

### Finding 11

***Department Director roles are Mayoral and Commission appointments, resulting in regular leadership turnover based on election results. This contributes to instability across the organization, impacting service delivery, planning, and collaboration.***

#### Recommendation:

In accordance with best practice and to create organizational stability and consistency, shift the reporting of Department Director roles to the Managing Director.

#### Finance Response:

Managements comment as regards this finding is that currently our organizational structure is such that all of the major departments of the County do report directly to the Managing Directors office.

### Finding 12

In recent years, Finance Department positions have been eliminated or reallocated by the Council Budget and Finance Committee outside of the annual budget process, leading to instability and limited resources within the Department.

#### Recommendation:

Ensure stability and continuity of operations through a standardized position allocation policy and process, and create additional transparency through workforce planning and performance reporting.

Finance Response:

Management strongly agrees with this finding. As recommended in the audit, Finance would request that the County Council create a policy on position allocation that enables departments to retain positions to ensure an adequate level of service and continuity of operations. The current practice of interfering in day-to-day operations is against best practices and has had a huge negative impact on our Accounts Division and our Internal Control Section. We request that the Assistant Accounting System Administrator and the Internal Control Officer positions be restored at the earliest possible convenience. Further, the Council during its 2019 budget deliberations transferred the Real Property Manager from the Directors Office to Real Property Assessment without discussion. The Real Property Manager is not an appraiser but rather a real property professional tasked with providing the Director of Finance with key County real estate related information/reports as required by the County Charter. Management would also strongly request that this position be returned the Finance Directors Office.

**Finding 13**

*Several employees are sole contributors to key functions, presenting elevated risk to the County of loss of institutional knowledge or gaps in service delivery.*

Recommendation:

Conduct cross-training among Department employees to ensure adequate and consistent coverage of key functions and duties.

Finance Response:

Management concurs with this finding and recommendation. The Directors Office will work with its Divisions to identify those employees that are sole contributors to key functions and require the cross-training of appropriate staff to assure these important duties and functions are supported. As noted earlier in this response (Finding #9), the Treasury Division is currently in the process of choosing a third-party investment advisor to assist in the management of the County's investment portfolio. The outsourcing of a good portion of the technical investment work to the investment advisor will assist in reducing the risk of losing institutional knowledge should the identified key employee leave the employ of the County.

**Objective 3: Financial and Leave Policies**

**Finding 14**

*There is a lack of procedural documentation to provide employees with specific guidance in multiple accounting functions, including reconciliations, cost allocation, and period close.*

Recommendation:

Management should develop procedural documentation to ensure processes

Finance Response:

Management concurs with this recommendation. As noted in Finding #5, once the Workday project is completed and the Accounts Division is fully staffed (restoration of the Assistant

Accounting System Administrator position) the Accounts Division will begin the process of documenting the various processes and procedures of the positions within the division.

**Finding 15**

***The County's current purchasing policy does not provide employees with a clear understanding of purchasing procedures.***

Recommendation:

Revise the purchasing policy to ensure the document clearly communicates management's policy and the procedures required to achieve compliance.

Finance Response:

Management concurs with this finding and recommendation. In response the Purchasing Division will send out a countywide survey with the goal of ascertaining where the gaps in procurement knowledge are and also to discover what additional purchasing related topics employees have questions on. The Purchasing Division will use this information to update its policy and to also design and provide more in depth training for interested County employees. Further, the Purchasing Division plans to introduce all employees to the State Procurement Office (SPO) "Procurement Wizard". This is a award winning on-line tool that was put together by the SPO, which oversees large State departments in a decentralized manner. The site provides less detailed but fairly comprehensive procurement information and is an excellent resource.

**Finding 16**

***A management review of payroll is not performed as part of the standard payroll process.***

Recommendation:

Management should review payroll for each pay period to ensure the accuracy

Finance Response:

Management concurs with this finding and recommendation. The County's payroll system is a decentralized one with each department responsible for the accuracy and timeliness of payroll information submitted into the system. Having said that, the Payroll Section should perform internal reviews during each pay cycle to ensure that there are no glaring "red flags" as results to employee pay.

**Objective 4: Cash Handling**

**Finding 17**

***Several treasury management policies and procedures are outdated.***

Recommendation:

Management should review and issue a formal update to the outdated treasury policies, provide County-wide cash management training, and conduct periodic cash handling internal controls testing.

**Finance Response:**

Management concurs with the audit finding and recommendation. The Treasury Division will work to develop and update policies and procedures, provide training, and conduct audits as it relates to cash management, provided that it has adequate resources. In 2017, with limited resources available, the Treasury Division successfully conducted its first Cashier Training on a countywide basis. The plan is to continue to provide this training program on an annual basis. A Cashier's Best Practices Handbook is also provided to the departments when requested. Training relating to the iNovah Cashiering System is ongoing and provided to new cashiers as well as on a departmental request basis. Additionally, the Treasury Division, in coordination with DPS and Maui Police Department, has held annual training for cashiers relating to identifying and dealing with counterfeit currency.

**Finding 18**

***One cashiering computer workstation was not locked during employee lunch break.***

**Recommendation:**

County information security policies should outline requirements for individuals

**Finance Response:**

Management concurs with this audit finding and recommendation. The employees within the Real Property Tax Collection section have been reminded to lock and secure their workstations if they are leaving their work area. Signs have also been posted on main exit doors as a reminder to secure their workstations should they be leaving the area.

**Finding 19**

***A reconciliation of voided transactions is not performed by the Park Permits Officer to ensure appropriateness of voided transactions.***

**Recommendation:**

Revise procedures to include a supervisory review of voided transactions to ensure appropriateness.

**Finance Response:**

Management concurs with this audit finding and will work with the Department of Parks' Permit Office to develop revised procedures on voided transactions and to ensure supervisory review of these transactions.

**Objective 5: Investments**

**Finding 20**

***Management of the County's substantial investment portfolio by a single individual places the County at risk of losing institutional knowledge and a gap in performance if the employee leaves the County.***

**Recommendation:**

Explore opportunities to utilize an external investment manager to manage the County's investments while transitioning current Treasury personnel into an oversight role.

**Finance Response:**

Management concurs with this finding and recommendation. The Treasury Division is in the process of procuring a third party investment consultant to comply with Ordinance No. 4876, Bill No. 66 (2018). However, the management does not believe that the duties and responsibilities currently assigned to Accountant III will necessarily be diminished due to the hiring of a third party investment consultant. This position is primarily responsible in accounting for and controlling the County's cash receipting and disbursing activities, ensuring appropriate and sufficient collateral to safeguard County's cash and investments, paying interests on and redeeming bonds of the County, assisting the Treasurer in the issuance of general obligation bonds, maintaining debt service accounting records and schedules, preparing the journal entries for investment activities, and monitoring compliance with regulatory requirements relating to bonds and other forms of financing.

Furthermore, it is important to note that with any external portfolio manager or consultant, there will be a reduction in the County's control over the portfolio's cash flows. This reduction of control over portfolio cash flows will increase the County's liquidity risk. To mitigate this issue the County will need to maintain higher cash balances with our operating banks which in turn will reduce our overall portfolio interest earnings due to the reduced portfolio size. The reduced or lost portfolio earnings should be considered an added cost to the County for using a third party investment advisor when reviewing the cost of this service.

The Division intends to further review and evaluate with upper management, the responsibilities of various Treasury staff upon County's transition of its investment activities to the third party investment consultant.

**Objective 6: Fixed Assets**

***Finding 21***

***Several fixed asset policies and procedures are outdated.***

**Recommendation:**

Management should review and issue a formal update to the outdated fixed asset policies.

**Finance Response:**

Management concurs with this finding and recommendation. The Accounts Division will review its fixed asset policies and will update them as required to ensure countywide conformity and effectiveness.

***Finding 22***

***The County's \$500 capitalization threshold increases potential for over- capitalizing operating expenses.***

Recommendation:

Management should update the County's capitalization thresholds in order to exercise better control over potentially capitalizable items.

Finance Response:

Management concurs with this finding and recommendation. The Accounts Division will review and update its capitalization policy with an eye to the Government Finance Officers Association (GFOA) best practice recommendations in this area.

Thank you for the opportunity to respond to this performance audit. Should you have any questions please feel free to contact me at x7474.

Sincerely,



MARK R WALKER  
Director of Finance

cc: Jack Kulp, Deputy Director of Finance  
Marci Sato, Accounting System Administrator  
May-Anne Alibin, Treasurer  
Greg King, Central Purchasing Agent  
Dulce Butay, Administrative Officer