

**Implementation Status of
the Audit Recommendations
made in Report No. 14-01,
*Examination of the Treasury
Function of the Department
of Finance***

Report No. 20-01
February 2020



Office of the County Auditor
County of Maui

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Office of the County Auditor

The mission of the Office of the County Auditor is to:

- Serve as a catalyst for positive change in County government through focused independent audits and examination.
- Advocate for the efficient and appropriate use of public resources.
- Increase government transparency for the purpose of bringing a higher quality of life to the citizens of Maui County.

The Office of the County Auditor consists of a County Auditor and necessary staff, and is responsible for promoting economy, efficiency, and improved service in the transaction of the public business in both the legislative and executive branches.

To ensure the objectivity of the Office of the County Auditor, the Revised Charter of the County of Maui (1983), as amended, requires that the County Auditor be independent of the Mayor and the County Council. As such, the County Auditor is appointed to a six-year term.

We adhere to very rigorous and demanding professional auditing requirements described in Generally Accepted Government Auditing Standards, or more commonly referred to as *GAGAS* or the Yellow Book. These standards include requirements for planning our work, ensuring that our staff is properly trained and supervised; determining our rationale for the objectives, scope, and methodology; selecting the criteria we use to evaluate the audit subject; and ensuring that our evidence is sufficient, relevant, and competent.



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Preface

This follow-up was initiated by the Office of the County Auditor pursuant to Section 3-9.1 of the Revised Charter of the County of Maui (1983), as amended, and the Plan of Audits for Fiscal Year 2020 issued by the Office of the County Auditor. The original audit was selected because of the high dollar value of cash and investments under the Treasury's custody. At the time, prior audit findings and turnover of Treasury staff were also considered. The follow-up was conducted from July 2019 through December 2019.

We wish to express our appreciation for the cooperation and assistance extended by the director and staff of the Department of Finance, as well as others who assisted us throughout the course of the audit.

Lance T. Taguchi, CPA
County Auditor

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EXECUTIVE SUMMARY

Implementation Status of the Audit Recommendations made in Report No. 14-01, Examination of the Treasury Function of the Department of Finance

Report No. 20-01, February 2020

Implementation Status of Recommendations:

Recommendation 1 - IMPLEMENTED..... pg. 3

Recommendation 2 - NOT APPLICABLE..... pg. 3

Recommendation 3 - IMPLEMENTED..... pg. 4

*Recommendation 4 - PARTIALLY
IMPLEMENTEDpg. 4*

*Recommendation 5 - PARTIALLY
IMPLEMENTED pg. 5*

The Treasury Division of the Department of Finance of the County of Maui is responsible for tax and fee collections and banking and investments. For the purpose of this report, the term “Treasury” is used to collectively refer to the Banking and Investment section and the Treasurer. In April 2015, the Office of the County Auditor issued an audit report of the Treasury which resulted in five (5) recommendations.

As part of the Plan of Audits for Fiscal Year (“FY”) 2020 issued by the Office of the County Auditor, a follow-up was scheduled to review the implementation status of those audit recommendations.

It is our opinion, based on evidence gathered, that four out of five recommendations made in the 2015 audit have been “Implemented” or “Partially Implemented” by the Department of Finance. The remaining recommendation was deemed “Not Applicable” as there was a subsequent change to the Hawaii Revised Statutes.

We urge the Department of Finance to continue moving towards fully implementing those recommendations that remain partially implemented. However, it should be noted that one of the implemented recommendations has already had a positive impact on the County. Specifically, as recommended in our 2015 audit, funds appropriated to the County’s Post-Employment Obligations Fund were regularly sent to the Employee Union Trust Fund (“EUTF”) at the first part of each fiscal year, and as a result over \$63 million of additional investment income and unrealized gains have been credited to the County’s EUTF trust account.

While the County is still far from fully funding its health benefit obligations, the additional \$63 million will do much to pay down the County’s unfunded liabilities for health benefits already earned by current and retired County employees.

Summaries of the Auditor’s rationale for the status of the recommendations are included in Chapter 2.

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Chapter 1

Introduction

This follow-up was initiated by the Office of the County Auditor pursuant to Section 3-9.1 of the Revised Charter of the County of Maui (1983), as amended, and the Plan of Audits for FY 2020 issued by the Office of the County Auditor on June 28, 2019.

OBJECTIVE AND SCOPE

The follow-up objective was to determine the implementation of recommendations made in Report No. 14-01.

The scope of our follow-up covered the period from FY 2015 through FY 2019. This follow-up focuses on the implementation status of the audit recommendations made in Report No. 14-01, *Examination of the Treasury Function of the Department of Finance* (April 2015). We did not consider new or previous issues that did not relate to our original recommendations.

The evidence gathering and analysis techniques used to meet our follow-up objectives included but, were not limited to, interviews with management and staff members of the Department of Finance, and review of sample files and documents, including those generated by the EUTF.

Our follow-up was performed from July 2019 through December 2019 and was conducted in accordance with Government Auditing Standards, 2018 Revision, Other Services Provided by Government Audit Organizations, paragraph 3.72j(2), periodic audit recommendation follow-up engagements and reports. We believe the evidence obtained provides a reasonable basis for our conclusions based on our follow-up objectives.

DEFINITIONS

The following criteria define the respective categories of implementation used for this follow-up engagement.

Implemented: Sufficient and appropriate evidence was available to support all aspects of the recommendation.

Partially Implemented: Sufficient and appropriate evidence was available to support part of the recommendation.

Not Implemented: Sufficient and appropriate evidence was not available to support any aspect of the recommendation.

Not Applicable: Previous circumstances changed causing the recommendation to no longer apply.

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Chapter 2

Summary of Implementation Status

RECOMMENDATION 1

Funds appropriated to the County's OPEB Fund should be sent to the EUTF at the beginning of the fiscal year in order to 1) take advantage of the potentially higher investment earnings of the EUTF; and 2) pay down the County's unfunded liabilities for health benefits already earned by current and retired County employees.

Status: *Implemented*

Auditor's rationale: Annual written correspondence between the EUTF and the County, bank transfer documents, and representations made by management indicate the Department of Finance has continuously sent appropriated funds to the EUTF at the beginning of each year subsequent to our 2015 audit.

Recommendation has been implemented.

RECOMMENDATION 2

The Treasury should obtain clarification from legal counsel that investments made in the Federal Agricultural Mortgage Corporation and Federal Farm Credit Corporation are authorized by HRS Section 46-50. Additionally, Treasury should create procedures to address situations where the descriptions of potential investments or issuers do not readily agree with the plain meaning of law.

Status: *Not Applicable*

Auditor's rationale: On July 11, 2017, Act 193(17), Senate Bill No. 407 was signed into law amending Hawaii Revised Statutes ("HRS") Section 46-50 to include the Federal Farm Credit System and Federal Agricultural Mortgage Corporation as authorized investment issuers. The change in circumstances has made this recommendation no longer applicable.

RECOMMENDATION 3

The County's Investment Policy should be reviewed to consider portfolio diversification best practices issued by the GFOA. If best practices relating to overconcentration of investments in a single business sector are not feasible, management should incorporate that decision and any related rationale into the County's Investment Policy.

Status: *Implemented*

Auditor's rationale: The Government Finance Officers Association ("GFOA") recommends that investment policies should state the government's approach to investment diversification and identify the method used to create a mix of assets that will achieve and maintain the government's investment objectives. Management revised the County's Investment Policy in 2016 and 2018 to include a section discussing their views and expectations regarding portfolio diversification. When compared to best practices issued by the GFOA, we found that the County's revised policy is in line with that of the GFOA. We reviewed the County's investment mix for the fiscal years subsequent to the policy revision to ensure the portfolio mix complies with its diversification requirements.

Recommendation has been implemented.

RECOMMENDATION 4

Management should ensure that adequate oversight and support is provided to the Treasury to avoid disruption to its operations.

Status: *Partially Implemented*

Auditor's rationale: On July 1, 2019, management contracted the services of a third-party investment advisor pursuant to Maui County Code Section 3.08 (amended on September 7, 2018) to assist with managing the County's investment portfolio. Although the responsibilities of the County's investments have been transferred to an external party, the external party relies heavily on the cash flow data derived by the County to perform their respective duties.

Further, our walkthroughs and interviews indicated that the County's cash flow spreadsheets continue to be prepared and maintained by a single employee. As such, the maintenance of the highly complex cash flow spreadsheet by one person continues to pose a high risk to the County. The task of ensuring the County has enough cash on hand to fund its continued operations should not be left as a burden on a single employee. It is our understanding that discussions have been held by management to consider reclassifying the specifications for the currently vacant Accountant III position to one of a higher level to accommodate the required set of skills and experience needed in order to perform related cash flow duties adequately. No changes to the specifications were made as of the date of our fieldwork.

Although the responsibility of the County's investments has been transferred to an external party, we continue to urge management to provide the necessary support needed to prepare and maintain the County's cash flows.

Recommendation has been partially implemented.

RECOMMENDATION 5

Cash handling activities of the Treasury should be reviewed by management to ensure the written policies and procedures adequately address any potential weakness in internal controls. Additionally, management should develop and implement appropriate mitigating controls to address segregation of duties related to SEPs. Adequate internal controls are important because they: 1) protect employees against inappropriate accusation or charges of mishandling funds; and 2) minimize the potential for loss of revenue to the County.

Status: Partially Implemented

Auditor's rationale: Effective FY 2016, management expanded the Treasury Division to incorporate an additional Account Clerk position to provide support in the processing of Sewer Exception Payments ("SEP"). Our walkthroughs indicated that payments are no longer processed solely by the Accountant II.

The expansion of staff has allowed critical tasks to be more appropriately assigned, thus improving the segregation of duties.

However, we noted that the written policies and procedures for cash handling activities remain in draft form as of the date of our fieldwork.

We continue to urge management to prioritize the implementation of the revised cash handling policy.

Recommendation has been partially implemented.

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The Office of the County Auditor is tasked with promoting economy, efficiency, and improved service in the transaction of public business in the legislative and executive branches of the County. Copies of this audit report can be obtained by contacting the Office of the County Auditor or visiting our website:

<https://www.mauicounty.gov/2032/Audit-Reports-Projects>.