

The Maui News

Audit of pCard program finds improper use and misuse

Finance director targeted for purchase after reimbursement

Maui County Department of Finance Director Danny Agsalog booked two family members' airline tickets on his county-issued procurement card, but he did so only after paying the county upfront, a county official said Wednesday.

"There was no attempt to misuse county funds, although technically this did not follow the proper pCard procedures," said county Communications Director Rod Antone, responding for Agsalog and the county.

The Office of the County Auditor on Wednesday released its audit of the county's procurement card, or pCard, program over a 13-month period.

The audit does not name Agsalog specifically, but county officials confirmed that the director — whose department oversees the procurement card program — used his pCard for round-trip airline tickets to the Mainland for his wife and college-age child.

"Personal use of a county pCard is explicitly prohibited," the audit said.

The audit notes that Agsalog's travel was to attend an Association of Certified Fraud Examiners program in Nashville, Tenn., relating to *"bribery and corruption."*

But neither Agsalog's wife nor child is a county employee, the audit said.

“The county investigated the incident internally and took the proper administrative actions,” Antone said.

Antone said that the audit failed to mention that Agsalog tried to pay for all three airfares with his own credit card at first, but was told that the county could not reimburse his portion of the trip if he did it that way.

“So he wrote a check reimbursing the county for the trip and used the pCard to pay for the fares. The reimbursement to the county took place before the fares were booked,” Antone said.

The audit said Agsalog’s case brings additional problems to the county, such as a loss of public trust and loss of respect by county employees for its director of finance. The finance director is the county’s chief procurement officer. The Finance Department includes the county’s Purchasing Division, which handles the day-to-day operation of the pCard program, County Auditor Lance Taguchi explained.

“The person the public has entrusted with some of the county’s highest level of responsibility, accountability, and trust . . . has violated that trust,” the audit said.

As for county morale, the audit notes: *“Specifically, can the county realistically expect its employees to follow rules when those rules are being broken by the person making them? Short answer: no.”*

The Office of the County Auditor said it is hopeful the county will make efforts to rebuild the public trust because *“county taxpayers deserve better,”* and the office is confident that the county is capable of implementing many, if not all, of the auditor’s pCard audit recommendations.

But, the office added, *“The director of finance needs to regain employee trust by leading by example, not by exception.”*

Taguchi said he could not specifically say how Agsalog’s issue came to light because it could impact the effectiveness of his office. But he said there is a

computer program that helps auditors analyze data and detect irregularities.

In the audit, which was conducted from September 2015 through May, Taguchi said that the pCard review was chosen by the office because of the high volume of purchases made with pCards and the *“inherent risks related to the issuance of credit cards to employees.”* Public interests and prior audit findings also were considered.

The audit was done to see if Maui County pCard use was similar to Hawaii County’s program. Former Hawaii County Mayor Billy Kenoi came under fire for using his pCard to charge more than \$129,000 to the county, including trips to Honolulu hostess bars, a bicycle, surfboard and other personal items.

In November, a jury acquitted the former mayor of theft and false swearing charges related to his pCard.

Maui County’s purchasing card program and procedures were established in 2003 to streamline the processes related to the purchase of goods and services needed for official business by county employees, the audit said.

The county’s program is made possible through a contract between the State of Hawaii and First Hawaiian Bank.

In the Maui County audit, 369 pCards were used by all levels of county employees to make \$4.38 million of purchases. The purchases spread across approximately 890 vendors.

Overall, the largest cumulative amount paid to a single vendor during the audit period was \$491,129 to Hawaiian Airlines. Four of the top 10 vendors were airlines. Those purchases came to \$808,445, or nearly 20 percent, of the county’s total pCard spending.

According to the audit, one unidentified county employee’s transactions were under active criminal investigation, and the transactions of another, also unidentified, employee were being investigated internally by the employee’s department.

The auditor said that, while using pCards inherently improves efficiency and brought in just under \$80,000 of cash rebates to the county, the audit found that some of the county's pCard use may have been fraudulent, wasteful or abusive.

On Wednesday, Taguchi said that, during any audit, he focuses on what can be learned from the review and how the county can improve operations.

If the county implements the audit recommendations, it could decrease fraud, waste and pCard abuse, he said. While all recommendations would not eliminate all problems, they could help, Taguchi said.

One of the issues focused on during the audit was that some pCard purchases have been parceled, or broken up, into multiple smaller transactions to avoid a \$500 single-purchase limit.

If single purchases are larger than \$500, price quotes need to be obtained. The rules safeguard taxpayer funds, the audit said.

The audit recommended the county make pCard training a priority and monitor and document instances in which parceling continues to occur. And, if appropriate, discipline employees who do not comply.

The audit noted some irregularities in pCard transactions, and the county Auditor's Office has been in contact with law enforcement, providing summaries and analyses of the irregularities.

In a letter responding to the audit, Managing Director Keith Regan said that the Department of Management has convened a working group to review and assess the pCard program, its policies and procedures to find ways to improve them.

To view the full report and Regan's letter see:
www.mauicounty.gov/2032/Audit-Reports-Projects.

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I suspect Mr. Agsalog's insistence on using one card (his or the County's) to buy the tickets was in order to gain benefits from an airline's frequent flyer program for his family by having the tickets on one record. If the County's card was used in such a way, it is more than it looks on the surface (a re-imbursed ticket purchase). The audit needs to look into whether or not Mr. Agsalog was using the County's card to get airline benefits for his family.

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