

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

September 21, 2001

Committee

Report No. 01-167

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 September 4, 2001, makes reference to County Communication No. 01-229, from the Council Chair, relating to the contracting of a certified public accountant, or firm of certified public accountants, to perform an independent audit of the accounts and other evidences of financial transactions of the County and of all operations for which the County is responsible.

Your Committee notes that the purpose of the annual financial audit is to provide assurance to users of the financial statements, such as bond issuers. In addition, the Single Audit Report is included in the annual financial audit to respond to the Federal government's requirements to test the fiscal integrity of financial transactions as well as the compliance with the terms and conditions of Federal grants. Your Committee further notes that the financial audit covers the minimum required by the Maui County Charter and the Federal government requirements.

By correspondence dated August 29, 2001, the Chair of your Committee transmitted a Draft Request for Proposals (RFP) for the financial audit of the County of Maui for the Years ending June 30, 2002, June 30, 2003, June 30, 2004, and June 30, 2005. The RFP states that the initial contract shall pertain only to the audit for Fiscal Year 2002; the contract will provide for three additional optional years (Fiscal Years 2003, 2004, and 2005).

By correspondence dated August 29, 2001, to the Department of the Corporation Counsel, the Director of Finance, the Director of Water Supply, and the Chairman of the Board of Water Supply, the Chair of your Committee requested comments regarding the draft RFP.

At its meeting, your Committee met with the Director of Finance, the Deputy Director of Finance, an Executive Assistant to the Mayor, the Deputy

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

September 21, 2001
Page 2

Committee
Report No. 01-167

Director of Water Supply, the Fiscal Officer of the Department of Water Supply, and Russell Yamane and Randal Taniguchi of Russell Yamane & Associates CPAs, Inc.

Your Committee discussed the RFP process and the specific objectives and scope of the financial audit. Discussion focused on the number of fiscal years to be requested in the RFP. It was noted that the Council's past practice has been to request proposals for two years, and to draft the contract for one year with an optional second year. It was further noted that some potential advantages to extending the RFP for a longer term are: (1) continuity of auditors; (2) cost-savings; and (3) better analysis of the audit firm's work performance.

The Deputy Director of Water Supply informed your Committee that a longer-term contract would provide an additional advantage in that there would be less recurring staff time devoted to training new auditors. In addition, he informed your Committee that implementation of the new Governmental Accounting Standards Board Number 34 (GASB 34) will be relatively simple for the Department of Water Supply, since the Department's financials are currently prepared using the accrual method of accounting. The accrual basis of accounting is used by the proprietary fund type; revenues are recognized when earned and expenses are recognized when the goods or services have been received or a liability has been incurred.

The Executive Assistant to the Mayor stated that more audit firms might submit proposals in response to the RFP, since there would be more time to recoup the initial investment costs as opposed to a two-year RFP. He stated that one of the reasons for the new standard is that the GASB did a study to find out what the readers of the financial statements wanted in the financial statements. The goal of GASB was to make governments more accountable to the people. Improving the financial reporting format to one that is similar to a business and includes information about the infrastructure provides a better mechanism to understand the financial statements. He further noted that by following the GASB standards, the people of the County and the investment community is better able to evaluate the County's fiscal condition.

Your Committee raised concerns regarding the need to implement GASB 34. The Deputy Director of Finance explained that the new financial

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

September 21, 2001
Page 3

Committee
Report No. 01-167

model would show fiscal accountability as well as operational accountability. She stated that should the County decide not to follow GASB 34, the auditor would find it difficult to consistently evaluate the County's financial standing. Therefore, this would create a challenge for the auditor to render a favorable opinion on the financials. In addition, she stated that the Government Finance Officers Association (GFOA) is recommending that the standard be followed. Your Committee was informed that the Certificate of Achievement for Excellence in Financial Reporting has been awarded to the County of Maui by the GFOA for over 18 years.

The Director of Council Services informed your Committee that the County has conformed to the accounting profession's standards in past years, regardless of whether conformance was legally mandated. A failure to conform would have hurt the County's credibility in the marketplace, which would have resulted in higher interest expenses for County bonds. He recognized that this reporting format change is a good change, but that it will take some time to be fully implemented by all organizations. GASB has recognized this and there may be other changes to the standards as jurisdictions struggle to comply and the implementation proceeds. Finally, he observed that the Council Chair, as the procuring officer for the Legislative Branch, had solicited your Committee's comments to assist in drafting the final RFP; therefore, it would not be necessary for your Committee to agree on specific wording.

The Deputy Corporation Counsel informed your Committee that a multiple year contract as described in the RFP would not bind a future Council. He noted that the RFP has been carefully drafted with a firm commitment for the first year, Fiscal Year 2002. The inclusion of optional years provides no guarantee and therefore, does not bind a future Council. In addition, he stated that the budget appropriation for audit services is done on an annual basis.

After discussion, your Committee voted to recommend that the RFP be revised for a three-year period, Fiscal Years 2002 through 2004 (a contract for one year with two additional optional years).

Your Budget and Finance Committee **RECOMMENDS** that the Request for Proposals for the County's Independent Auditor, attached hereto, be

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

September 21, 2001
Page 4

Committee
Report No. 01-167

REFERRED to the Council Chair for consideration in the next independent auditor procurement.

Adoption of this report is respectfully requested.

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COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

September 21, 2001
Page 5

Committee
Report No. 01-167

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