

# **BUDGET AND FINANCE COMMITTEE**

**Council of the County of Maui**

## **MINUTES**

**July 16, 2013**

**Council Chamber, 8<sup>th</sup> Floor**

**CONVENE:** 9:08 a.m.

**PRESENT:** Councilmember Mike White, Chair  
Councilmember G. Riki Hokama, Vice-Chair  
Councilmember Robert Carroll, Member  
Councilmember Elle Cochran, Member  
Councilmember Donald G. Couch, Jr., Member  
Councilmember Stacy Crivello, Member

**EXCUSED:** Councilmember Gladys C. Baisa, Member  
Councilmember Don S. Guzman, Member  
Councilmember Michael P. Victorino, Member

**STAFF:** Scott Kaneshina, Legislative Analyst  
Camille Sakamoto, Committee Secretary  
Ella Alcon, Council Aide, Molokai Council Office (via telephone conference bridge)  
Denise Fernandez, Council Aide, Lanai Council Office (via telephone conference bridge)  
Dawn Lono, Council Aide, Hana Council Office (via telephone conference bridge)  
Lance Taguchi, County Auditor, Office of the County Auditor (Item BF-9, -3, and -8)

**ADMIN.:** Danilo F. Agsalog, Director, Department of Finance (Item BF-9, -3, and -8)  
Scott K. Teruya, Administrator, Real Property Tax Division, Department of Finance (Item BF-72)  
David S. Taylor, Director, Department of Water Supply (Item BF-9, -3, and -8)  
Sananda K. Baz, Budget Director, Office of the Mayor  
William R. Spence, Director, Department of Planning (Item BF-42)  
James Buika, Planner, Current Planning Division, Department of Planning (Item BF-42)  
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

*Seated in the gallery:*

Joseph Pontanilla, Administrative Assistant, Office of the Mayor (Item BF-9, -3, and -8)  
Mark Walker, Deputy Director, Department of Finance (Item BF-9, -3, and -8)  
Robin M. Arita-Chang, Account System Assistant Administrator, accounts Division, Department of Finance (Item BF-9, -3, and -8)  
Ortaeine Acidera, Accountant, Accounts Division, Department of Finance (Item BF-9, -3, and -8)  
Angelita R. De La Pena, Treasurer, Department of Finance (Item BF-9, -3, and -8)

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Mark J. Escudero, Administrative Officer, Department of Finance (Item BF-9, -3, and -8)

Wayne Fujita, Accounting System Administrator, Accounts Division, Department of Finance (Item BF-9, -3, and -8)

John Kulp, Accountant, Treasury Division, Department of Finance (Item BF-9, -3, and -8)

Anne Jenny, Auditor, Department of Finance (Item BF-9, -3, and -8)

Helene Kau, Assistant Waterworks Fiscal Officer, Department of Water Supply (Item BF-9, -3, and -8)

Holly Perdido, Waterworks Fiscal Officer, Department of Water Supply (Item BF-9, -3, and -8)

Brenda Lee, Accountant, Department of Water Supply (Item BF-9, -3, and -8)

**OTHERS:** Rosemary Robbins  
Ralph Kanetoku, Engagement Partner with Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC (County's designated independent auditor) (Item BF-9, -3, and -8)  
Jeffrey S. Girdner, Engagement Manager with Taketa, Iwata, Hara & Associates, LLC (County's designated independent auditor) (Item BF-9, -3, and -8)  
Tara Owens, Coastal Processes and Hazards Specialist, University of Hawaii Sea Grant College Program (Item BF-42)

**PRESS:** *Akaku: Maui Community Television, Inc.*

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CHAIR WHITE: ...*(gavel)*... Good morning, Members. This meeting of the Budget and Finance Committee will come to order. And as usual anyone who has a phone or other noise making device, please turn it off. This morning I'd like to welcome Committee Vice-Chair Riki Hokama.

VICE-CHAIR HOKAMA: Chairman.

CHAIR WHITE: And Members Bob Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

CHAIR WHITE: Good morning. Stacy Crivello.

COUNCILMEMBER CRIVELLO: Good morning, Chair.

CHAIR WHITE: Elle Cochran.

COUNCILMEMBER COCHRAN: Aloha. Good morning, Chair.

CHAIR WHITE: Don Couch.

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COUNCILMEMBER COUCH: Morning, Chair.

CHAIR WHITE: And Members Baisa, Guzman, and Victorino are all excused. This morning, Members, we have Committee Secretary Camille Sakamoto, Legislative Analyst Scott Kaneshina, and Jeffrey Ueoka, and Sandy Baz sitting in the back, and representing our auditors, Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs at the front table we have closest to me, Ralph Kanetoku. Good morning, Ralph, and Jeff Girdner. And sitting next to them is our Finance Director. Welcome, Danny.

MR. AGSALOG: Good morning.

CHAIR WHITE: Members, without objection we will start public testimony.

COUNCIL MEMBERS: No objections.

CHAIR WHITE: And starting here in the Chambers, we have with us this morning Rosemary Robbins. Ms. Robbins? And Ms. Robbins is the only one signed up so far in the Chambers, and we will be going to our District Offices following her testimony. Good morning.

**...BEGIN PUBLIC TESTIMONY...**

MS. ROBBINS: Good morning, everybody. Welcome, our folks over from Honolulu. Just to clarify for people who are watching this, students hopefully, learning as we do this, the difference between fiscal, another word for financial, and calendar time. Fiscal financial time year runs from the first of July through the last day of June whereas our calendar years are running from January 1<sup>st</sup> through the 31<sup>st</sup> of December. So we are actually in year, Fiscal Year 2014 today so we need to think about that, because the material that we are gonna be working on is dealing with times earlier than that. Okay, before Maui voters voted in the November 12<sup>th</sup>, FY '13 year to have an Auditor. Maui County did not have one. So, appointed to represent Maui in the auditing capacity were these nice folks who came over today. All right, November 12<sup>th</sup> plus seven months before the Maui situation, got to have somebody to take over when these folk's contract is finished, and we do have that person now. Lance is representing us. Okay, first thing I wanna talk about is BF-42, Amending the 2014 Budget, the Department of Planning, University of Hawaii, Sea Grant College Program, I definitely would like to see that go through. As an educator, I'm delighted that we have the options that we have here in the Mid Pacific. The rest of the country is depending on our expertise to explore all of that as best we can and to pass on the good news. So I would definitely like to see that go through. Okay, and then the other item on today's agenda that I would like to speak to is BF-8, the Department of Water Supply's Financial Audit Report. When these folks from Honolulu were going through the materials that were offered by the Department of Water, they came across a conflict of operation that was conflicting with best practices from the United States Auditing \_\_\_\_\_, and it was a concern about timing the transfer...timing on the transfer of Capital Assets and this recording was from December 12<sup>th</sup> of Fiscal Year '12. Like I say, it was out of whack with accounting principles in the USA and it lead to an audit adjustment of 20 point, \$21.3 million, chunk of cash to reclassify

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construction working in progress of its Capital Assets from the 30<sup>th</sup> of June. We need to keep in mind that the Department of Water services, cash, and investments are maintained in an investment pool with other monies from the County's Treasury. I certainly would not like to see that passed without a whole lot of further exploration. I think the vast majority including myself had no clue that something that sizeable could be getting by before these folks were here. But with the talents and the ability to question that we have if we know enough to question. So I would not like to see that one passed today. Thank you. Thank you again, Council.

CHAIR WHITE: Members, any questions for the testifier? Seeing none, thank you very much, Ms. Robbins.

MS. ROBBINS: You're welcome.

CHAIR WHITE: And we'll go now to Hana. Dawn, do you have any testifiers?

MS. LONO: Good morning, Chair. There's no one waiting to testify in the Hana Office.

CHAIR WHITE: Thank you very much. And Denise, any testifiers on Lanai?

MS. FERNANDEZ: Good morning, Chair. There is no one waiting to testify in the Lanai Office.

CHAIR WHITE: Thank you. And Ella, anyone there on Molokai to testify?

MS. ALCON: Good morning, Chair. There's no one here on Molokai waiting to testify.

CHAIR WHITE: Okay, thank you. Is there anyone else in the Chambers wishing to provide testimony this morning? Seeing no one but Staff and Ms. Robbins, who's already presented testimony, Members, without objection we'll close public testimony.

COUNCIL MEMBERS: No objections.

CHAIR WHITE: Thank you. Public testimony is closed. And we have five items on the agenda today. And the first three relate to updates to the Council regarding our audits. And then we have one related to grant revenue for the Department of Planning, and the final item relates to property tax notices.

***...END OF PUBLIC TESTIMONY...***

CHAIR WHITE: So with that, Members we'll take all three of the first items, BF-9 which is the Single Audit Report, BF-3 which is the Fiscal Year 2013 Comprehensive Annual Financial Report or CAFR, and BF-8 which is the Department of Water Supply's Financial Audit Report. And as I mentioned, Mr. Kanetoku is here, and he'll be leading the discussion. And what I would like to do is have Mr. Kanetoku go over all three items and then we'll just open up all three for discussion so that we're not limiting the discussion to one item or another.

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- ITEM BF-9:            SINGLE AUDIT REPORT (CC 13-104)**
- ITEM BF-3:            FISCAL YEAR 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT (“CAFR”) (CC 13-103)**
- ITEM BF-8:            DEPARTMENT OF WATER SUPPLY’S FINANCIAL AUDIT REPORT (CC 13-105)**

CHAIR WHITE: So Mr. Kanetoku, I know you presented us with a handout this morning, if you could walk us through that and present whatever case you’d like to make?

MR. KANETOKU: Thank you. Good morning. Jeff and I are pleased to be here to present the results of our audit of the County of Maui for the Fiscal Year ended June 30, 2012. As said earlier, we have distributed a handout of our presentation materials and you should have that before you. We conducted the audit of the County from July 2012 through November 2012, and issued our reports on our audit and the CAFR in December, 2012. Discussion topics for today, what we’d like to present to you is the scope of services that we perform, you know, what we were engaged to do by the County Council. The reports that we delivered, we’d like to discuss all the reports that we have delivered to you and also summarize the results of those reports and information on the conduct of our audit. So our professional standards require that the auditor communicate certain matters to the governing body of the auditee. So we are required to communicate to the County Council on the...on our audit of the County of Maui. So we’ll do, we’ll do that, and then we’ll have a open discussion. Be happy to answer any questions, comments, concerns that you may. Okay, on Page 2, the Scope of Services, we audited the basic financial statements of the County of Maui and also the Department of Water Supply. So there were separate financial statements for the Department of Water Supply that we audited, and we also performed a Single Audit in accordance with OMB Circular A-133, so that’s the audit of your Federal grants as the County expended over \$40 million of federal funds during Fiscal Year 2012. There are four types of reports that we issued. The first being the Independent Auditors’ Report on the financial statements of the County and of the Department of Water Supply. In that report, we indicate that our audit was performed in accordance with all applicable auditing standards that would be Auditing Standards Generally Accepted in the United States of America and also Government Auditing Standards. We also go on to say that we issued unqualified opinions on the financial statements of the County and the Department of Water Supply. What that means is that in our opinion based upon our audit, we believe that those financial statements are fairly presented in accordance with Generally Accepted Accounting Principles. So clean opinions, unqualified opinions. Because our audit was performed in accordance with Government Auditing Standards, we are required to report on internal control as well as compliance based upon our audit of the financial statements. So in those reports, we indicate that there were no material weaknesses in internal control and there were no material instances of noncompliance. We did note significant deficiencies that we reported to the County Council, and Jeff will be going over those findings and our recommendations on those findings in a little bit. On Page 3, we have the third type of report we issued was the Single Audit Reports on the Federal Grants in accordance with OMB Circular A-133. So in those reports, we issued an unqualified opinion on these Schedule

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of Expenditure of Federal Awards. So that's the schedule summarizing all of the County's Federal awards by, by the award as well as expenditures for that award and we found them to be fairly presented. We also issued an unqualified opinion on compliance. There's no material instances of noncompliance, and we noted no material weaknesses in internal control over compliance with grant requirements. We did have some Single Audit Findings that we reported to the County Council and Jeff will be going over those Single Audit Findings as well. For your information, we audited seven major programs that would be the HUD Section 8, the DOL Training Grant, three DLT grants, and three EPA grants. We had pretty good coverage on the Federal expenditures of the County. And the fourth type of report is the Wrap-up Communications Report, the required Communications Report. So the topics of that report can be found on Page 4 of the handout and then the details start on Page 5. So going to Page 4, the information on the conduct of our audit. Again, we have issued written reports that cover these matters, but we'd like to summarize some of those with you today. First of all, Qualitative Aspects of a County Policy. The management is responsible for the selection of County policies used to prepare the County's financial statements and the Department of Water Supply's financial statements. And those policies used, the more significant ones can be found in Footnote 1 to the financial statements. For your information, there were no new accounting policies that were adopted in the current fiscal year, and existing policies, the application of those policies did not change during the year. And we noted no transactions entered into by the County that lacked authoritative guidance. There were no significant difficulties that we encountered in performing the Fiscal 2012 Audit. We found the Finance personnel to be cooperative and helpful, and they had a good understanding of the what was included in the County's CAFR. The 2012 Audit was completed as scheduled and the CAFR was issued in December, 2012. We had no disagreements with, with management relating to financial accounting, recording or auditing matters. With regards to accounting estimates, all financial statements have accounting estimates embedded in them. For the County, the more significant accounting estimates were the allowance for doubtful accounts which were based on the County's collection experience for those receivables. Accrued postemployment benefits, the OPEB liability, that was based on an independent actuary's report for the, for the OPEB liability. The claims and judgments liability was based on estimates provided by the County's Corp. Counsel, and depreciation of Capital Assets was based on the estimated useful lives of those Capital Assets. As part of our audit, we did evaluate the factors and assumptions used to determine and...determine those estimates, and we found them to be reasonable. Corrected and Uncorrected Misstatements, audit adjustments, our professional standards require that we accumulate those adjustments and report them, the more significant ones to you. So you'll see on Page 7, there were three significant audit adjustments. The first two related to the DWS CIP, so the transfer of assets from CIP to Capital Assets when those assets were placed in service and the related depreciation once, once they were placed in service. The third \_\_\_ adjust, audit adjustments related to reversal of a prior year audit adjustment for financial reporting purposes. That had to do with the OPEB obligation and the ability to meet the criteria for financial reporting for reducing the liability when, when deposits are made with the EUTF. So the Legislature corrected certain matters related to the EUTF and that adjustment was reversed, and so it's merely a gross down of an asset and a liability on the County's financial statements. With regards to unrecorded audit adjustments, there was one related to the DWS depreciation expense.

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Certain depreciation expense should have been recorded in the prior year when those assets were transferred...when they were put in service and should have been transferred from CIP to Capital Assets. Going to Page 8, Management Representations, as part of our audit we did request representations from management representing certain matters and we did receive the letter dated December 21<sup>st</sup>, 2012. I, we also wanted to confirm that we are independent of the County of Maui under all professional and regulatory requirements. Jeff will now go over our Financial Statement Findings as well as our Single Audit Findings.

MR. GIRDNER: Good morning, Council Members. What Ralph has essentially summarized initially here has been essentially the financial statement side, audit side of our, of our audit engagement where we're opining on the financial statements represented by the County. Our Professional Standards, the Government Auditing Standards and our Regular Auditing Standards require us to evaluate internal controls as we go through the audit process and to then report issues on those internal controls to the governing body. These findings can be broken up into two categories. The first category, a Significant Deficiency is essentially what we have listed here on Page 9, and I'll go over those in a moment. A Significant Deficiency is just a area of internal controls that we note as we go through our review of the internal controls that we consider there could be some improvement in that area, okay. The other category of findings that is, is available for us to evaluate is a Material Weakness. The definition of a Material Weakness would be that the control is deficient enough to possibly cause a misstatement in the financial statements, and all of our findings that I will be going over are...fall into the first category of Significant Deficiencies. The first, the first finding that we had that is listed in our Single Audit Reports is internal controls over the new automated payroll processing system could be improved. This, this has been ongoing process over the last two fiscal year audits that we've had to work with as the process was going on. Our finding if you refer to it on Page 19 of the Single Audit Report is a pretty extensive finding. In fact, I don't think I've ever written a three-page finding before. So it's pretty extensive. I think it's a pretty fair assessment and essentially what we do there in our finding is essentially we describe a lot of the difficulties that have been encountered through this conversion process, and we also emphasize the fact of that we have converted from kind of a centralized processing of the payroll to a more decentralized process. And in the course of doing that conversion we've just noted that the control issues, the internal controls issues over making that change from a centralized to a decentralized process need to be addressed, and there are some control issues there. So that's essentially...that's the, that's the basis pretty much of our finding on the payroll processing system and its conversion. The next finding that we have is Page 22, and that's a timely completion of significant bank reconciliations. We had an issue during this Fiscal Year '12 audit that one of the main operating bank accounts just had a lot of difficulty being reconciled, and as stated in our finding it wasn't completed until into October. And we're noting this because it appears that there was some difficulty in reconciling some investment transactions that are recorded through this bank account and making sure they get reconciled on a timely basis, and we just felt that it was necessary to point this out that we actually should be completing our bank reconciliation process for all of our accounts hopefully within a month after our month end. And we're just noting this that there were some difficulties doing this and is it actually caused some delays in doing some other audit procedures that we needed to do. The third finding that we have is during our, during our audit of the investment

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accounts, our main concern is the fair presentation of your investment accounts at June 30<sup>th</sup>, 2012. But during the course of our audit of your investment accounts, we actually do go back and look at the controls over the course of the year and the recording of investment transactions, and we noted some significant errors in the recording of transactions during the first part of Fiscal Year '12 which resulted in investment information being produced by...for management to make evaluations from of being materially misstated. Now all of this got corrected before the end of the year, and if it hadn't been, you wouldn't had gotten a clean opinion on the financial statements, but it was all corrected by the end of the year, but we felt it was our obligation to point out the issues during those first few months of Fiscal Year '12 where information coming for the investment accounts that was coming to management was not accurate information. Number 4, the finding we have is during our procedures on real property tax, the recording of your real property tax balances at the end of the year. Essentially if somebody has filed an appeal and it's a legitimate appeal they're still required to pay the tax. Okay, they're required to pay their full amount of their taxes. Those amounts...that revenue is not recognized in your General Fund, okay. As it's an appeal and it's been filed as a legitimate appeal, it's transferred over into what's referred to as an Agency Fund for you folks or essentially a Fiduciary Fund. And so, it's essentially not recognized as revenue in the General Fund, but is shown as an asset and a liability in the Fiduciary Fund. During the course of our procedures at the Real Property Tax, we had difficulties trying to reconcile the, the outstanding appeals at the yearend taking into account your 60-day recording period after the yearend. But we had difficulties reconciling those outstanding appeals to the Liability Section of your Fiduciary Funds. And so that is essentially...we were able to accomplish the procedure with some additional work on our part, but we're pointing out that essentially that reconciliation should be done on a monthly basis is essentially what we're pointing out. And the last essentially finding we have that's related strictly to the financial statements is our review of the controls over your miscellaneous cash receipts. Now, probably I think it's close to about 70 percent of the County's revenue comes in either through the real property tax area or it comes in through your grants and your other large cash receipt transactions, your revenue sharing with the State and that type of thing. But about 30, 25, 30 percent of your revenue comes from your other miscellaneous receipts such as your, your sewer fees and parks and rec fees and building permit fees, and those types of things. And so, you know, we're talking about the lower, the lower end of the proportion of your total revenue, but this is the area where people out in the different County departments are collecting this cash from the, from the public, and we did some procedures to test the controls over these areas and we found some areas that could be improved, some areas where weaknesses are there. One of the probably the strong or the most significant areas there would be some level of segregation of duties where one person isn't collecting the cash, summarizing it, recording it into whatever records are at that department, and then turning it into the Finance Department or the Treasury, Treasury Division. So it's just a comment concerning some controls, internal controls that could be strengthened up at that level over your miscellaneous cash receipts. Now, I'll turn to our findings relative to our work on the Federal grants, and this is, this is essentially governed by OMB A-133 and the procedures that we have to do in accordance with those Federal guidelines on reviewing your Federal grants. And as Ralph indicated, I believe we did seven major programs, and in one of those programs...well, in all of the programs we select a sample of transactions out of those programs to test. And one of the transactions that we happened to

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test out of one of the programs involved some travel, okay, by individuals that charged their travel to this Federal program. And under the compliance supplements relative to this CFDA number or actually to all Federal grants, you're not supposed to travel in first class. And we, we noted this in the transaction that we tested...and selected and tested. It's a small transaction. We did not find any other indication in our review of other transactions, excuse me, other transactions through our program testing that indicated this was a pervasive practice. This seemed to be just we happened to hit on this transaction and so we're noting this as a Single Audit finding, and actually you do have a level of questioned costs which are included in this that would have to...the determine or the, the evaluation of those questioned costs would be done by the Federal grant, the Federal agency that administers this program. We're definitely not talking about a significant amount here. The remaining comments, findings that are included under our Single Audit area are predominantly repeat findings that we've had over the last four years that we've been engaged, and those findings ironically refer to our observation that additional training and additional education relative to understanding the Federal compliance requirements relating to your receipt of Federal grants that that could, that could continue to be upgraded and that's why we have repeated those findings in there. I think there has been some improvement in this area, and I think that there has been some renewed focus in making sure that we are putting together a good schedule of Federal expenditures, your SEFA schedule every year. There's been some renewed emphasis on doing that. And along with that, working with the other departments that received the Federal grants, I think there's been some renewed understanding of ensuring that we monitor the compliance issues relative to these Federal programs. So with that, that pretty well concludes our summary of our findings.

CHAIR WHITE: Thank you, gentlemen. And before we open the floor for questions, it's, I think many of you are probably aware of the communication directive that we received yesterday, and I just wanna make it clear that you gentlemen from the Administration are cleared to answer questions today?

MR. AGSALOG: My understanding, Mr. Chair, Danny Agsalog, the Department Director of Finance, whatever was commitment that was done or given prior to the date of the memo will be honored. So my understanding, this request was done before that date of the memo so I will be able to answer any questions you might have.

CHAIR WHITE: Okay, thank you. And that I assume would apply to everyone else here representing the Administration that may be called upon for, to answer questions?

MR. AGSALOG: If you need any individual, Mr. Chair, to answer any questions, I would reserve the discretion if it is in my Department to...if I cannot answer it, I would ask them to come forward. If I can answer it and if you need more details then I think it's something that we can discuss.

CHAIR WHITE: Okay. And Members, the reason I bring that up is that this new directive that we received yesterday instructs...it's directed to all Civil Service County employees, appointed staff, and others employed by the Administration with regard to any and all verbal and written communication with the employees of the County Council. And it continues with, please note

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the following directives are intended to improve intra-governmental communication by facilitating the flow of correct information to the Council. The first bullet point is there shall be no direct communication on matters pertaining to County business, official or otherwise between the Administration staff and employees of the Council, unless otherwise authorized by the Mayor or the Managing Director, to avoid transmitting partial or incorrect information. Second bullet point is any requests by the Council for Directors, Deputies or other personnel must be, must be submitted in writing to the Office of the Mayor, a minimum of two weeks in advance of the subject meeting. And of course, you know, we generally do that when we post one week out. Third bullet is questions that will be asked of personnel at the subject meetings must be submitted to the Administration in writing a minimum of two weeks in advance of the meeting, and the last bullet, any detailed questions requiring an in-depth response will require a longer lead-time to ensure complete and correct response. And it goes on to say that the goal is to avoid further miscommunication between the Administration and the Council, and to make efficient use of the Directors' time in managing County operations. And Managing Director will be issuing a Standard Operating Guideline and Procedure to further clarify this directive. Now it's the Chair's understanding that everyone has been cleared to answer questions in today's meeting, but this directive outlines that we need to provide all questions for future meetings in...two weeks in advance. So just to put it in perspective, instead of sitting here, coming today and looking at the materials before us and asking questions, you'll have to look at these materials two weeks earlier submit questions to us so that we can provide them to the Administration; otherwise, I guess my understanding is that they won't necessarily be required to answer them on the floor. So this brings up in my mind a question of whether it's a Sunshine Law violation to aggregate questions without it being in a meeting. So it may be necessary for us to aggregate questions and record them in an open meeting to avoid a Sunshine Law violation. So this is gonna take some time for us to work through. We certainly wanna respect the Mayor's request but at the same time, you know, we have our operations, he has his. So as we go through this, please provide all the Chairs that have to sit up here, the due amount of patience because this is gonna, it's gonna be a very interesting way of operating. This Chair's feeling is that we will, you know, we deal with a lot of requests from the Administration. This process is likely to slow it down significantly to the point of somewhat of a standstill, but if that's...if that's the way that it needs to happen, then we certainly will try our best to make it work. My...this Chair's sense is that it's appropriate for us to follow our normal method of notice that we'll file a week before the scheduled meetings, we'll send out the notices and if, if the Administration chooses not to participate then we'll either move on, we'll take action ourselves or we'll defer it until such time as they're comfortable coming to answer questions. So with that understanding of the challenges before us, be happy to open the floor up to any questions or Mr. Agsalog, if you'd like to provide your comments about the audit, please feel free to do so.

MR. AGSALOG: Thank you, Mr. Chair. Again, the presentation today is the audit that the Council had engaged to review our financials, and I am very proud of the outcome as I have always put as a principle this audit is a tool for me to evaluate the current situation as we have, and to clarify a little bit better because some testimony is being said that this a little too late. You know, I can assure you that during the audit, the auditors have had extensive discussion with me as far as the areas that needs to be looked at, and we didn't have to wait until after the result which is

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delivered in December which is within, let me emphasize, within the timeframe where the Charter allows us to do. We have delivered on time. And I really appreciate the two gentlemen on my left side because they have worked with my team very diligently to come up with a very good report and we have discussed this. I can assure you that Mr. Girdner here on my left side...even though it's late in the evening, if he needs to discuss some issues with me, he would come to my office and let me know the concerns that he has. But yeah, I'm very proud of the report and I will answer questions that you might have. But let me address some of them now, Mr. Chair, if you would allow me?

CHAIR WHITE: Please proceed.

MR. AGSALOG: Okay, but before I do that let me introduce my team on the gallery, Mr. Chair. I have our Deputy Director, Mark Walker on the front row there, and on his right side I have Ms. Robin Arita-Chang, she was the key person. As you know, our Administrator at that time left us in August and I have leaned on her to produce this CAFR and Single Audit, and I'm very, very proud of the accomplishment that Ms. Arita-Chang has produced for us in the County of Maui. So Robin, thank you. Unfortunately, she will be going to Personnel. It's a gain of the Department of Personnel, my loss. So on her right side is our Accountant, Chief Accountant, Mr. Chair, is Ms. Ortaeine Acidera. So again, they worked very hard to put this thing together, both these two ladies have worked with Ms. \_\_\_\_\_, the residence manager for this CAFR here. Behind our Deputy, Mr. Chair, is Mr. Fujita, Wayne Fujita, she[sic] has been with us for about 60 days now, and new personnel, we also have our Auditor, Internal Auditor, Ms. Anne Jenny, to her right is my Administrative Officer, Mr. Mark Escudero. The last row there, Mr. Chair, is our Investment Officer, Mr. Jack Kulp, and I really appreciate him when Mr. Girdner mentioned about the investment. He is key in getting all the records reconciled for the short period of time. As you guys know, during that time, people...there was a rotation of people, some personnel left and the transition wasn't as smooth as I wanted to be. To his right, Mr. Chair, our Treasurer, Ms. Lita De La Pena. Okay, and of course, a familiar face to you, Mr. Joe Pontanilla, he's helping me right now with some work at RPT. And of course, you see the Water Department, Mr. Chair. I know they are not in Finance, but they delivered the financials which is still a function of our Department of Finance, but they do it autonomously at Department of Water with your Department Director, Mr. Taylor and Ms. Holly Perdido in the back there, and of course, we have Mr. Scott Teruya that help us also with the biggest revenue that we have for the County of Maui, the real property tax. Now Mr. Chair, let me address, I think you're thinking about the first-class travel. Let me address that. That particular travel was a travel in Kauai. As you know, we only have one carrier here in the island of Maui and if we would had allowed them to stay overnight, we would have paid them hotel charges and all that. So it was a call of the Department that have this people went and training there. So as you know, when the airplanes is booked already the only price of a seat is a first-class. You want them to come home, so it was a judgment call for us. It's not allowable under the Federal OBM [sic], but if we trying to save money there's also a justification of it and it could be an extraordinary situation. We wanna get them home and maybe if we are, and we are requested, we might have to reimburse that money from our General Fund, but that's, that's just it, they haven't asked for it. It's about \$1,000 for four people I think I remember, and the Department come and explained to me when we

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questioned that particular incident. It's just one time Mr. Chair. So it wasn't that people wanted to travel first-class, I just want to say that to the public that's listening to a first-class travel. It's not our practice. We don't do it. It was a special circumstance, Mr. Chair. The reconciliation that was also discussed, Mr. Chair, and I have discussed this with our auditors, it is, it happens, but again it was the transition period of the personnel in the Treasury Department. That's goes with the Real Property Tax also, it's a function of us. We do not have that much redundancy in our system, Mr. Chair. We do not have a structure that it's redundant. Everybody have their own PD, they have their position descriptions and when they leave, sometimes we cannot catch up right away, because they performing a specialized function that the next person cannot take on right away, and I'm sure it's not...it's the same throughout the County because we do not put redundancy in our system. Okay and I have discussed this with the Budget Director that maybe it's now time to do the redundancy for personnel to do cross training and all that. We also, we are also challenged in the union issues for that type for of cross training because we have some restrictions to do. So again, we have done very well with the restrictions that's imposed upon us. The biggest one that the auditor have discussed with me for weeks I think it was, is the ADP, the new payroll that we have and I again, I really appreciate their skills in looking at the controls that we supposed to have put together, and I can report to you that some times in March we brought a ADP trainer to come and train most of our personnel that works with the automated payroll system. Right now, Mr. Chair, our new Administrator have been working very hard with the ADP personnel to make this a little bit easier to work. We have to understand that the payroll system that we have is the biggest expenditure that we have in the County and it deals with many, and many, many rules according to the union that they belongs to. It's not one fits all, so there's a challenge in understanding the whole system. It's one system, but a SHOPO time recognition is different from a UPW unit, and so with HGEA. So those rules, Mr. Chair, has to be all fine tuned and we are working towards that, and we hoping that at the next go-around that we have shown some improvement as Mr. Girdner mentioned to you, we have done quite a bit of improvements in this areas. I also would like to address the mention that now we have our Auditor that the independent auditors may not be needed. I don't think that is correct. The Charter still asks us to have an independent auditor to audit our financials. So I think Mr. Kanetoku and Mr. Girdner will still be reporting findings in the future as far as our independent auditor is concerned if you or the Auditor will engage them again. Mr. Chair, I would answer any more questions if you have.

CHAIR WHITE: Okay, thank you. Members, questions for the Department or the auditors? Mr. Carroll?

COUNCILMEMBER CARROLL: Not at this time, Chair.

CHAIR WHITE: Okay, thank you. Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions at this time, thank you.

CHAIR WHITE: Thank you. Ms. Cochran?

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COUNCILMEMBER COCHRAN: Thank you, Chair. I guess just following up on Mr. Agsalog's comments in regards to the automated payroll processing system, and Mr. Agsalog, I, you know, commend you folks on the, I guess, sounds like complication in getting it up and rolling and running, but it concerns me in the auditor's report that there could be inaccuracies in payments. I know your ending comment is you wanna see improvements, that's great, but I think it needs to happen immediately. I mean, it's kind of a scary thing if...so I'm just wondering and I don't see numbers here but just comments from auditor and yourself, are there dollar amount inaccuracies? I mean, I think the comment is, could lead to. So am I to understand there has not been at this point?

MR. GIRDNER: The comments that are included in our finding were we did find some discrepancies within our test sample that we tested. We tested, we tested 60 payroll transactions. We found as, as identified here some inaccuracies in between the representation made by the employee on their time record versus what was existing or what was in the automated register for the pay register. All of those items were immaterial. We were on the brink of expanding our testing, but we also perform other substantive audit procedures in trying to make sure that we feel that the payroll, the total payroll expenditures are recorded fairly. We look at a monthly basis of recording. We look at a reasonableness. We do an analytical review. And we also do a very pretty extensive budget to actual analysis also by position and that type of thing which led us to feel we didn't...that those discrepancies that we found in our sample of 60 were not significant enough for us to have to expand our sample, and we were able to feel that the total payroll expenditures were recorded materially correct.

COUNCILMEMBER COCHRAN: Okay, thank you. Thank you for that clarification, auditor. I can move, yeah, to the next person.

CHAIR WHITE: Okay, Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Mr. Agsalog, along those same lines that Member Cochran talked about. It says, internal controls over the new automated payroll processing system could be improved, and Mr. Girdner, you said that this is about the second or third fiscal year that we've had that. My question is, is there improvement being shown? I mean, it started at one level of needs improvement, is it getting close to the end of not needing improvement anymore or do you see any level of improvement at all?

MR. GIRDNER: Well, I think when you're, when you're trying to evaluate the level of improvement you have to consider the fact that it's an ongoing process of this implementation. Fiscal Year '11 was the first year where they had actually started trying to use the new automated system, and there were only about, I think, two departments, possibly three, that were actually recording time at the department level electronically, okay. Everything else during Fiscal Year '11 was still manual timesheets completed at the departmental level, turned into the Payroll Division in Finance, and those employees at the Payroll Division inputting the time in. During Fiscal Year '12, I can't remember the exact, the exact relationship right now, but we were still short of a few departments that were completely updated to being able to do this. And so, I think there

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was recognition by the Finance Department that there were things that still needed to be done. They were attempting to try and continue to do those, make those changes. I would say that because of the implementation still ongoing, it would be difficult to compare '11 and '12 as far as improvement because the transition was still going on. There were still difficulties going on. So, but there were efforts being made by the, by the Department to address these, and my understanding is subsequent to the completion of our audit fieldwork that they have gone further to address this with the vendor to try and get these areas upgraded to where you can have good controls.

COUNCILMEMBER COUCH: Okay, thank you. Mr. Agsalog, can you...Mr. Chair, if I may?

CHAIR WHITE: Please.

COUNCILMEMBER COUCH: Can you expand on what he was saying is since the audit, what kind of things have you been able to do to improve that ...*(inaudible)*...

MR. AGSALOG: Thank, thank you, Mr. Chair. It's not final yet, but we have done a proposed reorg for the Payroll Section of the Accounts Department. And when we complete that and hire the proper personnel to perform this function, I have elevated, a proposed elevation of us, responsibilities from purely Pre-Audit Clerks, I've been asking the Personnel assistant, the Personnel Department assistance to put professionals there such as Accountant instead of just Pre-Audit Clerk. We have, I have asked the manager to be elevated to a major, major account which is an Accountant V, so that we have a more control or better supervisory of the things that need to be done into the Payroll Section. The Payroll Section was, was staffed by purely Clerks, and I think in evaluating the requirements for the past two years that I've been the Director, I think we need to restructure and put more responsible individuals to those positions, given the big amount of responsibility in producing the payroll for us. I can assure you that in the findings of the auditors, there wasn't no...I don't think there's any intent to defraud us or anything, it's more of the day-to-day activities that sometimes we do not have all the training necessary to perform that. As you know, and the auditor mentioned, this new system came in in 2010, which is I think FY 2011, and we are still doing a full implementation. It was last year that we have all the departments implement the full electronic timesheets that we have. As he have mentioned before we did do...we only have so many departments that were doing so. So again, Mr. Chair, we are doing some changes in the Payroll Section of the Accounts, and our new Administrator and our Deputy Director have gone through the contract and worked with the ADP. We are continually working with them to improve this system that we have gotten now. So I will not rest until we can get this thing implemented fully and satisfactory for the intended use, Mr. Chair.

COUNCILMEMBER COUCH: Okay, thank you, Chair.

CHAIR WHITE: Follow-up question, Mr. Couch?

COUNCILMEMBER COUCH: No, thank you.

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CHAIR WHITE: No? Okay. Mr. Hokama?

VICE-CHAIR HOKAMA: Chairman, thank you. I heard some good things today and some things I, I know we need to work on if I can state it that way, so... I appreciate the Finance Director's comments. I think he has the right approach in knowing that there's some areas of improvement that we call can work on, including ourselves, Chairman. But let me ask the, our auditors and so we know, your contract still goes to the end of the calendar year with the Council if I understand your contract right?

MR. KANETOKU: It goes through--

COUNCILMEMBER COUCH: Mic, microphone.

MR. KANETOKU: Our contract goes through the completion of the 6/30/2013 audit.

VICE-CHAIR HOKAMA: Okay, so what just got closed you're gonna finish up this...that fiscal year, this current fiscal year we just ended on June 30<sup>th</sup>?

MR. KANETOKU: That's correct.

VICE-CHAIR HOKAMA: Okay. Maybe you can help us understand more, you know, and I appreciate the Director's comments on the response to Mr. Couch, and as the auditors maybe you can help us understand better, because, you know, between the lines it comes down to level of competence, yeah, in doing the job. So is the issue possibly as maybe the Director's thinking that we need, and again, you know better than us, you know, if it's currently a Clerk III type of position, you know, we don't need to know the individual's name, but the classification of the person doing the job are Clerk III, and we're having this kind of issues, I think the Director says, maybe it's more appropriate for us to consider an Accountant V for an example, not that that's the right position, but where the skill levels, the knowledge levels, the experience is more appropriate for the type of work and decisions that need to be made in those areas? Do you have comments for us?

MR. GIRDNER: That would be a difficult question for us to answer. I think that what has transpired over the last two years is a, is almost a complete overhaul of the payroll system without a real good idea of what would be needed because of this, because of the, because of the change between this a very centralized processing of your payroll out to a decentralized capture of the time, of the employee time. I think that during the course, during, prior to this conversion the staff people that we worked with in the Payroll Division, I would, I would classify as very proficient at what they were doing, okay. But we've had a complete change in the software and in essentially the overall system of how this process, how this whole thing gets processed. And yes, there probably could have been some more extensive training done to accommodate this, this big change in the way we do the payroll. There could have been some better training I think possibly.

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VICE-CHAIR HOKAMA: Okay.

MR. GIRDNER: But, I think...

VICE-CHAIR HOKAMA: I appreciate your comments, Mr. Girdner. You know, for me this is a lot more than just 2010. You know, I can go back 10 years and can tell you problems with the payroll system and how I felt at that time and maybe this time too, we still have a third-party purveyor that is leading us by the nose for another consulting contract, you know. So I wanna know if part of the problem is the third-party purveyor that we contracted with, because they...aren't they supposed to give us the training? Aren't they supposed to be providing us the understanding of the software we're contemplating to purchase to do what we need to do as the County's requirements not the third party trying to sell me another damn software program.

MR. AGSALOG: Mr. Chair?

CHAIR WHITE: Go ahead, Director.

MR. AGSALOG: Thank you and I don't know if Mr. Gardner, Girdner have seen our contract, but the way I have read the contract, the third-party vendors have fulfilled their obligation. I think we have to understand that the acquiring of the system was done in a...not the best time period because it was the transition period of...from one Administration to the other, and I do not know what was transpired when they acquire this particular system. I'm sure they have a implementation plan, but when we arrive as new Administration, we just had to take what was given to us and we moved forward. And I say that because I, I'm the one that was moving forward. I couldn't return the system because it was already implemented and we have some obligation to do and our staff have spent many hours already going through it. So again, this is something that we just have to make due because we have acquired it until the contract will expire if we decide to do another one, and I would as the Director of Finance and the Administrator of this payroll, I would want to do more than just to run away from it. It cost us a lot of money to do something. It's, it's not just good to just, okay it's not working so let's buy another one. You know, that's not where I want to go. I want to ensure that whatever effort that my staff has put together, I want to complement it with other training that we might be able to. At this time, though, training that requires I will have to pay for it, and I have been asking you for training money and I'm not shy to come to you and ask for those money--

VICE-CHAIR HOKAMA: You've been very consistent, Director.

MR. AGSALOG: --and I need the support.

VICE-CHAIR HOKAMA: You've been very consistent.

MR. AGSALOG: Thank you, Mr. Chair.

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CHAIR WHITE: Thank you.

VICE-CHAIR HOKAMA: And Mr. Director, you know, I support your, your endeavor to get better training because I think that's one of the positive solutions and I can appreciate that. Besides some of the other points that the auditors shared with us and with you with their I guess four other findings, total maybe five findings, do you find most of that able to be corrected and achieved prior to the next audit review? What's your timeline or expectations to deal with some of the auditor's comments or findings that they shared with us this morning, please?

MR. AGSALOG: Thank you, Mr. Chair. And I can say that I would hope that I sit next to them again next year since our fiscal year is over now, but I have...we have, I would say not I, my team and I have addressed quite a bit of this findings even though when it was not submitted to you yet, we are already working with it. I can tell you that Ms. Ortaine Acidera has met with some of the Grant Program Managers for...to make sure their recording is the same as hers. So this training is ongoing, and I would hope that the things that we have done and our CPA will see it that there have been improvements in what we have done. So we didn't wait until today to correct this. We have worked with them side by side when they were seeing what they finding. Like I said, Mr. Girdner here would stay in my office in the evening to tell me I seen this one, Danny, yeah, I think you need to look at it, and that's why I think the reconciliation of the investment and the bank account were done before the year was ending because he brought this out to our attention. And those are the things that I like about audit is they give me tools to look at and use to correct what is need to be corrected. I can assure you and I'm very proud as your Chief Financial Officer that I think our recording is very good.

VICE-CHAIR HOKAMA: The one, of course, you know, for me is a concern and I'm happy to hear it, 'cause I'm taking it that you already addressed this but my concern about the Operating Account bank reconciliations. You know, to me, that's big time when we're dealing with wire transfers and everything else, and I think our auditors can appreciate my concern in this area, okay. And so, Mr. Director, have you taken some changes or improvements in your controls or procedures to take care of the Auditor's Findings No. 2 regarding those bank reconciliation findings, please?

MR. AGSALOG: Yes, Mr. Chair, we now have the personnel and they now doing the reconciliation timely. In fact, if you ask our Investment Officer and Ms. Acidera here, they work together in getting those reconciliation done. So I'm so happy that all the seats in my Accounts have been filled except for the payroll side that we are doing reorg at the moment.

VICE-CHAIR HOKAMA: Okay, but this is not an outstanding concern anymore? You've addressed this, Mr. Director?

MR. AGSALOG: As far as I'm concerned, Mr. Chair, yes. This, I would hope that this will not be a repeat write-ups when our auditor will look at the Fiscal Year '13, Fiscal Year '13 record.

VICE-CHAIR HOKAMA: Okay, thank you, Director. I appreciate your response. Chair, I'm happy to let the next Member have their opportunity.

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CHAIR WHITE: Okay, Members, other questions? Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you. Thank you, Director. I'd like to commend you also for the minimal sort of audit and your, your impression that it's made to improve matters. So is there consideration to have a centralized position for the Federal fundings to be in compliance or do you already have that personnel in place?

MR. AGSALOG: Mr. Chair, I do not have that person in place. I'm one that's not shy to ask you what I need, and I think as shown in this budget deliberation we have, I have come and asked for that particular position six ...*(inaudible)*... I have gotten three. Now that it was a repeat write-ups, we have to kinda evaluate in the way that we do it. It's, it's a recommendation that they have. And it will require reorganization in my Accounts or in my Department. I just--I have not had the time to really study how this would work for me or for the County should we have this person or persons. I cannot come to you if I cannot justify how it would be. I cannot just say, oh yeah, it's in the, in the Single Audit Findings and you should give it to me. I think we have to define the structure how it will fit that will benefit the County and I can see where they going with this, but for now, I think I just wanna commend Ms. Acidera here that who've been piecing this together on top of the other work she's doing and training those Grant Managers to work with us. But when I come and ask for that person, there will be a structure that will be, will be included in that request, Mr. Chair.

COUNCILMEMBER CRIVELLO: Thank you, Director. Thank you, Chair.

CHAIR WHITE: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And following up on the internal controls over miscellaneous cash receipts comments, it says that the Internal Control Officer position has been created and, Mr. Agsalog, that has been carried out and now this should not be a issue next time around?

MR. AGSALOG: Mr. Chair, let me thank you first for allowing me to when approving the position, we are in the process of creating that Internal Control Officer at the moment. It's not been filled, Mr. Chair. Right now the function of Internal Auditor rests on one person which is new and that was vacant for a little while. I can say that the work that they do for us, it's, it's really tremendous. You know, there are some instances that their work have yielded to disciplinary action for some people, that's why it's internal control, and they have a very watchful eye in our process. But again, I want to...we want to establish the Internal Control Office, but the function...there was a confusion as far as the function of where this person lies. So I have had some challenges really to get it done, but it's approved by you, a position that has not been filled, Mr. Chair. I hope I'm answering your question, but I'm not saying that those internal control that was addressed or found in ours are not being addressed. They are being addressed by...it's not by the Internal Control Officer at the moment, okay.

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COUNCILMEMBER COCHRAN: Thank you, Director. And a follow-up, Chair?

CHAIR WHITE: Sure.

COUNCILMEMBER COCHRAN: So in regards to the segregation of duties over cash receipts, this comment by auditors, how has this...is this been addressed? I guess they feel that especially building permits and Parks and Rec cash receipts sorta have been, I guess not reported or correctly or inaccurately or...

MR. AGSALOG: Mr. Chair, let me answer that this way because the departments have autonomy over, you know, in doing their operation, yeah. So the best response that we have done so far, but it's not implemented yet, is to have a more readily reporting system, and my Deputy Director have been inquiring in maybe asking the departments to use the system that we've been using in which we can get reports right away. We are moving forward into that. It's not in place yet, but again, we are looking into that. So that we don't have to tell the department what needs to be done, because they are a separate entity to Finance we have some procedures that we want to see happen so that we can accurately record or report whatever transactions that they have, but if we have those reports then it would address one of the separation of duties as the auditor have mentioned.

COUNCILMEMBER COCHRAN: Thank you, Director. Thank you. Thank you, Chair.

CHAIR WHITE: Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. This is more towards Mr. Girdner, I think. Can you explain a little bit more on the Corrected and Uncorrected Misstatements? You know, there's all these audits and then at the end it's basically it says that is all these adjustments made and in the end it says, they're minimal, the effects are pretty much minimal to the audit. So can you explain a little bit what the two, three things that you found and why it's not a big deal or is this Mr. Kanetoku?

MR. GIRDNER: Well, the items on Page 7?

COUNCILMEMBER COUCH: Yeah.

MR. GIRDNER: Okay, the three items that are recorded in the first three bullets, those were adjustments that were booked, okay. During our audit procedures we, we reviewed at the Department of Water these areas and we proposed these adjustments that management then recorded, okay. The only one that is really unrecorded is the bullet at the bottom and that's our uncorrected misstatement, and that is, that's related to depreciation that we found was misstated by that amount and our overall materiality for the Department of Water allows us to pass on that adjustment, okay, and we discussed that with management. But the other three entries, the other three bullets, those were actually found through the course of our audit procedures and we proposed those adjustments, and they were recorded in the CAFR Financial Statements.

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COUNCILMEMBER COUCH: Okay, just...for instance, the first one, the 21 million audit adjustment, you went from CIP to Capital Assets is that, was that just a misrecording of where or misclassification of the, of the funds, or...

MR. KANETOKU: Okay, I can explain that. So, what Generally Accepted Accounting Principles require is that when you have CIP that's placed in service so we have a project, construction project that was placed in service, you need to move it to Capital Assets. What that means is that it's in service and then you need to start depreciating those assets. So during our audit we identified these projects that were placed in service in the prior years and that were continued to be reported as CIP, so we worked with management to, to move them to Capital Assets, to record the appropriate amount of depreciation expense. And that past adjustment that you talked about, that last one on the page, out of the \$4 million depreciation related to the assets that were transferred, 3 million of that were placed in service before the current fiscal year. So technically that depreciation expense should have been recorded in the previous year. But due to materiality, rather than restating the prior year, it was thought that it was to record it in the current year.

COUNCILMEMBER COUCH: Okay. I think that clears it up. Thank you.

CHAIR WHITE: Mr. Hokama?

VICE-CHAIR HOKAMA: Well, thank you, Chairman. You know, under, under the CAFR's Report that you gave us, gentlemen, you know, Page 27 is of interest to me because that's the comments you gave on General Fund and the Fund balances. And we all know what was going on in that snapshot of time and so some of the bullet points you present to us regarding adjustments to total revenues, expenditures, interestingly enough transfers out of the Capital Projects and other governmental funds category, is this something that you would say is, is a trend for us or that was just, as I said, that one snapshot in time situation?

MR. GIRDNER: You're on Page 27, correct, Council Member?

VICE-CHAIR HOKAMA: Of your, of the CAFR's Report.

CHAIR WHITE: Yeah, okay.

MR. GIRDNER: Actually, actually what you're referring to is management's discussion analysis.

UNIDENTIFIED SPEAKER: Right.

MR. GIRDNER: And most of those bullet points that are, well, those bullet points that are there are, are reflected in the financial statements. The transfers if you were to go to our Fund Financial Statements, you would see that in our Statement of Revenue and Expenditures in Other Sources

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and Uses. But as far as how these items are trending, I will let the Director of Finance address that since this is their management and discussion.

VICE-CHAIR HOKAMA: Okay, thank you. Director, if you would mind, please?

MR. AGSALOG: Mr. Chair, thank you. I think if I remember this right, I think it was the same question as because we provided the unaudited report to the bond raters when they came here, and I seems to remember, I can do a quick research on this one, but I seems to remember that the decrease in General Funds is that because I think it was in 2011 when we funded quite a bit of CIP from the General Funds. So that was my explanation to the bond raters at that time, Mr. Chair. Maybe the Budget Director can look at the CIP Funding at that time, but I think that was my explanation to the bond raters, Mr. Chair.

VICE-CHAIR HOKAMA: Thank you for that, Director. When we also had the comments about Interest and Investment Earnings, I don't know if it was the Director's words or your words from the auditing firm that there was significant decrease in earnings. There were significant...how should we take that word, "significant"? Is that a red flag that we should be, we need to review the Investment Policy? Is it significant in that...

MR. AGSALOG: Mr. Chair, again it's a similar question that the bond raters asked during our review of our rating for the \$70 million funding. And I have explained to them that a lot of our long-term investment that's yielding higher yields, they were calling them back. So even though we have three, three more years of investment at, I would say 4 percent, they would call back those, so we lost those interest rate. And when we reinvest them, since our portfolio is restricted to investment, we cannot just buy any investment out there, it has to be rated and according to HRS, our investment is very restricted. And those investment that is safe, that yielding less than a percent we are talking about basis points. So new, new investment that we do now, even though we go for two years, little bit longer than 12 months, we don't get the yield as much as what we were getting four years ago when they not calling back those investment that we have. So that was my explanation and I think that is the true numbers if you look at it. If we look at the quarterly report of our investment, our investment yield is very low.

CHAIR WHITE: Members, we're gonna take our morning break and I'd like everyone to come back at quarter to 11:00. We're in recess. . . .(gavel). . .

**RECESS: 10:34 a.m.**

**RECONVENE: 10:48 a.m.**

CHAIR WHITE: . . .(gavel). . . This meeting of the Budget and Finance Committee will come back to order. And we should be wrapping up our discussions with the auditors and the Finance Department, but Mr. Hokama, you were still asking questions when we called for a recess, please continue.

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VICE-CHAIR HOKAMA: Chairman, thank you. And again, I appreciate the Director's very candid responses to our questions. And I'm like him, I agree, you know, we've been having very...well, for me, it's disappointing returns on the short-term investment portfolio, Chair, and you know, well, I can understand some of the factors that impact the returns. I still, you know, feel that maybe we can still do a better job, and maybe it's a good time after this process for us to sit down with the Director and get a clearer sense of their investment philosophy, how they wanna disburse among various types of accounts, you know, whatever percentages or dollar amounts that they feel is appropriate for the County, and then maybe we get a better understanding of why the returns are the way they are. Like I said, I just believe we can do a better job on, on returns, Chair. And I'm sure, Mr. Agsalog, as the Finance Director would love that additional revenue if he could capture it also. So, that was my main concern regarding the investment portfolio, the policy, and how we can improve it to go forward, Chair. Thank you.

CHAIR WHITE: Okay, thank you. Members, other questions? Mr. Agsalog, one of the questions that I had on the, on the issue of the payroll system was as we decentralize the responsibilities, I'm assuming that we have the...at what level are the payroll records reviewed prior to being sent in for processing? Are they at the supervisory level or Department head level or where is the decentralization?

MR. AGSALOG: Mr. Chair, thank you for the question. We have...right after our ADP training in March, we have put together a group and the Administrator of Accounts at the moment is looking at all the super users. When, when we decentralized this, we had the intention or we have, I have the understanding that the intention is the Department head is the ultimate approving authority of their personnel in the Department. That is my understanding when I came in on board. In, in the way that's we been processing all this payroll electronically that's the reason that I have asked to reorg our Payroll Department so that we can do more sampling and testing as far as the authorization in the system. Is this an, does this override, what was the reason of the override, who did the override on that particular change? Sometimes when the authorized personnel in the Department make a mistake in entering whatever code it is, it would need some authorization to override to correct it, and I think those are some of the issues that our auditor have found that when the process of overriding was it the proper authority have approve it? So those are the one that we working on Mr. Chair that I think as we move forward with the effort of the Account Administrator now is doing, these are more clear and we have a very...the system is good. There is a audit trail and into that you can look at who touched that particular timesheets and all that. It's just when there is an error that is found and it need to be corrected, is it the proper level of authorization that would be able to override that, is it in place? So that's what we have right now, Mr. Chairman. We're working on it, Mr. Chair.

CHAIR WHITE: Yeah, it sounds like it, and I want to reiterate some of the comments made earlier. I think you all deserve a great amount of gratitude from all of us for having a pretty much a clean bill of health. There's some, some deficiencies, but I think as long as you're working to fix them, that's the, that's the main thing. One of the things that I'd like either you or one of the auditors to respond to is the adjustment of the \$62 million in OPEB deposits to the EUTF. That hasn't resulted in our losing any money, it's just...if you could explain what happened with that?

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MR. AGSALOG: I will have the auditor answer this, Mr. Chair. I think this is the function of the GASB requirements as far as the adjustment that was done.

MR. KANETOKU: Okay, good. Yes, you're correct, there's absolutely no effect on the amount that was deposited with the EUTF. What happened last year was the EUTF notified the County that their auditors identified that the trust set up for monies that the various counties put in did not meet certain criteria under the applicable guide, that's GASB Statement No. 43. So what happened was instead of reducing your OPEB liability for deposits made into the EUTF, the standards required last year to, to gross up the liability for the OPEB with the corresponding increase in the assets. What happened in 2012, was the Legislature modified the language that set up the EUTF Trust that allowed it to meet the criteria of the Accounting Standards. So this year it was merely a gross down to reduce the OPEB liability on the County's financial statements for deposits previously made to the EUTF Trust Fund.

CHAIR WHITE: Okay, thank you. Members, any other questions?

COUNCILMEMBER COCHRAN: Chair?

CHAIR WHITE: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And yeah, thank you for this overview and your good detailed work. Can I just get an explanation of what "doubtful accounts" means? I believe on Page 6 of your handout, Mr. Kanetoku, Accounting Estimates and then first bullet point says, allowance for doubtful accounts, and then I'm seeing it here in the Department of Water Supply summary. So I just kinda wanted to understand what that meant?

MR. GIRDNER: Under Generally Accepted Accounting Principles in evaluating assets such as receivables, okay, you have to value the net realizable value of those receivables, okay. And that would entail determining what amount of those receivables you may not collect for some reason or another. The person shuts off their water and doesn't use it any longer and is not gonna pay the amounts that they owe, and it's up to management to represent or to provide the assertion in their financial statements what amount of those assets, receivable assets that they don't believe they're going to recover. So it's essentially an...it's a, it's a valuation, contra valuation account for an asset. You could have the same thing with a receivable or with an investment. Also, you could have a write-down on investments that turn out to be...their value just goes to zero and so you would have a valuation which is essentially a contra balance against the asset, okay, so that you get the true net realizable value. So in the Water Department's situation, what they're presenting on their balance sheet is the net realizable value of all the receivables at June 30, that they think they're gonna collect, and that includes an estimate of receivables they don't think they're gonna collect. That's what the allowance balance is.

COUNCILMEMBER COCHRAN: Okay. Yeah, it looks like close to \$200,000 is what they're guesstimating I guess which--

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UNIDENTIFIED SPEAKER: Which is?

COUNCILMEMBER COCHRAN: --sounds like kind of a big chunk. In the Water Department's...it's in your folk's letter, your Appendix 2, Summary of Uncorrected Audit Adjustments. PAJE No. 3. There's no page numbers, sorry. So it'd be Page 7.

MR. GIRDNER: Actually if you go to Page 60 of the CAFR footnotes...

COUNCILMEMBER COCHRAN: Six zero?

MR. GIRDNER: Yeah, six zero. You can actually see the valuation of the receivable. So actually, yeah you're correct, it's, it's \$186,000 is their estimate of uncollectable, but that's relative to, yeah, relative to almost \$8 million in receivables, okay. So I don't off the top of my head I can't think of the ratio of what that is, but that's their, that's their estimate of their \$8 million that for some reason or another they don't think they're gonna collect is a \$186,000 of their \$8 million in receivable.

COUNCILMEMBER COCHRAN: Okay, thank you. I guess it would be more for Water Directors, but just wondering if that figure is an average that normally carries through year after year.

MR. GIRDNER: Yeah, you could probably, you could look at the last few years and get an idea of what that balance has been and get an idea.

COUNCILMEMBER COCHRAN: Right.

CHAIR WHITE: The Water Director is nodding his head that that's based on their averages over time--

COUNCILMEMBER COCHRAN: Oh, okay.

CHAIR WHITE: --oh, it's not.

COUNCILMEMBER COCHRAN: No, oh.

CHAIR WHITE: Well, come on up. Without objection we'll have--

COUNCILMEMBER COCHRAN: No objection.

CHAIR WHITE: --the Director come up.

COUNCILMEMBER COCHRAN: Just curious.

MR. TAYLOR: Thank you, Mr. Chair. I think I can answer in less time than the discussion's been happening. When the Grand Wailea was going through its bankruptcy and reorganization,

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whatever they were doing, they didn't pay their water bill for awhile. So that was booked, that was the money. So I think what the auditors explained is why we weren't getting that money. They have since paid that bill. So it'll show up in the next year's as basically we made the money back. So that was the entire explanation for those monies.

COUNCILMEMBER COCHRAN: Oh okay, very good. Thank you, Director. Thank you, Chair, for the opportunity.

CHAIR WHITE: Good catch, Ms. Cochran. Any further questions? Mr. Hokama?

VICE-CHAIR HOKAMA: And I think the Water Department did a great job in collecting that balance to the County so I appreciate everyone's efforts in that. So since we have another situation where we have a loan that's been outstanding and I don't see you folks put it in your management letters, how 'bout this \$6 million outstanding loan to Ka Hale A Ke Ola that hasn't been paid back, but it's a loan agreement. There's an executed agreement. It's still to me an outstanding entry still yet on our ledger so how do we report that and how long does it sit on the books till some type of resolve? That's for the auditors not for Mr. Aagsalog. I'm asking the auditors that question. Chairman, if he cannot answer at this time, you know, I can appreciate...it's a very direct question that I wasn't anticipating to ask and I'm sure you weren't anticipating to respond, but you know, it was something that Ms. Cochran's question spurred in my memory of a financial situation that I would have thought would have shown up somewhere in our books as still outstanding and due to the County.

MR. KANETOKU: It's something that we can follow up for you. I think we need to find out where this loan that you're talking about is included in the financial statements, and typically what happens is if management identifies a situation where we may have a need for an allowance we would go ahead and take a, take a look at it. You know, there's various ways we look at collectability whether it's specifically identified, whether there's historical information that will lead us to believe that there, there is possible impairment. So it, we can certainly follow up on that, and again, my apologies I'm not sure where this...

VICE-CHAIR HOKAMA: No, no, no apologizing. I know that you do tests and it's a random testing, so you may not hit it during the random selection of what you wanna do testing on, and I can appreciate that. You cannot do every single entry in our ledger so I appreciate that. Other than that though, you would take a letter from our Committee Chair as to areas that we would ask you to do additional testing on within the scope of your agreement with us?

MR. KANETOKU: Yes, we would.

VICE-CHAIR HOKAMA: Okay. Thank you, Chair.

CHAIR WHITE: Okay, thank you. Members, any other questions? Seeing none, I'd like to thank you, gentlemen, for coming over and sharing your audit results with us.

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**COUNCIL MEMBERS VOICED NO OBJECTIONS.** (excused: DSG, MPV, and GCB)

**ACTION: DEFER pending further discussion.**

CHAIR WHITE: And we will take a three-minute recess and then move on with our other two agenda items, starting with the, with BF-8, the Department of Water...I'm sorry, BF-42, Amending Fiscal Year 2014 Budget for the Department of Planning. . . .(gavel). . .

**RECESS: 11:05 a.m.**

**RECONVENE: 11:11 a.m.**

CHAIR WHITE: . . .(gavel). . . Meeting of the Budget and Finance Committee will come back to order. As mentioned before we took the recess we are now moving onto agenda Item BF-42, AMENDING FY 2014 BUDGET FOR THE DEPARTMENT OF PLANNING, UNIVERSITY OF HAWAII SEA GRANT COLLEGE PROGRAM. And joining us at the front table is Budget Director, Sandy Baz, Will Spence, our Planning Director, and Jim Buika of the Department of Planning, and Tara Owens with the UH Sea Grant Program.

**ITEM BF-42: AMENDING FY 2014 BUDGET: DEPARTMENT OF PLANNING (UNIVERSITY OF HAWAII SEA GRANT COLLEGE PROGRAM) (CC 13-197)**

CHAIR WHITE: And I'm not going to read through the entire title of the bill, but the purpose of the proposed bill is to amend Fiscal Year 2014 Budget by adding \$130,750 appropriation for the University of Hawaii Sea Grant College Program. And I'd just like to open it up for opening comments from whoever wishes to jump in.

MR. BAZ: Thank you, Mr. Chair. Good after...good morning, everybody. It seems like afternoon already. Anyway, so today I appreciate your discussing the University of Hawaii Sea Grant College Program addition to our Grant Revenue. The Department of Planning was notified recently that they were awarded \$130,000 for monies that are coming through the University of Hawaii to fund this program. So we have attached the pertinent bill for an ordinance for your, your action hopefully, and then also would be Research Subaward Agreement for your information just as a background so you would have a better understanding to make decisions today. So thank you, Mr. Chair.

CHAIR WHITE: Any additional comments from Planning?

MR. SPENCE: Thank you, Mr. Chairman. Just that this is for a very good purpose in establishing post disaster rules for the County. You know, we've...I think all the Council Members here witnessed what happened to Kauai after Iniki and they struggled with...I mean, even though they, they got things rebuilt and all that, you know there was glitches in it and people struggled and whatnot. The purpose of this grant is to establish those kinds of rules that we can follow to help, you know, move things along while still protecting the environment, et cetera. So I think it's,

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it's a very good program and we look forward to, to working with this. I also, and as noted by the Chair, we have Mr. Jim Buika and Tara Owens here to...you know, they're much more intimately involved with the details of this program.

CHAIR WHITE: Okay, thank you. Members, questions for the Department? Mr. Hokama?

VICE-CHAIR HOKAMA: I'm very interested in this program, Chair. One, you know, the Members and yourself supported my request for a Lanai appropriation that was for islandwide disaster planning. So I see this as being a great complementary component of, of what we would like to do for Lanai, and I appreciate this grant funding that the staff was very successful in securing for our consideration this morning. If I can ask, and I guess maybe Mr. Buika you can answer, I'm trying to understand this \$12,000 plus of in-kind contribution? I mean, we're getting a \$130,000, this 13,000 plus or minus is in addition to that 130 or that is part of the 130...I just trying to get a better understanding, this in-kind contribution versus the, the money contribution.

MR. BUIKA: Thank you, Councilmember Hokama. My name is Jim Buika, Lead Shoreline Planner with the Planning Department. The in-kind contribution is some of my time accounted for as an in-kind match to managing the project. So it's some of my time as the principal investigator and, but most of the work will be done by a subcontractor, and we will form a Project Advisory Committee so there will be representatives from Lanai, Molokai, Maui, some of the underserved communities of Hana, Kipahulu, Kaupo also. And this Project Advisory Committee will meet probably quarterly. So some of the County of Maui department representatives, et cetera. So there will be some time. There was no--just as a point of clarification--there was, it's, it is even though it's a Federal grant there was no requirement for a, for matching funds, but we felt that some matching funds, obviously some of our time we accounted for because it would help us get the grant. So...

VICE-CHAIR HOKAMA: Okay, so in a sense this is kinda like a matching component that's not a requirement to match?

MR. BUIKA: Yes, yes, and it was just a document...we documented it as that.

VICE-CHAIR HOKAMA: Okay, okay. It's clear to me now what you folks are trying to accomplish. And then the other step is, of course, the lady to your right, on the 15,000 plus or minus dollar figure, but that is from the \$130,000 you will be receiving that component? That's not a in-kind or County, County resources are paying for this, right?

MR. BUIKA: I can answer, I can answer that.

VICE-CHAIR HOKAMA: This \$15,080?

MR. BUIKA: Yes, Tara Owens as you know works at the, in the Planning Department. It's funded partially by, by the County of Maui and partially by UH Sea Grant. So some of her money...Tara will be part of the project management team with myself so it will be the two of

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us, and some of Tara's time will be, will be paid out of this grant and one other UH Sea Grant person. What we, what we agreed to with UH Sea Grant Program was rather than them sending us Tara's salary money and then us having to send it back to UH Sea Grant, what they did is they, they are keeping it and, and paying, paying her directly rather than pass through two times.

VICE-CHAIR HOKAMA: Okay.

MR. BUIKA: So there is some of that. The grant is actually approximately \$178,000.

VICE-CHAIR HOKAMA: Okay.

MR. BUIKA: So, so there is some of that, some of Tara's time and Dennis Wong, who's a Coastal Hazards Reconstruction Specialist. So some of her time also is in the project.

VICE-CHAIR HOKAMA: Okay, thank you. Yeah, thank you, Mr. Buika. And just last question, I know this is for this, this year's budget, this 130,000 request before us. I notice your project itself is multiple years, so is this funding for the whole project of the whole two years or we gonna see another request next year for year two?

MR. BAZ: I can answer that. Thank you, Member Hokama. If you look on the last page of the transmittal it's got a budget summary, years 2013-14, and years 2014-15. The project periods are February to February so we have to include Fiscal Year...what the project year '14 would be, that extra \$59,000 in our current request this year, because according to our fiscal year, it will happen in Fiscal Year '14. So that's why you see the total amount for the two project years in our request for this year. So theoretically unless they give us additional money, there's not gonna be a further request to the Council.

VICE-CHAIR HOKAMA: Okay, so, so we're clear on your sheet that you gave us, what's the...it's the calendar year and we're trying to match it up with this one fiscal year?

MR. BAZ: Yeah, it's actually February, hold on...it's not really calendar year. It's February 1<sup>st</sup> through January 31<sup>st</sup>, closer, yes.

VICE-CHAIR HOKAMA: Everybody had their own year, I understand.

MR. BAZ: Yes.

VICE-CHAIR HOKAMA: Okay, but this is the only budgetary request?

MR. BAZ: Correct. Yes.

VICE-CHAIR HOKAMA: Thank you, Director. Thank you, Chair.

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CHAIR WHITE: Members, other questions? To whichever one maybe wants to answer from Planning, it sounds like this is limited to, to coastal areas, is that correct? It wouldn't for example apply to the upper reaches of Lanai or address like Iniki and Ewa inland areas, or is this to be focused on reconstruction of all areas damaged 'cause it, it seems that it's limited to the coastal areas.

MR. SPENCE: That would be correct, Chair. I would say though that if we have post disaster rules for the coastal areas, I would think some things would be directly applicable to, you know other areas of the island further mauka.

CHAIR WHITE: Right. So they could be duplicated, but the funding is to focus on coastal areas?

MR. SPENCE: Yes, and to establish the rules at least for the coastal areas.

CHAIR WHITE: And will this advisory group include owners of commercial and hotel properties that are in exposed areas?

MR. SPENCE: Yes.

CHAIR WHITE: And you mentioned Kaupo, and I'm not sure that I'm aware of anything built along the shoreline in Kaupo.

MR. SPENCE: Right. I think that would have more to do with transportation issues as applicable to, you know, some of the more rural areas being able to get supplies in and out and those kinds of things.

CHAIR WHITE: Okay. And this will be focused on making the process of reconstruction as quick as possible or...

MR. SPENCE: As quick and orderly as possible. Wanna add to that?

MR. BUIKA: Sure. As we're all aware, there will be many challenges. So this project over two years will work with the communities, get community input through actually local investigators. We do have money in there for five local--what we're calling local investigators--to champion the communities to, to look at the many aspects of, of the reconstruction phase. We're gonna have challenges, we're gonna have lack of personnel resources, we're gonna have lack of physical, you know, lumber, concrete, shipping, et cetera, we're gonna have many, many questions. So I don't know all the answers, none of us knows all the answers, so this is a unique, two-year planning process where we will be able to work with the communities to help sort out a lot of this so that it will aid the Planning Director and all of the County of Maui departments in conjunction with the hotel industry, private development, various communities to, again, have an, have some guidelines, some protocols for an orderly reconstruction process so that we don't do things incorrectly and we have given it some thought and some strategy. So that's our purpose here, yeah.

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CHAIR WHITE: Okay, well it'll be very interesting to see what you come up with, and I wish you all the luck because you got a big task to try to put together something that, that will get every, every business and home back up and running as quickly as we can. So, Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And thank you, Ms. Owens and Mr. Buika for doing the job that you do. It's greatly appreciated. My district does fall a lot on coastal zone areas. So I'm looking at your grant proposal and you did ask for 198 and they appropriated 130, is that what happened? I mean, I'm not, you know, we, we take whatever we can get, but I guess initially you were looking closer to the 200,000 range?

MR. BUIKA: Yes, I can answer that. Jim Buika again. The, the original 198 that was our original proposal to the NOAA Coastal Storms Program and University of Hawaii. When we did get the grant, they offered us 178, they knocked \$20,000 off of that. So between the 178 and the 130 is some of Tara's time, some additional expertise as well as some of the University of Hawaii overhead for the project, and I think that's that, that is total sum of why we're down at 130, \$130,750.

COUNCILMEMBER COCHRAN: Okay. Yeah, I was just wondering. You asked for the initial amount, so I guess you had a whole plan for the use of that dollar amount but it dropped down to 130. So I was just wondering what parts, you know, what would you have to forego and sorta take off your, your list of, you know, in your plan in order to compensate for the loss, you know.

MR. BUIKA: Yes, we...actually it was. We had calculated in all of the overhead calculations in the 198. So what we had to do was revise our budget, only the \$20,000 from 198 to 178 because all of the other overhead is calculated in there. So we've had to take some from our subcontract award, a little bit from our travel. So we, we divided it up amongst, amongst the various elements of the project. We had, but the travel was okay because we felt that getting out to Lanai, getting out to Molokai multiple times with multiple team members, we have an ample travel budget and that was what we identified as one of our typical shortfalls is we don't...and out to the Hana side, also east side. So we do have, and we assume that most likely a Honolulu contractor would be, would, would potentially win the award, we had four bids from Honolulu-based contractors. So we assumed that there was associated travel with potentially staying over travel costs, et cetera. So our travel budget is large for this project, so we are okay. I think we're okay.

COUNCILMEMBER COCHRAN: Okay, very good. Well, thank you again. Thank you for what you do.

MR. BUIKA: Thank you very much.

COUNCILMEMBER COCHRAN: Thank you, Chair.

CHAIR WHITE: Any further questions? Mr. Couch?

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COUNCILMEMBER COUCH: Thank you, Mr. Chair. Just a off-the-wall question. We only had Honolulu. There's no Maui contractors that even considered it?

MR. BUIKA: All of, all of the...well, three of the four do have Maui, Maui-based individuals here, but there are...the company is, the companies, were located either in Washington, D.C. or in Honolulu, the principals. So there is some component. We do have, we do have a subcontractor that has three, three of the experts personnel here located on Maui Island. So we do have a good strong local component. And the subcontractor does have a very good understanding of the coastal environment in Maui.

COUNCILMEMBER COUCH: Okay.

MR. BUIKA: So we're good. Yeah, we're good on that then.

COUNCILMEMBER COUCH: Great. Thank you.

CHAIR WHITE: Members, any further questions? Seeing none, the Chair is ready to make his recommendation.

COUNCIL MEMBERS: Recommendation.

CHAIR WHITE: The Chair would entertain a motion to recommend passage of the proposed bill on first reading and the filing of County Communication 13-192.

VICE-CHAIR HOKAMA: So move.

COUNCILMEMBER COUCH: Second.

CHAIR WHITE: It's been moved by Mr. Hokama, seconded by Mr. Couch to pass the proposed bill. Any further discussion, Members? Seeing none, all those in favor, please signify by saying, "aye".

COUNCIL MEMBERS: Aye.

CHAIR WHITE: Those opposed, say, "no". Motion passes, six ayes, zero noes, with Members Baisa, Guzman, and Victorino excused.

**VOTE:       AYES:   Chair White, Vice-Chair Hokama, and Councilmembers Carroll, Cochran, Couch, and Crivello.**

**NOES:   None.**

**ABSTAIN:   None.**

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**ABSENT:** None.

**EXC.:** Councilmembers Baisa, Guzman and Victorino.

**MOTION CARRIED.**

**ACTION:** Recommending **FIRST READING** of bill and **FILING** of communication.

CHAIR WHITE: Thank you very much.

MR. BUIKA: Thank you.

MR. SPENCE: Thank you, Mr. Chairman.

CHAIR WHITE: And we'll move onto BF-72, Amending Section 34, 3-, I'm sorry, 3.484.130, Maui County Code, Relating to Notice of Assessment. And we're in receipt of County Communication 13-101 from the Director of Finance, transmitting a proposed bill entitled, A BILL FOR AN ORDINANCE AMENDING SECTION 3.48.130, MAUI COUNTY CODE, RELATING TO NOTICE OF ASSESSMENTS. Purpose of this bill is to allow owners of real property the option to receive their real property tax assessment notice through electronic means. And we've, believe we had a brief discussion about this during budget. This will help us save us the cost of postage in upcoming years.

**ITEM BF-72: AMENDING SECTION 3.48.130, MAUI COUNTY CODE, RELATING TO NOTICE OF ASSESSMENT (CC 13-101)**

CHAIR WHITE: So, and we have joining us today, Mr. Scott Teruya, Real Property Tax Administrator. Welcome, Mr. Teruya. You have any opening comments?

MR. TERUYA: No, just the opening comments in regards to this bill. The proposed bill is to offer owners or taxpayers the option to receive their assessment notice by way of e-mail at the current proposal. The bill also simplifies the reporting on the assessment notice to gross assessed value exemption and the net taxable assessed value.

CHAIR WHITE: Members, questions? Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Everything, I mean, looks really good. That's...we're moving into the 21<sup>st</sup> century. Just a thought on the change it says, in lieu of the notification method set forth in this paragraph, the director shall at the option of the owner give notice. Might we wanna make that a "may" to give the director a little bit of discretion?

CHAIR WHITE: Director?

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COUNCILMEMBER COUCH: 'Cause if the owners says he wants it and the addresses are wrong or something like that, I would think we'd wanna give the director a bit of discretion.

CHAIR WHITE: I think that's the Director's wording.

COUNCILMEMBER COUCH: I just asked.

CHAIR WHITE: Director? Mr. Teruya?

MR. BAZ: Mr. Chair, yeah, I guess we'd be fine with that understanding that, you know, yeah, sometimes e-mail addresses are wrong and we will not have that alternative method.

COUNCILMEMBER COUCH: Right. Okay, so I don't know, Mr. Chair, if it's just a consensus to change that or if we need a motion when the...

CHAIR WHITE: I'm fine with consensus if that's everyone else is.

COUNCILMEMBER COCHRAN: ...(inaudible)...I think Mr. Ueoka's chomping at the bit to say something?

CHAIR WHITE: Mr. Ueoka?

MR. UEOKA: Chair, I believe it's our office's error. It should be the last or second to the last line should be via e-mail or electronic mail as opposed to mail out.

CHAIR WHITE: Yeah, the Chair had noted that change. There are a couple of other changes that we need to make. I'll include those in my recommendation.

UNIDENTIFIED SPEAKER: Recommendation, Chair.

CHAIR WHITE: Well, the other, the other item that is included here is the, the issue of having a single valuation rather than the land and building in the same number. Currently we're doing it separately. If we pass this as is, it would be joining the two values together. That creates a problem with our Circuit Breaker Bill that we just passed. So the Chair has some concerns about moving that portion of the recommendation forward, and I'm open to any, any thoughts you all may have, but to me, it may make sense for us to come back and deal with this issue at a later date rather than mess up our Circuit Breaker. Mr. Teruya?

MR. TERUYA: Hi, Chair. That is something that we've, you know, this proposal was initially submitted to the Chair before the Circuit Breaker Bill. Knowing that the Circuit Breaker Bill does have in it language about the 400,000 building value, we've decided internally that even though you pass it as is, what we would do is probably as far as notification for Homeowners because only Homeowners can get the Circuit Breaker 'cause you need the exemption, that

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maybe in concession what we'll do for all Homeowners we would identify what the building value is on the notice.

CHAIR WHITE: Just for Homeowners or just for Homeowners who apply for the Circuit Breaker?

MR. TERUYA: No, we would make it for the entire class so that everybody in the Homeowner class ultimately has the option to file for the Circuit Breaker. We wouldn't want to, you know, not include anybody. So I think it would be safer to, for all Homeowner classes' properties to just indicate what the building value is. So I believe that would catch most of it, and you know, just because we pass this bill, it doesn't require us to not put land and building. I think one of the reasons why we're trying to simplify it is, you know, a lot of people get the mis...are kinda mislead and they file appeals just because they're looking at one versus the other when in the appeal process you can only appeal the total value. So really what we want owners to look at first of all is, is the, is the bottom line correct? A lot of times by indicating land versus building a lot of people are filing an appeal and really no legitimate complaint. So I think this measure is a way to simplify and maybe clarify for some owners lodging an appeal in error.

CHAIR WHITE: Yeah, and I guess if you're a property owner and you, you feel the value's off having two targets is, makes the appeal easier than having just one.

MR. TERUYA: Yeah, the Code is, is specific that you can only appeal your total value, but I think when you show land versus building it creates that little uncertainty for the owners.

CHAIR WHITE: Having been through several appeals it's--I prefer having two values. Mr. Hokama?

VICE-CHAIR HOKAMA: I have a problem with moving the proposal forward, Chairman, hearing the Administrator's comments, but I would kinda agree with your \_\_\_\_\_ point that I'm not certain if I want this for the whole property tax program just that one value. You know, I mean, we can come up with every...an example, in every category about how we can distort the building or the property side to come up with whatever...a value that is to our advantage and the County's disadvantage or bring an argument on doing the tax appeal process. So I would rather kinda think about it yet. I don't know about how the other Members feel but I know even in the Ag land component, you know, Ag, the land itself what we give I feel is very fair, but you know, I can see \$2 million structure on a two-acre Ag lot.

CHAIR WHITE: Well, and I think that having them separately noted may also have the effect of reducing the number of appeals. One of the things that, that is easy now is if I think my land value is high, I can go to others around the neighborhood and see if their value is the same, and if their value is the same, I'm okay. So I'm, I'm uncomfortable moving on that portion of the bill, but at the same time, it's my understanding that we need the e-mail, the e-mail authorization pretty, pretty close to now if I'm not mistaken. Am I correct, Mr. Teruya?

MR. TERUYA: Yeah, that is correct. One...I, I was just trying to simplify the bill. I wasn't...even if you guys are prefer to have the land and building separate, I don't think I would have a problem

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with that. We were just trying to simplify things similar to the other counties like Oahu, and Kauai, and Big Island are changing to total value, and that's one of the reasons why we introduced a bill was to be relatively consistent throughout the State. But if you guys prefer it separately assessed, then...I'm mean, separately noticed then that's no problem with us.

CHAIR WHITE: Okay. Any further questions, Members?

VICE-CHAIR HOKAMA: Chair...

CHAIR WHITE: Mr. Hokama?

VICE-CHAIR HOKAMA: Mr. Teruya, would you know if from the insurance component it's easier for them to write up their policy for the Homeowners because now they have a value for the building replacement cost?

MR. TERUYA: That is a common question that we get, and our common answer is, this is for assessment purposes only, for your tax ad valorem purposes. This is not for your, for your--

VICE-CHAIR HOKAMA: I understand, but--

MR. TERUYA: --insurance, but...

VICE-CHAIR HOKAMA: --you gotta know that the nine of us, the nine Councilors here we get those questions posed to us.

MR. TERUYA: Yeah, I think initially most of the counties always had it separately assessed or indicated, especially Kauai County because there was separate tax rates--

VICE-CHAIR HOKAMA: Rates.

MR. TERUYA: --on land versus building. But because we've never had separate rates, we felt like this was the time to maybe combine it. Thank you, Chair.

CHAIR WHITE: Thank you.

VICE-CHAIR HOKAMA: Thank you, Mr. Teruya.

CHAIR WHITE: Further questions? Chair is happy to make his recommendation.

COUNCIL MEMBERS: Recommendation.

CHAIR WHITE: This is, this is gonna be a little tedious, but please bear with me. The Chair's recommendation is to pass the measure with the following amendments, and that is, if you go about half way down the wording, there's a word, "separately" in, in brackets. Chair's

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recommendation includes removing those brackets and removing the next bracket on...before the word "buildings", and then after the word "buildings" on the next line down. And then deleting the underlined portion "the real property", and then again deleting, about three lines down, the bracket before the word "amount" and ending three lines below that, after the word, "the", and before, "net taxable value". And then removing on the same line, the brackets around the two words "all other", and deleting the word "the" that's underlined. And then deleting the brackets around or after the word "property" on the next line down, and so removing the brackets around "exclusive of the buildings". And then as noted on the third line from the bottom, director "may" instead of "shall", and then on the next line down after the word "assessment via" and insert "e-mail" instead of "mail". And then in Section 3, take out the word "valuation" so that the, that sentence would read: this ordinance shall take effect for tax years beginning on or after July 1<sup>st</sup>. And I would ask that all nonsubstantive revisions be allowed and this would include the filing of Communication 13-101.

VICE-CHAIR HOKAMA: So move.

COUNCILMEMBER COUCH: Second.

CHAIR WHITE: It's been moved by Mr. Hokama, seconded by Mr. Couch to pass the bill, as amended. Any further discussion?

COUNCILMEMBER COUCH: Mr. Chair?

CHAIR WHITE: Mr. Couch?

COUNCILMEMBER COUCH: I just wanted to make sure you had...I didn't quite hear you say the "may", but I might have just missed it.

CHAIR WHITE: I did.

COUNCILMEMBER COUCH: Okay, thank you.

CHAIR WHITE: Yeah. Any further discussion? All those in favor, please signify by saying, "aye".

COUNCIL MEMBERS: Aye.

CHAIR WHITE: Those opposed, say, "no". Measure carries. Six ayes, zero noes, and the same three excused as on the previous bill.

**VOTE:        AYES:    Chair White, Vice-Chair Hokama, and Councilmembers Carroll, Cochran, Couch, and Crivello.**

**NOES:    None.**

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**ABSTAIN:** None.

**ABSENT:** None.

**EXC.:** Councilmembers Baisa, Guzman and Victorino.

**MOTION CARRIED.**

**ACTION:** Recommending **FIRST READING** of revised bill and **FILING** of communication.

CHAIR WHITE: And with that, Members, we have come to the end of our agenda, and I wanna thank everybody for their patience, and we are adjourned. . . .(gavel). . .

**ADJOURN:** 11:43 a.m.

APPROVED:



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MIKE WHITE, Chair  
Budget and Finance Committee

bf:min:130716:ctc

Transcribed by: Carolyn Takayama-Corden

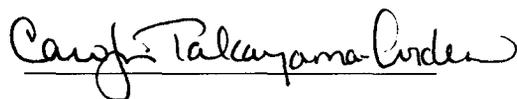
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I, Carolyn Takayama-Corden, hereby certify that the foregoing represents to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED the 5<sup>th</sup> day of August, 2013, in Makawao, Hawaii



Carolyn Takayama-Corden