

ECONOMIC DEVELOPMENT AND BUDGET COMMITTEE
Council of the County of Maui

MINUTES

April 2, 2019

Council Chamber

CONVENE: 10:49 a.m.

PRESENT: Councilmember Keani N.W. Rawlins-Fernandez, Chair
Councilmember Kelly T. King, Vice-Chair
Councilmember Tasha Kama, Member
Councilmember Alice L. Lee, Member
Councilmember Michael J. Molina, Member
Councilmember Tamara Paltin, Member
Councilmember Shane M. Sinenci, Member
Councilmember Yuki Lei K. Sugimura, Member

EXCUSED: VOTING MEMBERS:
Councilmember Riki Hokama, Member

STAFF: Leslee Matthews, Legislative Analyst
Yvette Bouthillier, Committee Secretary

Zhantell Lindo, Council Aide, Molokai Council Office (via telephone conference bridge)
Denise Fernandez, Council Aide, Lanai Council Office (via telephone conference bridge)
Mavis Oliveira-Medeiros, Council Aide, Hana Council Office (via telephone conference bridge)

ADMIN.: May Anne A. Alibin, Deputy Director, Department of Finance
Marc Sato, Accounting System Administrator, Department of Finance
Lance Taguchi, County Auditor, Office of the County Auditor
Jeffrey Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

OTHERS: His Highness Kaua
Others (5)

Dwayne Takeno, Audit Principal, N&K CPAs, Inc.
JoAnn Nakamura, Audit Senior Manager, N&K CPAs, Inc.

PRESS: Akaku: Maui Community Television, Inc.

CHAIR RAWLINS-FERNANDEZ: . . .(gavel). . . Aloha kakahiaka—not `auinala yet—kakou.
Kanakolu kumawalu minuke i ka hala o ka hola umi, ma elua o Apelila, i ka makahiki

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`elua kaukani umikamaeiwa. E`olu`olu mai, e ho`omalua ke Komike Ho`omohala Waiwai me Mo`ohelu Kālā. `O wau ka Iku Ha`i o keia komike, Keani Rawlins-Fernandez. It is...it was 10:38 on April 2, 2019. Will the Economic Development and Budget Committee please come to order? I am Keani Rawlins-Fernandez, Chair of this Committee. I keia la, me ko kakou, eia Committee Vice-Chair and Council Chair Kelly King.

VICE-CHAIR KING: Aloha kakahiaka still, Chair. It's like it's been half a day already, but it's still morning.

CHAIR RAWLINS-FERNANDEZ: Member Shane Sinenci.

COUNCILMEMBER SINENCI: Aloha awakea.

CHAIR RAWLINS-FERNANDEZ: True. Aloha awakea. Member Mike Molina.

COUNCILMEMBER MOLINA: Aloha kakahiaka, Madam Chair, maika`i.

CHAIR RAWLINS-FERNANDEZ: Aloha kakahiaka. Member Alice Lee.

COUNCILMEMBER LEE: Madam, Chair. Lance, correct me if I'm wrong. Ann-yeong-haseyo. Thank you. That's Korean--

CHAIR RAWLINS-FERNANDEZ: Oh.

COUNCILMEMBER LEE: --for hello.

CHAIR RAWLINS-FERNANDEZ: So fancy. Member Tamara Paltin.

COUNCILMEMBER PALTIN: Aloha, Chair.

CHAIR RAWLINS-FERNANDEZ: Aloha. Member Yuki Lei Sugimura.

COUNCILMEMBER SUGIMURA: Good morning and can you translate what you said --

CHAIR RAWLINS-FERNANDEZ: Good morning. I did.

COUNCILMEMBER SUGIMURA: --in opening...

CHAIR RAWLINS-FERNANDEZ: I did this time.

COUNCILMEMBER SUGIMURA: In English.

CHAIR RAWLINS-FERNANDEZ: Yeah.

COUNCILMEMBER SUGIMURA: Oh, you did?

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UNIDENTIFIED SPEAKER: Yeah, she did.

CHAIR RAWLINS-FERNANDEZ: Yeah.

UNIDENTIFIED SPEAKER: The whole opening...

COUNCILMEMBER SUGIMURA: Oh, the opening....

CHAIR RAWLINS-FERNANDEZ: I forgot the last time, so I wrote it down to make sure that I didn't forget to translate.

COUNCILMEMBER SUGIMURA: Okay. Good morning.

CHAIR RAWLINS-FERNANDEZ: Good morning. It was quick. And Member Tasha Kama.

COUNCILMEMBER KAMA: Aloha awakea, Chair.

CHAIR RAWLINS-FERNANDEZ: Aloha awakea. And from the Administration we have--oh he left, okay--Deputy Director, May Anne Alibin.

MS. ALIBIN: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning. Account System Administrator, Marci Sato.

MS. SATO: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning. And with us Deputy Corporation Council Jeff Ueoka.

MR. UEOKA: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning. Let's see. And then from our Office of the Auditor, Lance Tanaguchi...Taguchi. Aloha. And our Committee Staff, Leslee Matthews.

MS. MATTHEWS: Aloha, Chair.

CHAIR RAWLINS-FERNANDEZ: Aloha. And Yvette Bouthillier.

MS. BOUTHILLIER: Good morning.

CHAIR RAWLINS-FERNANDEZ: Good morning. And at our District Offices we have Mavis Oliveira-Medeiros at the Hana Office, Denise Fernandez at the Lanai Office, and Zhantell Lindo at the Molokai Office. Okay and then just a quick reminder for everyone to please silence their cell phones. Okay, Members, we have three items on today's agenda. EDB-31, Comprehensive Annual Financial Report. Otherwise referred to as CAFR. Fiscal Year 2018, EDB-22, Amending the Fiscal Year 2019

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Budget for the Public Transit Program. EDB-91, Single Audit Report, Fiscal Year 2018. EDB-81, Department of Water Supply Financial Audit Report, Fiscal Year 2018.

. . .BEGIN PUBLIC TESTIMONY. . .

CHAIR RAWLINS-FERNANDEZ: Okay, so we'll start with public testimony. Testimony will be limited to the items on the agenda. To testify, please sign up with Staff. Testimony is limited to three minutes. If you're still testifying beyond that time, I will kindly ask you to complete your testimony. When testifying, please state your name and who you're representing. Please also indicate if you are a paid lobbyist. Let's first check in with our District Office. At district, our Hana District Office, Ms. Oliveira-Medeiros, will you please call your first testifier?

MS. OLIVEIRA-MEDEIROS: Aloha, Chair. This is Mavis Oliveira-Medeiros from the Hana Office and there is no one here waiting to testify.

CHAIR RAWLINS-FERNANDEZ: Mahalo. Ms. Fernandez at the Lanai Office, will you please call your first testifier?

MS. FERNANDEZ: Good morning, Chair.

CHAIR RAWLINS-FERNANDEZ: Good morning.

MS. FERNANDEZ: This is Denise Fernandez at the Lanai Office and there is no one waiting to testify.

CHAIR RAWLINS-FERNANDEZ: Mahalo. And Ms. Lindo at the Molokai Office, will you please call your first testifier? Ms. Lindo? Okay, I think it might be technical problems again. Okay, we'll come back to the Molokai Office. Ms. Matthews, will you please call our first testifier in the Chamber?

MS. MATTHEWS: Yes, Madam Chair. We have one testifier signed up to testify. His Highness Kaua, testifying as Counsel Advisor and War Captain on EDB-9(3), 9(1), and 8(1).

MR. KAUA: Aloha, everybody.

CHAIR RAWLINS-FERNANDEZ: Aloha.

MR. KAUA: I just...aloha. As she said, mentioned earlier, me, Highness Kaua, Kaua. Representative of the Hawaiian Kingdom, Kingdom of Hawaii, independent, sovereign nation. Independent, sovereign nation of God and Son, Jesus. One plus one is one in the same. One plus one is one in the same. One plus one is one in the same in Jesus' name. That is why Hawaii Kingdom sovereign nation it is all religion. You guys call it religion. No, no, no. God's territory, that's it. That's our religion and that will be fact. Standing here on behalf of our people. Our people grew in blood, as can hear earlier

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the blood that we have here. As far as need to be translated our olelo which don't need to be translated because it's already olelo. Pure fact one. But because we get translation because over time, they use what is unrighteous the first three crimes of the century. One, two, three. And it's told by our people since 2016, November 2016. May 2016 all the way to 2018. It is our law in the Kingdom of Hawaii sovereign nation. One, it is word.

CHAIR RAWLINS-FERNANDEZ: Mr. Kaua?

MR. KAUA: Yes?

CHAIR RAWLINS-FERNANDEZ: Will you please tie your testimony into the agenda items?

MR. KAUA: What's that?

CHAIR RAWLINS-FERNANDEZ: Will you please tie in your testimony to our agenda items?

MR. KAUA: Yes, it is part of the agenda because you're talking about money income. Income of money is depending, because of our people that gives the money pertained to their taxes. And their taxes goes into what man uses within their serpent tongues to put into this certain parts of our government, which you get the water, so forth. And so forth. And there are other ones here, but the point though is also on the salaries. This is billions of dollars that you guys have no right to. Have used and used and used and used and used the people from before till now, for hundred-plus years. And plus being where you get Japanese translation, Korean. One thing I like about my blood, which is good that your blood too, is pure Korean. Because I'm pure European, I'm pure from America. I'm American. Not no united serpents. No, no, no. Three, Asian. My family is pureblooded Korean, pureblooded Japanese, pureblooded Chinese.

CHAIR RAWLINS-FERNANDEZ: Mr. Kaua?

MR. KAUA: Philippines.

CHAIR RAWLINS-FERNANDEZ: Will you please tie your testimony to one of the agenda items? So, your first part of your testimony was which item?

MR. KAUA: The first one. Okay. What page I stay on? All right. It's July 1, 2019 to 20th, right?

CHAIR RAWLINS-FERNANDEZ: And then your second item is which? Which agenda item are you testifying on?

MR. KAUA: That one and the next one, the 30th to the 25th, I think. I put them down all though up there. It starts, as far as right now, all that kind things, I not the same as well as you guys are, but it pertains to every single thing that's on top of here. And more support that every single thing is that, we might not have the same tongue as at

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that time, but our people is very akamai. So far, so much so that Chaplain Pua Hashimoto gave it to me. She said, it says right then and there our Hawaiian _____ and our people embrace literacy. Made edicts to the people in reading and writing, but in the mid-1800s we forced a path to Europe and America. What did that mean? They had to work together. To what? Do the evil span to come over here and do that to all of the bloodlines, so we come in the bloodlines here, and now get separated again and again and again. Because why? They wanted to see you guys get independent. Oh yeah, independent, but we already were independent. Sovereign nation. That's a fact is why they use words to change that all that facts over. They all getting, right now United States serpents are getting busted. Clinton, you name it. All of them. And I watch that every single time, every single day because Cahill, that Judge Cahill, knew that I was defending my brother Gary, which . . . *(inaudible)* . . . reserved that these guys all know me by Gary because of the crooked robbery of my name. Social Security and birth certificate, boom. But then I put down to that judge there, captain of the, captain of the sea, 39,000 of his brothers and sisters and that's the 39,000 that Kaua and Gary get to see. And get to talk to each other and make things, arrange things with each other, you know. To make sure we can do better and better each time. Second, 39,000 to 39 billion. Why? Because the annexation. That's why I go like this with my fingers to all the judges, to all of them, even on TV, *Akaku*. Pure, pure, pure, pure. Pure, pure, pure, pure, pure, pure. Not by a number they call 100 percent or .001 percent because they want to take you off from the words and on the numbers. Two, they made it themselves. In this thing to do right down here every year...

CHAIR RAWLINS-FERNANDEZ: Okay. Mr. Kaua?

MR. KAUA: Yes.

CHAIR RAWLINS-FERNANDEZ: Can I ask you to please conclude?

MR. KAUA: Okay, I conclude all this and be back again. And that's for everybody that will see me in our home called the Kingdom sacred gathering ground. Giving gathering ground hale and that is Jesus hale. Thirty-nine thousand to 39 million because of the bloodline. All pure, pure, pure.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Kaua.

MR. KAUA: Expanded. And the last one is this, 39,000 to 39 billion because we around the world now. For as first is last, last is first because Jesus lives in you, you, you, you, you. If you no believe in that then that's your guys own prerogative, your thoughts. But remember, Queen Liliuokalani said what she said. They're going to do on they own, and right now United States are doing it on their own. And we...

CHAIR RAWLINS-FERNANDEZ: Okay. Mahalo, Mr. Kaua.

MR. KAUA: . . . *(inaudible)* . . .

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CHAIR RAWLINS-FERNANDEZ: Appreciate you coming to testify. Members, do you have any questions for Mr. Kaua? Okay, seeing none. Thank you so much for testifying this morning.

MR. KAUA: Think about it.

CHAIR RAWLINS-FERNANDEZ: Okay. Ms. Matthews, do we have any, anyone else wishing to testify this morning.

MS. MATTHEWS: Madam Chair, there's no one else signed up in the test...in the Chamber to testify. And we received notification from the Molokai Office, they don't have any testifiers at that office.

CHAIR RAWLINS-FERNANDEZ: Okay, great. Okay. Members, if there are no objections, seeing that there are no others wishing to testify this morning, I will now close public testimony.

COUNCILMEMBERS: No objections.

CHAIR RAWLINS-FERNANDEZ: Mahalo. Okay, public testimony closed.

. . .END OF PUBLIC TESTIMONY. . .

CHAIR RAWLINS-FERNANDEZ: Okay, Members. Section 9-13, the Revised Charter of the County of Maui (1983) as amended requires the County Auditor to conduct or cause to be conducted an annual, independent audit of the County's accounts and other evidences of financial transactions of the County and its operations. The County Auditor, designated N&K CPAs, Inc., as the County's independent auditor for the Fiscal Year 2017. We are joined by Mr. Dwayne Takeno, the auditor, the Audit Principal of, and JoAnn Nakamura, the Audit Senior Manager of N&K CPAs, Inc. Mr. Takeno and Ms. Nakamura are employed by N&K CPAs, Inc., the County's designated independent auditor. They are experts in their field with responsibility for audit-related matters. Therefore, without objections, I will designate them as resource persons for all three agenda items pursuant to Rule 18(A) of the Rules of the Council.

COUNCILMEMBERS: No objections.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Members. Okay, if there are no objections, I'd also like to call up all three items. EDB-3(1), EDB-9(1), and EDB-8(1).

VICE-CHAIR KING: Chair, could you just explain what you mean by calling all three rather than...

CHAIR RAWLINS-FERNANDEZ: I'm going to...so Mr. Takeno and Ms. Nakamura have a presentation and because of the way the reports are, the presentation connects all three items together.

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VICE-CHAIR KING: Oh okay.

CHAIR RAWLINS-FERNANDEZ: And so the first part of the presentation will be an overview, a summary of the CAFR and the audit together. And then we'll break for questions, and then Mr. Takeno and Ms. Nakamura will then go into the required communications. And so because they're all connected and, you know, tied in together, I'm planning to discuss all three items at the same time.

VICE-CHAIR KING: Does the presentation also include the Water Department audit then?

CHAIR RAWLINS-FERNANDEZ: Yes.

VICE-CHAIR KING: Okay. Okay, thank you.

CHAIR RAWLINS-FERNANDEZ: Members, any other questions? Okay, so if there are no objections, I will call all three items together.

COUNCILMEMBERS: No objections.

**ITEM 3(1): COMPREHENSIVE ANNUAL FINANCIAL REPORT ("CAFR")
(FISCAL YEAR 2018) (CC 19-59)**

ITEM 9(1): SINGLE AUDIT REPORT (FISCAL YEAR 2018) (CC 19-139)

**ITEM 8(1): DEPARTMENT OF WATER SUPPLY'S FINANCIAL AUDIT
REPORT (FISCAL YEAR 2018) (CC 19-60)**

CHAIR RAWLINS-FERNANDEZ: Okay, mahalo. The first item on the agenda is the CAFR, the Comprehensive Annual Financial Report for Fiscal Year 2018. The EDB-9(1), Single Audit Report is the second item on the agenda. The single audit report resulted from a, from the consolidation...from the consolidated audit process required by the Federal Government as a condition of Federal grants of funds to the County. The report consists of the following parts: One, a report on internal controls over financial reporting; two, a report on compliance for each major program, a report on internal control over compliance, and a report on the schedule of expenditures of Federal awards. Three, a schedule of findings and question costs. Four, a corrective action plan. And five, a summary schedule of prior audit findings. And the third agenda item is the EDB-8(1), the Department of Water Supply's Financial Audit Report for Fiscal Year 2018. Okay. So, Mr. Taguchi, would you like to first provide opening remarks to, for our members prior to the presentation by Mr. Takeno and Ms. Nakamura?

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MR. TAGUCHI: Thank you, Chair. Good morning, Members. I'll keep it very brief; I know you have a busy schedule. N&K CPAs are the independent, third-party auditor. Oh, I'm sorry. N&K CPAs are the independent third-party auditor that was hired to perform an audit on the financial statements of the County of Maui: basically, the Comprehensive Financial Annual Report, as well as the Department of Water Supply's financial statement. They also produce the Single Audit Report, which is required for various types of government grants. The major change to the financial statements for the County of Maui was the disclosure of other post-employment benefits on the face of the financial statement. That created a large entry which reduced the net equity, or in other words, it recognized a large liability for unfunded liabilities on the face of the financial statements. Therefore, you'll see that it had a pretty substantial effect on this year's financial statements, as opposed to the prior years. And at this point I'll turn it over to N&K CPAs.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Taguchi. Mr. Takeno, are you ready for your presentation?

MR. TAKENO: Good morning, Chair and Councilmembers.

CHAIR RAWLINS-FERNANDEZ: Good morning.

MR. TAKENO: Thank you for having us here today. If it's all right, we have a short presentation to go over and then we will open up the floor later for questions on all three agenda items. My name is Dwayne Takeno and I'm a principal with N&K CPAs. With me here today is JoAnn Nakamura. We've been involved with the County audit for about three or four years now, more or less. And we're here to present the results of our audit. So, today we're just going to talk about the summary of the auditor's results and financial statement findings, and then open up the floor for questions. So JoAnn's going to kind of walk us through the summary of auditor's results that deal with the CAFR report, the single audit report, and the Department of Water Supply report.

MS. NAKAMURA: Good morning, Chair, and good morning, everyone.

CHAIR RAWLINS-FERNANDEZ: Good morning.

MS. NAKAMURA: So in this slide, the overall opinion on the CAFR is unmodified. That's the best opinion you can get for financial statements. And then in the next part, internal control over financial reporting, this is reflected in the Single Audit Report. There were material weaknesses and there were significant deficiencies; and with regard to the Federal awards, these are programs that exceeded a certain amount that were required to be tested.

VICE-CHAIR KING: I'm sorry, Chair. I can't hear you that well. I don't know. Can you...

MS. NAKAMURA: Sorry. Can you hear me now? Okay, so for our Federal awards, these are programs that are monies received from the Federal Government that exceed a certain

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amount and we are required to test as a major program. There were no material weaknesses identified and there were no significant deficiencies identified in the major programs that we tested. And the type of auditor's report issued on compliance for the major federal programs was also unmodified. And this is one of the best opinions you can get. There were no audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a). There were three major federal programs that we audited this year. They were the Highway Planning and Construction Program, the Capitalization Grants for Clean Water State Revolving Funds, and the Homeland Security Grant Program. The dollar threshold that we used for determining between Type A and Type B programs, which is between major and non-major, was \$1,346,222. And for this fiscal year, 2018, the auditee qualified as a low-risk auditee. And what that means is the auditee, I guess for the auditor, we could test a lower number of programs as long as we still meet the required coverage for a low-risk auditee. So, I think this is one of the first years, since we came on board, that the County of Maui was determined to be a low-risk auditee.

MR. TAKENO: All right, so the next part of our presentation relates to the financial statement findings, and you'll find these findings in the Single Audit Report. So we have four findings in the current year. Three of them are significant deficiencies and are findings from prior year audits that continue on in the current year. And we have one new finding, 2018-004, relating to internal controls to reconcile certain accounts and audit adjustments; that one is the material weakness that we noted this year for the financial statement audit. At this point, Chair, I guess we would like to open up the floor for questions on any of the three reports that we're covering today.

CHAIR RAWLINS-FERNANDEZ: Okay, great. Members, I'll now open the floor to questions. I'll start with Member Kama and then work my way down.

COUNCILMEMBER KAMA: Thank you, Chair. Could you please explain what does an unmodified audit report mean in plain English terms? Good, bad, ugly, not so good. What?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: Good, Chair.

COUNCILMEMBER KAMA: Okay, thank you. So, it also talks about...oh I'm sorry, Chair, may I continue?

CHAIR RAWLINS-FERNANDEZ: Yes.

COUNCILMEMBER KAMA: I'm just going to do this slide. So, it talks about some material weaknesses and significant deficiencies. What are they and are they from a previous report also and are we continuing it on, or what is the correction to make it proper?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

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MR. TAKENO: Chair, Councilmember, those are classifications of internal control matters that we note during our audit process, and so the findings that are material weaknesses are probably a little bit more important to take a look at and the significant deficiencies are still important, but less than material. Like I said, the three, first three findings are repeat instances of findings that we've noted in previous audit, but it's to note that the number of instances of certain of these findings have been decreasing over time, and management has provided response to remediate some of these findings, it's in the Corrective Action Plan. So, they have been working on to improve some of these conditions.

COUNCILMEMBER KAMA: One last question, Chair.

CHAIR RAWLINS-FERNANDEZ: Yes, Member Kama.

COUNCILMEMBER KAMA: So, can you specifically share at least one of those deficiencies and point to where it is, and what the corrections were recommended?

MR. TAKENO: So, if you...

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: Oh sorry. If you take a look at the single audit report, which is probably one of the thinner reports, if you look at Page 21 of the single audit report, that will correspond to finding 2018-001. I'll wait until everybody gets to that page.

COUNCILMEMBER KAMA: Yes.

CHAIR RAWLINS-FERNANDEZ: I'm sorry. What was...okay on the single audit Page 21. Okay so that's the...so if you go to the Single Audit, Page 21.

COUNCILMEMBER KAMA: Got it, yeah. I'm there.

MR. TAKENO: Okay, so finding 2018-001 relates to internal controls over payroll processing. During the year, we noted one instance out of 40 timesheets that did not have an approval of the supervisor or department head, and so this is a matter that we consider to be a significant deficiency; but, as I mentioned before in previous years, there were several more instances out of the 40 that we tested. And the report also references the planned response of the County, which would be on Page 30 of that same report. Included in the County's response to the finding is their corrective action plan, as well as their views on the finding as well. So, similarly for the other findings, they're referenced in that manner.

COUNCILMEMBER KAMA: Thank you, Chair. Thank you, Mr. Takeno.

MR. TAKENO: Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Kama. Member Sugimura?

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COUNCILMEMBER SUGIMURA: Thank you. So, continuing on with this conversation then. Can you talk about reconcile accounts and post-closing adjustments, and it's a new item?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

COUNCILMEMBER SUGIMURA: And can you take us to the same document?

MR. TAKENO: So, the finding in question is on Page 26 of the Single Audit Report. So, during the year, what we found was there was several adjustments related to certain transactions that we found needed to be adjusted through the audit process. Some of those areas related to investments, loans receivable, property tax transactions, and property and equipment. These amounts were material and needed to be adjusted in the preparation of the CAFR. We also noted other adjustments that related to previous year's transactions, and so those were significant, and those transactions were accounted for by restating the previous year's financial statements. Whenever there's instances that we have to go back and restate previous year's financial statements, typically that's like an indicator of a material weakness; and so that's why the classification is as such this year.

COUNCILMEMBER SUGIMURA: So, it means it's a brand-new problem that you would, that we would need to work on for the future or what is material --

CHAIR RAWLINS-FERNANDEZ: Weakness.

COUNCILMEMBER SUGIMURA: --weaknesses?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: So, actually, on Page 5, in that same report, that's the report on internal control over financial reporting and compliance. We include definitions of the findings or the classifications of the deficiencies. So, on Page 6, a material weakness is defined by professional standards as a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. And so as a result of the audit process, we did find material audit adjustments; and so that met the classification as a material weakness.

COUNCILMEMBER SUGIMURA: Can I go back to Page 21? I remember during our presentation from the Finance Department, as we were talking about Workday, I'm just wondering if we have the proper staff to get us to where we need to go for this payroll processing system. From what the audit brought up, do you think it's a staffing concern also? Or maybe it's Workday is current, currently happening, so.

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

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MR. TAKENO: Yeah, I don't think the, because that system was not current in place we didn't really do that much on that audit side.

COUNCILMEMBER SUGIMURA: Okay. I was just curious because I know that concern was brought up by the Finance Director. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Sugimura. Member Paltin?

COUNCILMEMBER PALTIN: Thank you, Chair. I just was wondering if unmodified is the best opinion you can get for a financial statement how come there's still material weakness and significant deficiencies? Like what would be the step below unmodified?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: Thank you, Chair. That's a good question. Basically, the unmodified opinion means that the financial statements are fairly stated in accordance with generally accepted accounting principles. The report on internal control over financial reporting identifies things that we found during the audit and is a byproduct of the audit of the financial statements. So, as part of the audit, we take a look at internal controls, and so those matters that are being reported as significant deficiencies and material weaknesses, we are required to bring those to management and your attention hopefully to remediate some of these issues. As far as your question that relates to the opinion and on the financial statements. So, the unmodified opinion is the best opinion that you can get. The other opinions would be qualified opinions, the financial statements were in accordance with GAAP except for certain items. Or it could also be an adverse opinion, which would mean that the financial statements are not fairly stated in accordance with GAAP.

COUNCILMEMBER PALTIN: So, in this case, the material weakness and significant deficiencies were kind of minor, so that's how come it was unmodified, as opposed to qualified?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: The internal control matters, you could still have an unmodified opinion and have material weaknesses and significant deficiencies.

COUNCILMEMBER PALTIN: Okay, cool.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Paltin. Committee Vice-Chair King?

VICE-CHAIR KING: Mahalo, Chair. I guess everything is relative, right? So, on...oh you don't have your slides numbered, but the summary of auditors results under federal awards. Can you remind me again what the Type A and Type B programs? I'm assuming that anything under that figure is a Type A and anything over that figure is a Type B?

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CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: The, anything above that dollar threshold would be a Type A program.

VICE-CHAIR KING: Oh, Type A. Okay.

MR. TAKENO: Anything below that would be a Type B program. That dollar amount threshold is used for us to determine the number of programs that we're going to test. This year we tested three, and the difference between the A and B criteria is primarily a dollar amount, but as far as the selection process goes, with respect to the programs that we audit, there are other criteria that we look at basically to determine what we perceive as more risky programs versus low-risk programs. And so it's a process that's determined by the uniformed guidance, which is the law that requires these audits to be performed.

VICE-CHAIR KING: Okay, so you picked these three programs that are listed here: Highway Planning and Construction, Capitalization Grants for Clean Water-- . . .(coughs). . . excuse me--and Homeland Security...and so you determined overall based on this sampling that we're a low-risk auditee? Is that correct?

MR. TAKENO: Correct.

VICE-CHAIR KING: Okay. And so I just wanted to...and it's your, is it your, you know, what, how do you pick those programs? Are you working with our financial director? How, I mean I'm sure you didn't just throw darts at a wall, but what made you pick these specific programs?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

VICE-CHAIR KING: . . .(Coughs). . . Excuse me. I mean do we have the most programs under these categories, do we have the most grant money under these three categories, or what was the...I was wondering what the impetus was.

MR. TAKENO: Sorry, in the single-audit package, there is a schedule of expenditures of federal awards, which is on Pages 11 through 17. This schedule is prepared by management and included in our audit. We use this as the basis for determining the Type A and B programs, and then the uniform guidance specifies the criteria on which we would basically go through and for the A and B programs, determine whether they're high-risk or low-risk. And then every program needs to be, any Type A program needs to be audited every two years.

VICE-CHAIR KING: Okay. And high-risk or low-risk is based on dollar amounts?

MR. TAKENO: It could be based on a number of factors. Dollar amount, changes in the law or programs, changes in personnel, changes in systems related to the program. There's a wide variety of factors that could be...

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VICE-CHAIR KING: Okay, so you have a formula for that. Okay. And then, Chair, my second question was for the, I just kind of wanted to get a reaction from the Finance Department on the three, or the actually, we have four internal control findings and you know, how we're looking at addressing those. And I understand the repeat ones are going down, so they're becoming less egregious every year, hopefully. And then we have one new one. And so can we just get a reaction from the Finance Department?

CHAIR RAWLINS-FERNANDEZ: Deputy Directory Alibin? Oh okay.

MS. ALIBIN: Chair, when Director Teruya and I first assumed our roles as the Director and Deputy, the CAFR, getting an update on the CAFR status was one of our priorities and we met with the staff at the time. And during that time, they were actually finalizing, or they had already completed, the CAFR; and so we were made aware of the findings. But I, you know, with regards to the significant deficiencies and the number of significant deficiencies and the material weakness, since I had worked in the County for the last, over, you know, over ten years, actually this is a really good number as far as the total findings. In the past, we've averaged about 12 findings, so I know that the Department of Finance and along with all the other departments, have worked, you know, tremendously over the past few years to implement the Corrective Action Plan. And I think as far as for the new finding, the repeat finding, this is kind of related to a new GASB announcement. And with my experience, while I was in Accounts, whenever there's new GASB pronouncements, there's complex transactions. And I think we, you know, as far as the staff that were involved during the last CAFR, they've done, you know, a lot of good work; and despite that material weakness, we just want to commend them for all the hard work that they've done given the lack of resources. I know that Ms. Sato was kind of doing this, along with the Workday project, and without having the Assistant Administrator at that time. So, I just want to commend her and her staff for getting this CAFR done on time, as well. They didn't need to extend beyond December 31st as required by the GFOA. And, also, we just want to thank N&K as well for working with us during this CAFR process.

VICE-CHAIR KING: Okay. So, this is progress over previous reports is what you're saying in a nutshell. And I do agree, you know, Ms. Sato has done a tremendous job and we, you know, some of us were trying to get you that other position earlier, and you didn't have it so, I also want to commend you for the hard work you've done and how far you've come. And so my, I want, I'm trying to wrap all this into Workday. So when we get Workday installed and I know it's going to take probably at least six months of running it while we're still doing the current system to get it up to speed, but are these things that will be taken care of, you think, with Workday eventually?

CHAIR RAWLINS-FERNANDEZ: Ms. Sato?

MS. SATO: Thank you. One of the audit findings pertained to payroll directly, and we're hoping to mitigate that problem with the move to Workday. I think it will automate some of the approvals and will help. Right now, we have a lot of departments still on manual time sheets and so, but also, it's a change in culture, too. We need to make

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sure that we get the supervisors to be able to approve their time sheets in a timely manner. I do think Workday will be able to help with that as we automate it going forward.

VICE-CHAIR KING: Okay. Because a lot of these other things like cash receipts and things like that, I know they're still going to be coming in, but they way, I mean my understanding of Workday, is that the way we're handling the entire system is going to change and become much more efficient. So, you know, I'm just wondering. Or are we always looking at, you know, is this like as good as it gets and you're always going to have at least, you know, three or four repeat issues? I don't know because I haven't been on the Council long enough to know if, you know, if it's been 20 times as bad or, you know, where are we going. I mean are we dreaming if we're trying to get down to zero findings?

MS. ALIBIN: Chair?

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Just based on my experience with CAFR, there's no assurance that there's going to be zero findings. We deal with thousands of transactions every day and I, you know, we cannot guarantee. Well, I think the staff works hard to try to get very few errors, but there will be instances where we will run into...but part of the problem with the payroll processing audit finding, I know that this one has been ongoing since 2009 as far as I know, I think we've had this repeat finding. Because when we had actually implemented EDP, we really had a very poor documentation of our internal, I mean Countywide policies and procedures on payroll. And there were also some departments that were still on manual time sheets, and so we're hoping that as what Ms. Sato just mentioned that when we implement Workday, which we implemented April 1st. So, I just want to kudos to the staff for the implement, go-live date of yesterday. So, everything, I think so far, went smoothly, but we're hoping that with that implementation, we're going to get all the approvals electronically done by the super...by the employee, by the supervisors, and by the authorized department head.

VICE-CHAIR KING: Okay. All right. Well, thank you. I mean, I understand there are no guarantees. I just want to make sure that that's what we're working towards, is you know, mitigating some of the things that are constantly repeat findings. So, you know, that might be a priority. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Committee Chair King. Member Lee?

COUNCILMEMBER LEE: Thank you, Madam Chair. Okay. First question, the CAFR is looking back, right? It's verifying what happened, so forth. So, looking forward, how does the CAFR, or how does the new budget—and I don't know if this is a question for Scott or somebody else, but anyway, this question I'm going to put out there anyway—how does the new budget square with the findings of the CAFR? Yeah. Like for instance, how much bond capacity do we have—yeah, you would know from the CAFR—and how does that square with the new budget? And how does your report, I

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mean your findings of the financial state of the County, how does it look in the context going forward with the possibility of economic downturn? Could you answer those questions? At least the second one. Okay your time is up.

CHAIR RAWLINS-FERNANDEZ: Mr. Taguchi?

MR. TAGUCHI: Thank you, Chair. Maybe I can clarify. N&K CPAs was contracted to audit the County's financial statements and the Department of Water Supply's. They were also contracted to test regarding single audit or federal grants. Their scope of their audit is not, as you say, forward. It's looking at whether the financial statements—which are documents prepared by this County—whether they present what is called fairly. In other words...

COUNCILMEMBER LEE: Okay. Please stop, Lance. Okay. I don't need to know that part. What I needed to know was after the full evaluation of the past, so they don't even think of certain areas where, let's say, we're borrowing too much money, red flag there. We have dropped quite a bit in revenues, red flag there. Expenditures have gone up in a particular area more than in the past, red flag. These are the kinds of issues I'm asking about. If they don't have that kind of information, that's fine. All you have to say is, we don't have that information or we don't even look for that information.

CHAIR RAWLINS-FERNANDEZ: Mr. Taguchi?

MR. TAGUCHI: I don't believe they'll give you an opinion on that because it's looking into the future. They're very conservative, but I'll let Dwayne answer that.

COUNCILMEMBER LEE: Oh okay. Just answer the question on bond capacity.

CHAIR RAWLINS-FERNANDEZ: Member Lee, would you like to see if the Finance Department has any comments on that first question that you had?

COUNCILMEMBER LEE: Okay, okay. So, you folks don't know because you don't know a standard like, you know, the standard, industry standard, yeah? Are we above, below, at? You know.

MR. TAKENO: I think some of those questions are more appropriately addressed by the Department of Finance. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Takeno.

MS. ALIBIN: Chair, if I may?

CHAIR RAWLINS-FERNANDEZ: Okay. Deputy Director?

MS. ALIBIN: If you refer to the CAFR report, Page 154, Table 11 provides the legal debt margin information for the County of Maui. So, this table provides the last ten years of our...and sorry, just to disclose that this is an unaudited table, so therefore the

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N&K auditor did not review or does not express any opinion on this table. It provides you the applicable limit as a percentage of the debt limit over the last ten years. And the bottom line there on the legal debt margin, we do have a 6.6, this is expressed in millions so...thousands. So 6.6, actually, billion that we're...have the capacity to borrow.

CHAIR RAWLINS-FERNANDEZ: Yes, she said billion.

COUNCILMEMBER LEE: We could borrow 6 billion what? So what is, what are we up to?

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Chair, we don't have that exact information right now, but we can get that information. But I believe Ms. Sato thinks that it's around 47 million.

COUNCILMEMBER LEE: Forty-seven million?

CHAIR RAWLINS-FERNANDEZ: Member Lee, would you like the Committee to request that information via written response?

COUNCILMEMBER LEE: Okay. 'Cause, yeah, we would like that information and what is the industry standard on percentage --

CHAIR RAWLINS-FERNANDEZ: Did you get that question?

COUNCILMEMBER LEE: --to the limit, what one can borrow. Okay? Got it? Do you understand my question?

MS. ALIBIN: Chair, sorry. Can you please repeat that --

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: --question?

COUNCILMEMBER LEE: Okay. We have the limit and then you're going to check on the amount that we have borrowed, yeah, through bonds, or other means. And so, what is the optimum percentage that we should stay within in terms of our legal debt margin and what we borrow?

MS. ALIBIN: Chair? The debt limit is within at least 15 percent of our total assessed value.

CHAIR RAWLINS-FERNANDEZ: I think Member Lee is asking what would be fiscally responsible of us to not exceed. Is that information that you have available?

COUNCILMEMBER LEE: Yeah.

CHAIR RAWLINS-FERNANDEZ: I understand what our legal limit is, but as far as...

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MR. UEOKA: Yeah. Chair?

CHAIR RAWLINS-FERNANDEZ: Okay.

MR. UEOKA: Just, just for clarification on the question.

CHAIR RAWLINS-FERNANDEZ: Mr. Ueoka?

MR. UEOKA: Member Lee, are you looking for like what other AA+ rated entities, like what's their, I guess, debt applicable to the limit as a percentage of debt limit...what a good percentage is there? Is that like what other AA+ rated entities, is that kind of the number you're looking for?

COUNCILMEMBER LEE: Okay. Let's say, as the Chair was saying, something, you know, within reason, but what is the industry standard; and also, if it's not the same question, also, at what point will our ratings drop to A, let's say, from AA?

CHAIR RAWLINS-FERNANDEZ: Mr. Ueoka?

MR. UEOKA: Thank you, Chair. We can look into that, but I'm not a bond expert by any means on the rating side, but I think the best thing we can do is give you what other AA+, but I don't think there's a magic number as when we drop to a lower level per debt. It might be other things factoring in also that's why, but we can get you what other AA+ entities are at for that ratio. Thank you, Chair.

COUNCILMEMBER LEE: Maybe you can check with Credit Karma. Just kidding.

CHAIR RAWLINS-FERNANDEZ: Okay, Member Lee, we'll get that information sent to the Department.

MS. ALIBIN: Chair, if I may --

CHAIR RAWLINS-FERNANDEZ: Yes, Deputy Director.

MS. ALIBIN: --with regards to the question on the outstanding balance of our debt. If we refer to, starting on Page 67 of the CAFR provides you the balances for all our long-term debt and general obligation debt. So, as of June 30, 2018, for our governmental activities, we do have about total obligation for the general obligation bond of 175 million and on the next page, 69 is our State revolving loan of \$62 million. And page, starts with Page 70, but it runs in through Page 71, which provides you for the business-type activities. We have about 19.6 or 19.7 million in general obligation bond for, I believe this is for the Department of Water Supply. And on Page 72 through 73 provides you the outstanding State revolving loans for the Department of Water Supply of 46 million.

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CHAIR RAWLINS-FERNANDEZ: Okay. But this is specific to one department, yeah? The Water Supply.

MS. ALIBIN: Starting on Page 71, yes, it's for Water Supply, but as far as what's stated starting on Page 68, it's all for all County debt.

COUNCILMEMBER LEE: Can you repeat that total again, so I'm sure I'm looking at the right number?

MS. ALIBIN: Yes, Chair. So on Page 67, as of June 30, 2018, for the Governmental Activities, we have, this includes the general obligation bond and the State Revolving Fund of 248 million. And for Business-type Activities, which include water and as well as golf, is about 67.8 million.

CHAIR RAWLINS-FERNANDEZ: Deputy Director, do you have the information as up to date? Like as of...you do? Okay, is that...

MS. ALIBIN: Yes, Chair. We can provide that in writing.

CHAIR RAWLINS-FERNANDEZ: Okay, thank you. Okay, so I think that was just the first part of Member Lee's question. As far as the second part of the question, about when it starts negatively impacting us as a County. You said that you don't currently have that information.

MS. ALIBIN: As far as the debt information as of today, I don't have that. But if I may, Chair, with regards to the impact of the CAFR numbers for the budget, we do rely, for revenue estimates or for the...to come out with the revenue estimate, we highly use the CAFR as far as to determine the projected Carryover/Savings. So, if you refer to Page 42 of the CAFR, if you look at under each column for the General Fund, if you look at that row, unassigned fund balance, that we rely on these numbers as a beginning Carryover/Savings when the revenue estimate is formulated. And having a 75.4 million of unassigned fund balance for the General Fund, we just want to disclose that this is not really unassigned because we had a change and I guess in our...how we book the Emergency Fund. In the past, Emergency Fund was actually calculated as part of...as not part of the unassigned balance. So, when you're formulating the Carryover/Savings, for Fiscal Year 2020, you need to make sure that we reduce the balance for the Emergency Fund.

CHAIR RAWLINS-FERNANDEZ: Okay. And then as to Member Lee's...the second part of Member Lee's question, are you able to get that information for us?

MS. ALIBIN: Is it with regards to the bond, as far as how it will impact our future bond issuance? As far as the bond issuance is concerned, part of the official statement actually discussed about our CAFR; so, it has a high impact on our bond rating. But for bond rating, they look at part of it is, one factors is, or one of the factors is our financial status, but they also look at other drivers, like is our, you know, economy, and all other drivers that may have an impact on our capacity to borrow.

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CHAIR RAWLINS-FERNANDEZ: I guess like, we're just looking at this as a factor and how does this as a factor affect us.

MS. ALIBIN: It does have a high...

CHAIR RAWLINS-FERNANDEZ: Right. So it has a tremendous effect on the overall bond rating. And so, I think, you know, we as the Council want to be sure that we are responsibly taking on debt. And we don't...we want to make sure that when we are making these decisions that we're not affecting our bond rating, and therefore affecting our taxpayers. So, I think it's also important that we understand how the Administration is deciding how in debt we go. If, you know, I would think that would be one of the factors that they make their decisions based off of.

MS. ALIBIN: Chair?

CHAIR RAWLINS-FERNANDEZ: Yes?

MS. ALIBIN: We do take a look at our debt limit and our capacity to borrow as when we formulate the budget. And as far as what is funded under the debt service, or under the Bond Fund.

CHAIR RAWLINS-FERNANDEZ: Member Kama?

COUNCILMEMBER KAMA: Thank you, Chair. I think I'm trying to get a handle on this conversation that's going around this Chamber. So, my whole sense is that—and help me in to process what's going on in my head—but we want, at least for me, I want to know how much I can spend. But in order for me to know how much I can spend, I got to know what is my credit limit, right? And so if I know what my credit is, but I also got to know how much have I already spent. So if I can...if my credit limit is \$1,000 and I've already spent \$200 of that, then that means...then I get little bit more money to spend, right? And that's what I'm trying to figure out in this conversation in this Chamber, where are we as a County, how much money are we in debt? How much money more can we go into debt without being overextended in terms of the amount of money we can actually borrow? That's what's going on in my head. So if somebody could please answer that for me, I would be a very happy camper.

CHAIR RAWLINS-FERNANDEZ: Sure. So, they explained that there's several factors. One of the factors is what we're legally allowed, and that's 15 percent, which is the \$6 billion. But what we're talking about here is how it affects our bond rating. And I'll let the Department expound on that. Deputy Director?

MS. ALIBIN: Chair, we'll provide the response in writing. I mean part of it as far as the projects that are...for Fiscal Year 2020, if that's what you're referring to. The decision was made by the Administration, meaning the Mayor and the Budget Director and the affected department.

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COUNCILMEMBER KAMA: Thank you, Chair. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Kama. Member Lee, did you have any additional?

COUNCILMEMBER LEE: Quick follow up.

CHAIR RAWLINS-FERNANDEZ: Yes.

COUNCILMEMBER LEE: I think the Chair also mentioned thus but, once again, when the Mayor was formulating his budget, he had to have asked you how much more can I borrow? Can I add? I'll give you a list of projects and they cost this much, and you probably said yes, yes you can. And so, when you said yes you can, what was your justification? What was your basis for that answer?

CHAIR RAWLINS-FERNANDEZ: Right. And to clarify, when you're saying how much more can we borrow without negatively affecting our bond rating, is that...okay. Deputy Director?

MS. ALIBIN: Chair, as far as the formulation of the budget and the review of the capital improvement projects, the Department of Finance is not involved in any of the deliberations with the Administration, the department, and the Budget Director; but I do know that the Budget Director relies on the information provided in the CAFR, which is on Table 11, when determining what projects will be funded as Bond Fund, as our, you know, to provide information on what is our debt limit.

CHAIR RAWLINS-FERNANDEZ: I find that alarming. Member Lee?

COUNCILMEMBER LEE: What page is Table 11 again, please?

MS. ALIBIN: Chair, it's Page 154.

COUNCILMEMBER LEE: Okay. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Lee. Member Molina?

COUNCILMEMBER MOLINA: Thank you very much, Madam Chair. And thank you again, Mr. Taguchi, Mr. Takeno, Ms. Nakamura. Appreciate the work you guys do. In a world of numbers, you tend to look at numbers very differently than normal average everyday people. You know, the layperson I should restate that, but you have to look at everything very detailed and it's very demanding, so I appreciate that. My concern relates to the 2018-002 finding. Members, this is on Page 23, internal controls over miscellaneous cash receipts, and you have it there listed as a repeat. So, how many times have, has this matter, or this deficiency occurred. So, it sounds like this isn't the first time. And you know, as I read this statement here, I guess your concerns...and under the Condition category it says, during our audit, we noted that the internal controls over miscellaneous cash receipts collected by the various

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divisions and departments of the County could be improved. And then you mentioned one example of that with the Building Permits Section, between employees responsible for receiving the cash from the public and recording the cash transaction into the daily cash summary report and reconciling this summary report to the daily bank deposit. I looked further down at the Effect; and I think if this deficiency isn't corrected, the lack of adequate internal controls over miscellaneous cash receipts could result in a loss of revenues to the County. Please help me translate that. Is that a nice way of saying that there could be, if this is not corrected, there could be the possibility of pilfering of money, theft, I mean, can you explain that to me? I'm just looking at it very simply, so I need your clarification on that.

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Chair, if I may? For the internal controls over miscellaneous cash receipts, we've had this finding since 2012, and I do know that because I have worked with Department of Public Works in trying to implement...they had come up with their internal control policies and procedures a few years ago, and we're hoping that by next year, this Department wouldn't have this finding anymore. But I know that they implemented the recommendation. One is to come up with the policies and procedures, and I believe that the auditor did note that the policies and procedures were implemented. It's just now it will take about one to two years before we could see a result in the implementation of any policies and procedures, and we're hoping that this is not going to be an ongoing finding.

COUNCILMEMBER MOLINA: Well, if I may ask, Madam Chair? It sounds kind of scary because it's now, what, seven years and there still hasn't been any corrections? Can you...are you...has there been any instances of, you know, inappropriate handling of monies, whether it be this department or other departments in these audits over the years? Can you state that or the record? Has there been?

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Chair, that's a really good question. No, we have, there's no report that had gone to the Treasury or the Department of Finance with regards to mishandling of money. We do track on a day-to-day basis any variances between what's in our bank and what's reported by the department in our general ledger. But one thing I can say, just specific to the Department of Public Works, part of the issue is because of the lack of personnel, in this case I think, you know, they don't have sufficient personnel to receive the money and then also to authorize the transaction. I think that's one of the issue with this Department, and the lack of segregation of the duties having to take the money that's, you know, doing the transaction and having a person to review the deposit that's being made at that day is the challenge in this case.

COUNCILMEMBER MOLINA: Okay. Thank you, Ms. Alibin. And for either Mr. Takeno or Ms. Nakamura, so your recommending this would be for this Department to, I guess, hire more personnel so you have different people handling each transaction, right? Because you have...it sounds like here you have maybe one person receiving the

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money, then recording it, and, you know, one person doing everything and which, you know, increases the risk of something inappropriate happening, yeah? So, I guess the remedy for it would be then just hire or delegate the responsibilities amongst other individuals, yeah. So, I don't know. Maybe that's something we can ask Department how they're going to remedy this situation. And I don't know if maybe we're going to have to consider, you know, hiring more personnel or maybe it's just a management issue, yeah? So, but anyway, I'm sorry. If the, our accounting firm, if you care to respond?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: On Page 23, I believe the Department has implemented procedures to address some of these risks. I think it's more the follow through of the procedures, kind of getting acquainted with what the new policies and procedures are. Subsequent to the implementation of the policies, it seemed like they were following those procedures, so we didn't note any other instances after the implementation date. So, hopefully that will carry forward into the future.

COUNCILMEMBER MOLINA: Okay, thank you. And so this was the only Department that had a glaring...or were there other departments that had something similar? Because I guess you did an audit, as I read it anyway, it sounds like you did audit various divisions and departments of the County. So, any other departments we need to be aware of that may have this same concern?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: I believe one of the documents that you have in front of you is the management letter. In the management letter on Page 4, there is a comment related to cash-handling policies and procedures, so this instance was noted in the DMV cashiering system. So, basically there was a over short in the drawer, and it wasn't communicated to their supervisor timely, and they weren't following their policies related to that cash over short. It's my understanding that there was some turnover there and some training that was needed, but that is another instance.

COUNCILMEMBER MOLINA: Okay. Well, thank you for that information. And thank you, Madam Chair. And I guess at a later point during this whole Budget Session, we can get updates from each of these departments as it relates to these matters. Thank you.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Molina. Member Sinenci?

COUNCILMEMBER SINENCI: Thank you, Chair. And thank you for this process. I, too, like Member Kama, still trying to wrap my head around the numbers and I appreciate it. And it looks like this CAFR report is something, it's a working document that the Administration has kind of taken to help with coming up with the administrative budget, and I, too, want to use it as a working document. So, while I do have the Deputy Director here, I did want to...if she could kind of, you know, when she referred to some of the pages about debt margin, that was very helpful. And so during this

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budget process, I would, you know, if you can, you know, just kind of guide me to where I can look at some of the things, especially when we're reviewing the budget, where I can find some of that information in this document and how I can use this as a resource along with the budget, along with the ordinance. How can I, too, use this, this CAFR report when we're reviewing the budget? I mean I know there's some pages, some title pages in yellow that I can easily refer to, but do you have any other points of interest for me as a Councilmember?

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Chair, if I may? Yes, certainly. I'm trying to...in the footnotes, there's a lot of discussion about the other post-employment bonds...Other Post-Employment Benefits Fund. There's discussion about deferred compensation, retirement benefits, that...and it starts on, the notes to the basic financial statements, starting on Page 50, I think this is one section of the CAFR that I would highly recommend for you to read because it provides a lot of information and it provides information on the balances for Emergency Fund, Open Space Fund. That might be helpful with your decisions for the Fiscal Year 2020 Budget.

COUNCILMEMBER SINENCI: Okay. Any others?

CHAIR RAWLINS-FERNANDEZ: Deputy Director?

MS. ALIBIN: Chair? Not that I can think of right now, but if I do think of something else, I'll notify you folks in writing.

CHAIR RAWLINS-FERNANDEZ: Okay, mahalo. Member Sinenci, any additional questions?

COUNCILMEMBER SINENCI: Thank you. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Okay. Okay, I have some questions. It's primarily for the Department and this is regarding the CAFR. So last year, the County Auditor said that the latest report on the County's unfunded liabilities for the employee pension and healthcare grew from 750 million to approximately 910 million. What is the more current report on the County's unfunded liabilities for employee pensions and healthcare?

MS. ALIBIN: Chair, if I may? The most recent actuarial valuation report was actually issued as of July 1, 2018. I'm not quite sure if you do have that information, but we'll be happy to provide a copy for you.

CHAIR RAWLINS-FERNANDEZ: Okay. Mr. Taguchi?

MR. TAGUCHI: Chair and Members, I also don't have that number. However, if you look at the financial report, the comprehensive financial report. Look on Page 40. It's the Statement of Net Position. The Statement of Net Position discloses the pension liability, and the post-employment, or the health benefit liability; combined together,

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they're over \$900 million. So, if you're looking at the total debt that this County would have to pay for services already rendered by previous employees, that number would be 900 million. Keep in mind it doesn't have to be paid all at once. Also, to kind of comment on Member Sinenci's point of how does this report help you. If you look at the report and you look at the assets, if you look at the assets and you look at accumulated depreciation, you're going to find that there's quite of bit of accumulated depreciation. Generally, what that means is our assets are relatively old. And I think, as you know, which are roads, infrastructure, and sewer, drainage, everything. These assets are getting closer to its...their effective life; therefore, they need to get replaced. One thing that Members should consider is that the grant funding that was available from the Federal Government to install these infrastructure is not available. So therefore, in the future, you're probably looking at a lot of outstanding debt. So, in as much as you might not have that much debt now, in the future you'll probably be looking towards funding those things with debt. Keep in mind that because of the new disclosure, if you look at your net equity, you basically have about 1.5 million, no \$1.5 billion of assets, net assets. And you have about \$1.4 billion or so of total liabilities. Yes, that's probably better than a lot of the other counties in the state of Hawaii and throughout the nation, but it really depends upon how debt adverse you are; and each one has I guess a different threshold for debt. Perhaps it'll be good, as Member Lee says, to understand how the Administration, how their views of debt is and what is their plan in terms of for this County going forward into their...how they're going to manage that debt. There's no hard and fast rules. It really depends upon the needs of the County and how you intend to satisfy those needs.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Mr. Taguchi. Okay. So my next question is for the Department. How much did the County receive in reimbursements from the Federal Emergency Management Agency for expenditures related to the Iao Valley flood which occurred September 2016?

MS. ALIBIN: Chair, I can't recall the exact amount, but we do have the information and we can provide it in writing.

CHAIR RAWLINS-FERNANDEZ: Okay. Thank you. So, my next questions is, the Administration's goal is to diligently fund the Emergency Fund to a level equal to 20 percent of the annual General Fund expenditures, what percentage of the annual General Fund expenditures for Fiscal Year '19 are being used to fund the Emergency Fund?

MS. ALIBIN: Chair, the Director and I had actually discussed this while we were preparing for the pre-budget session. I just can't recall on top of my head what is the percentage, but the recommended 20 percent is I believe that is based on the GFOA Best Practices. I don't want to say, but we're at least at 5 percent of that goal at this time, but I can provide that in writing.

CHAIR RAWLINS-FERNANDEZ: Five percent of that goal, so closer to 15 percent in Fiscal Year '19?

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MS. ALIBIN: Chair, yes, I'm not quite certain, so I'll just provide the answer in writing.

CHAIR RAWLINS-FERNANDEZ: Okay, and do you know what the plan for Fiscal Year '20 is, as far as the percentage, plan to fund the emergency General Fund...or the General...yeah.

MS. ALIBIN: Chair, I believe we're requesting for Fiscal Year 2020 of a flat budget from the current Fiscal Year '19 adopted budget.

CHAIR RAWLINS-FERNANDEZ: I'm sorry. The same amount as the '19?

MS. ALIBIN: Yes, Chair.

CHAIR RAWLINS-FERNANDEZ: So under 20 percent?

MS. ALIBIN: Which, yes, I don't think we're going to reach that goal in 2020.

CHAIR RAWLINS-FERNANDEZ: Okay. Okay. Thank you. Members, another round of questions? Okay. Member Kama?

COUNCILMEMBER KAMA: So, getting back to Page 24, where it says the Views of Responsible Officials and Planned Corrective Action; and it says, the County agrees with the finding and the recommendation. See Part IV Corrective Action Plan. Where do I find the action plan that says this is how we're going to correct it?

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: For the finding 2018-002, that would be on Page 31 of that same document. The Corrective Action Plan itself starts on Page 29 and then there's a response for each of the findings. So, the first one would be 2018-001 all the way to 004.

COUNCILMEMBER KAMA: Thank you. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Member Kama. Member Sugimura? Member Paltin?

COUNCILMEMBER PALTIN: Thank you, Chair. I have no questions at this time.

CHAIR RAWLINS-FERNANDEZ: Vice-Chair King?

VICE-CHAIR KING: Thank you, Chair. Just for clarification, looking at your document that's called the Management Advisory Report, which is really kind of thin. And it's got...I was trying to figure out the difference between the Corrective Action Plan, which also includes the 2017 issues, starting on Page 35 it goes over...it's a look back on the 2017 findings, starting with 2017-001, and you've got ones that are not accomplished, accomplished, not accomplished, accomplished, partially accomplished. But then in this management report, it shows on the status of prior year's recommendations, only

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one item, 2017-001. And it shows that as accomplished. So, what is the difference between, you know, I'm just wondering what this report is on management if, you know, these items are in this other one showing the same thing.

CHAIR RAWLINS-FERNANDEZ: Mr. Takeno?

MR. TAKENO: So, there's the findings reported in the Single Audit Report are different than the ones that are reported in the Management Advisory comment letter. The ones that are reported in the Management Advisory Report are less of significance and not required to be reported under the Uniform Guidance rules. And so the number referencing in each report relates to the previous version or previous year's report of the single audit, or the previous year's management letter.

VICE-CHAIR KING: Okay. So you have parallel reports going with this, using the same numbers?

MR. TAKENO: Correct. Just based on the different types of reports to be issued.

VICE-CHAIR KING: Okay.

MR. TAKENO: So, the Single Audit Report and the Management Advisory Report.

VICE-CHAIR KING: Okay. It's kind of confusing, though. Can you find a different like numbering system for one or the other --

MR. TAKENO: Sure.

VICE-CHAIR KING: --because it looks like it's referring to 2017-001, and you have those same numbers in the findings reports, so. And that same one says accomplished on both of these, so it's kind of confusing.

MR. TAKENO: We can definitely...

VICE-CHAIR KING: Okay. But was that the only one then?

MR. TAKENO: Correct. And the Management Advisory Report.

VICE-CHAIR KING: Was that the only outstanding in that level of problems, there was only one and it was accomplished?

MR. TAKENO: In the...

VICE-CHAIR KING: On Page 8, you just show one outstanding from --

MR. TAKENO: Right, right.

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VICE-CHAIR KING: --the fiscal year ending June 30, 2018, and it says it was basically accomplished, but there was only the one. So you would show if there were other ones that were not accomplished?

MR. TAKENO: Correct, correct. Yeah.

VICE-CHAIR KING: Okay. I think I just got confused because it looked like it was, you know, well the numbering system is confusing. Thank you, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo. Member Lee, additional questions? Member Molina? Member Sinenci?

COUNCILMEMBER SINENCI: `A`ole, Chair.

CHAIR RAWLINS-FERNANDEZ: Mahalo. Okay. I have questions for the Department. The first five findings were, and this is in regards to the Single Audit, the first five findings were reported by the independent auditor in prior year's audit. What portions of the corrective plan have already been put into place and when is further implementation expected? And I guess that kind of ties into Chair King's question.

MS. ALIBIN: Chair, so for the four findings, for the first one, with regards to the automated payroll processing, again, as we had discussed earlier, we are hoping that as we transition into the new payroll system, which is Workday, that our plan is to update our current policies and procedures in place. And we're hoping that once we have all the departments be on board, as far as electronic timesheet approval, then...and then also putting in a lot of efforts in education, training, that we're hoping that we're not going to have this finding. But it does take a while for, you know, before we see any of these audit findings, especially with new, implementation of any new systems. It will take some time for us to fully see the results. And for the internal control over miscellaneous cash receipts, as discussed earlier, the Department has already implemented the policies and procedures; and we're hoping that, you know, by next year, we wouldn't have this finding again. The third relates to the CC&B logical access security. That is relating to the Department of Water Supply billing system. And the fourth audit finding with the reconciliation of accounts on the post-change adjustments, those actually have several components in it. And we had asked the Accounts Administrator to come up with a operational deadline. So we're hoping that because these are one-time occurrences type of transactions that we wouldn't have to deal with it again in the future.

CHAIR RAWLINS-FERNANDEZ: Mahalo, Deputy Director. And my last question is, in regards to the Water Supply's audit, has there been any impact resulting from the Department's adoption of the accounting principle relating to the pension obligations?

MS. ALIBIN: Chair, we would like to defer to the Department of Water Supply --

CHAIR RAWLINS-FERNANDEZ: Okay.

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MS. ALIBIN: --in response to that question.

CHAIR RAWLINS-FERNANDEZ: Okay. Mahalo. Members, any additional questions for our departments or N&K? Okay. Seeing none, okay. I will entertain a motion...or my recommendation is to defer all three items.

VICE-CHAIR KING: So move.

COUNCILMEMBER MOLINA: Second.

CHAIR RAWLINS-FERNANDEZ: Shall I read...I'll read the items into the record. EDB-3(1) Comprehensive Annual Financial Report, Fiscal Year 2018; EDB-9(1) Single Audit Report, Financial Year 2018; and EDB-8(1) Department of Water Supply's Financial Audit Report Fiscal Year 2018. Moved by Committee Vice-Chair King and seconded by Member Molina. Discussion? Okay. Seeing no discussion, I will call for the vote. All those in favor of deferring the three items, please say, "aye."

COUNCILMEMBERS: Aye.

CHAIR RAWLINS-FERNANDEZ: Okay. Eight "ayes" and one excused...I'm sorry. I forgot to mention that Member Riki Hokama would be excused for this meeting and he will be joining us for the 2 o'clock meeting. Okay. So, for the record again, that's eight "ayes," zero "noes," one excused.

VOTE: AYES: Chair Rawlins-Fernandez, Vice-Chair King, and Councilmembers Kama, Lee, Molina, Paltin, Sinenci, and Sugimura.

NOES: None.

ABSTAIN: None.

ABSENT: None.

EXC.: Councilmember Hokama.

MOTION CARRIED.

ACTION: DEFER pending further discussion.

CHAIR RAWLINS-FERNANDEZ: Okay. Any last comments? Okay. If there are no objections, Members, I will now adjourn our meeting.

COUNCILMEMBERS: No objections.

CHAIR RAWLINS-FERNANDEZ: Okay. The Economic Development...

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APPROVED:



KEANI N.W. RAWLINS-FERNANDEZ, Chair
Economic Development and Budget Committee

edb:min:190402-am:ga

Transcribed by: Gail Asuncion

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CERTIFICATE

I, Gail Asuncion, 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 29th day of April, 2019, in Lahaina, Hawaii



Gail Asuncion