

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

August 21, 2007

**Committee
Report No.**

07-79

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on July 23, 2007, makes reference to the following:

1. County Communication No. 07-70, from the Council Chair, transmitting correspondence dated December 22, 2006, from Russell Yamane & Associates CPAs, Inc., issued in conjunction with the independent financial audit of the County of Maui for the Fiscal Year ended June 30, 2006 (management letter).
2. County Communication No. 07-72, from the Council Chair, transmitting a report entitled "COUNTY OF MAUI, STATE OF HAWAII: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006" (CAFR)

Your Committee notes that Section 9-13, Revised Charter of the County of Maui (1983), as amended, requires an annual independent audit of the County's accounts and other evidences of financial transactions of the County and its operations.

Your Committee further notes that the CAFR is prepared in conformance with the financial reporting requirements prescribed by the Government Accounting Standards Board (GASB). The responsibility for both the accuracy of the data, and the completeness and fairness of the information presented in the CAFR rests with the management of the County.

The GASB establishes and improves the standards for state and local governmental accounting and financial reporting that will result in useful information for users of financial reports. The GASB also guides and educates the public, including issuers, auditors, and users of those financial reports.

The CAFR is presented in three major sections: (1) an introductory section, including the Director of Finance's transmittal letter; (2) a financial section, including the

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management's discussion and analysis, the basic financial statements, and the auditor's report on the financial statements and schedules; and (3) a statistical section, including financial data, debt statistics, and other information of interest to bondholders and the general public.

The auditor's report, included in the financial section of the CAFR, expresses the opinion that the basic financial statements fairly present the County's financial position, and changes in financial position and cash flows, in conformance with generally accepted accounting principles.

The auditor's management letter, which accompanied the CAFR, describes a "Reportable Condition" that came to the auditor's attention during its work on the audit. A reportable condition involves significant deficiencies in the design or operation of the system of internal controls that could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The specific reportable condition noted by the auditor involved a relatively low level of risk that undetected errors or fraud would exist in amounts that would be material in relation to the financial statements being audited. Therefore, the auditor did not believe the reportable condition constituted "material weaknesses" in the audited financial statements.

At its meeting, your Committee met with the Budget Director; the Accounting System Administrator, Department of Finance; the First Deputy Corporation Counsel; and Russell Yamane and Randal Taniguchi from Russell Yamane & Associates CPAs, Inc.

There was no public testimony.

Mr. Yamane briefly reviewed the County's "Statement of Net Assets" and "Statement of Activities" included in the CAFR.

Mr. Yamane stated that the "Management's Discussion and Analysis" section of the CAFR provides an overview of the County's financial activities. He further stated that the information presented in this section are the representations of management. Moreover, he did not audit the information and does not express an opinion on this section.

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Your Committee was concerned that not all County departments provide an annual inventory report of the County's nonexpendable property, as required by Section 103D-1208, Hawaii Revised Statutes.

Mr. Yamane stated that he was not aware of the lack of compliance during the Fiscal Year (FY) 2006 audit, but will analyze the extent of the problem in the FY 2007 audit.

Your Committee requested that the Managing Director inform the Council of the status of the annual inventory report of the County's unexpendable property.

Your Committee voted to recommend filing of the communications.

Your Budget and Finance Committee RECOMMENDS the following:

1. That County Communication No. 07-70 be FILED; and
2. That County Communication No. 07-72 be FILED.

Adoption of this report is respectfully requested.

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