

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

August 21, 2007

Committee
Report No.

_____ 07-80 _____

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 County Communication No. 07-71, from the Council Chair, transmitting a report entitled "COUNTY OF MAUI, STATE OF HAWAII: SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006" (Single Audit Report), prepared by Russell Yamane & Associates CPAs, Inc., the County's independent auditor.

Your Committee notes that the Single Audit Report resulted from the consolidated audit process required by the Federal government, as a condition of Federal grants of funds to the County. The Single Audit Report consisted of several parts:

1. The auditor's report on financial reporting noted that the auditor had issued an unqualified opinion on the County's financial statements (i.e., the Comprehensive Annual Financial Report), and had discovered no instances of noncompliance that were material to the financial statements.
2. The auditor's report on compliance expressed an unqualified opinion that the County complied, in all material respects, with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs, as was the responsibility of its management.
3. Audit findings were reported in accordance with Section 510(a) of the Office of Management and Budget (OMB) Circular A-133, and included a "reportable condition" involving the use of operating funds for capital-related projects.
4. The Single Audit Report also included a schedule summarizing expenditures of Federal grants for the fiscal year.

Your Committee further notes that the Single Audit Act requires that the Single Audit Report, the Comprehensive Annual Financial Report, and a Corrective Action Plan for any findings must be submitted to the Federal government.

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

August 21, 2007
Page 2

Committee
Report No. 07-80

Your Committee notes that the Single Audit Report disclosed a “reportable condition” involving the use of operating funds for a capital improvement project. 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 Deputy Director of Parks and Recreation; the First Deputy Corporation Counsel; and Russell Yamane and Randal Taniguchi from Russell Yamane & Associates CPAs, Inc.

There was no public testimony.

Mr. Yamane stated that for the fiscal year ended June 30, 2006, the County’s major Federal programs were the Community Development Block Grant program, the Housing Section 8 Rental Voucher program, the Youth Opportunity program, and the Workforce Investment Act program.

Mr. Yamane stated that the audit disclosed a reportable condition: operating funds were used by the Department of Parks and Recreation to purchase material and supplies for the construction of a structure near the Ichiro “Iron” Maehara Baseball Stadium.

Mr. Yamane stated that the use of operating funds will result in the materials and supplies being expensed in the current year instead of being capitalized as required by generally accepted accounting principles. He further stated that the project did not obtain the proper permits and inspections as required by Chapter 16, Maui County Code.

Mr. Yamane recommended that the County review its current internal controls to determine whether changes should be made to ensure that capital projects are accounted for in the appropriate manner.

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

August 21, 2007
Page 3

Committee
Report No. 07-80

The Accounting System Administrator stated that the Purchasing Division of the Department of Finance questioned the unusually large amount of materials and supplies being purchased from the Department of Parks and Recreation's operating account. Upon further investigation, the Purchasing Division referred the matter to the Director of Finance.

Your Committee requested that the Department of Finance identify the internal controls that would ensure that operating funds are used appropriately.

Your Committee voted to recommend filing of the communication.

Your Budget and Finance Committee **RECOMMENDS** that County Communication No. 07-71 be FILED.

Adoption of this report is respectfully requested.

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COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

August 21, 2007
Page 4

Committee
Report No. 07-80

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