

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

October 3, 2003

Committee
Report No.

03-108

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

Chair and Members:

Your Budget and Finance Committee, having met on September 16, 2003, makes reference to County Communication No. 03-161, 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, 2002" (CAFR), along with a Management Letter for the fiscal year ended June 30, 2002.

The CAFR notes that the Maui County Charter, Section 9-13, requires the County to annually issue a report on its financial position and activity and that this report is to be audited by an independent firm of certified public accountants. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the Department of Finance. In the auditors' opinion, the basic financial statements fairly present the financial position of the County of Maui at June 30, 2002, and the results of its operations for the year then ended.

The CAFR is presented in three sections: (1) the introductory section; (2) the financial section; and (3) the statistical section. Further, the CAFR includes all funds and account groups of the County of Maui, including its component unit, the Department of Water Supply, established by the Charter as a semi-autonomous department of the County government. The CAFR notes that component units are legally separate entities for which the County of Maui is financially accountable. The CAFR further notes that effective January 2, 2003, the Department of Water Supply became a regular County of Maui agency subject to the Mayor's executive management and Council's legislative oversight.

By correspondence dated June 20, 2003, the Council Chair transmitted correspondence dated June 16, 2003, from the Director of Finance, responding to audit findings regarding the backlog of subdivision assessments.

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By correspondence dated September 5, 2003, your Committee Chair requested that the Director of Finance be prepared to provide an overview of the CAFR and discuss the Management Letter's current and prior year findings of reportable conditions along with any corrective action by the Department.

At its meeting, your Committee met with the Deputy Director of Finance, an Accounting Systems Administrator from the Department of Finance, a Deputy Corporation Counsel, and Russell Yamane and Randall Taniguchi from Russell Yamane & Associates CPAs, Inc.

The Deputy Director provided a brief overview of the CAFR. He informed your Committee of some of the changes in the reporting format that were required for compliance with Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments (GASB 34). The Deputy Director recognized employees of the Department of Finance for their efforts in complying with GASB 34.

Your Committee voiced concern regarding the timeliness of quarterly reports and the CAFR. The Deputy Director noted that the CAFR for the fiscal year ended June 30, 2003 is expected to be finished by late November 2003. The Accounting Systems Administrator stated that the Department of Finance has learned to develop financial reports internally through the accounting system, and therefore, has made significant progress towards issuing more timely financial statements.

Your Committee requested information regarding accounting for infrastructure assets and the development of an asset management system. The Deputy Director informed your Committee that the Department of Finance is in the process of valuing the remainder of the County's highways as required by GASB 34. In addition, an Executive Assistant to the Mayor is evaluating the feasibility of developing an asset management system.

Your Committee requested a status report on the efforts to develop an asset management system, including a plan of action and a schedule of implementation.

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Your Committee inquired about the proper amount of unreserved fund balance that the County of Maui needs to maintain in its general fund. The Deputy Director noted that although the Governmental Financial Officers Association recommends that the unreserved general fund balance be 5 to 10 percent of total expenditures, that percentage should be higher because the County is composed of three islands.

The Deputy Director of Finance reviewed the status of the two current year findings in the Management Letter. The first finding, Cash Deposits, relates to certain cash deposits that are not being properly reflected in the financial statements. The Deputy Director noted that the failure to research and post these deposits on a timely basis were due to a transition in accounting staff caused by retirement and the additional work to comply with GASB 34. He further noted that the problem has been resolved and bank reconciliations are current.

In regards to the second finding, Real Property Tax Subdivisions, the Deputy Director informed your Committee that December 31, 2003 is the key date for processing subdivisions to reflect increases in assessed value. The Deputy Director noted that the backlog in real property tax mapping, which was contracted to the City and County of Honolulu, should be completed before the end of the year. In addition, two County of Maui employees are taking classes to gain mapping skills, and should complete their training by the end of the year.

In regards to the Waiale Rental Housing Receivable, Page 2 of the Management Letter, "Status Fiscal Year 2002", your Committee requested an explanation from Mr. Yamane about the statement that "The account balance was deemed uncollectible and written off in fiscal year 2003 with Council approval". Further, your Committee requested clarification on why the comment is no longer applicable.

After further discussion, your Committee voted to recommend filing of the communication.

Your Budget and Finance Committee RECOMMENDS that County Communication No. 03-161 be FILED.

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Adoption of this report is respectfully requested.

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G. RIKI HOKAMA **Chair**

DANNY A. MATEO **Member**

WAYNE K. NISHIKI **Vice-Chair**

MICHAEL J. MOLINA **Member**

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