

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

September 2, 2005

**Committee
Report No.**

05-118

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 August 16, 2005, makes reference to County Communication No. 05-58, 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, 2004" (CAFR), and a letter dated December 27, 2004, from Russell Yamane & Associates CPAs, Inc., the County's independent auditor (management letter).

The Revised Charter, Section 9-13, requires an annual independent audit of the County's accounts and other evidences of financial transactions of the County and its operations.

As noted in the CAFR, the responsibility for both the accuracy of the data, and the completeness and fairness of the information presented, rests with the management of the County. The County prepares the CAFR in conformance with the financial reporting requirements as prescribed by the Government Accounting Standards Board (GASB). The CAFR is presented in three major sections: (1) an introductory section, including the transmittal letter; (2) a financial section, including the 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, which is included in the financial section of the CAFR, expresses the opinion that the basic financial statements fairly present the financial position of the County of Maui at June 30, 2004, and the results of its operations for the year then ended.

The auditor's management letter, which accompanied the CAFR, describes certain "reportable conditions" that came to the auditor's attention during its work on the audit. Reportable conditions involve significant deficiencies in the design or operation of the system of internal controls. The specific reportable conditions noted by the auditor involved a relatively low level of risk that undetected errors or fraud would exist, in

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amounts that would be material in relation to the financial statements being audited. Therefore, the auditor did not believe the reportable conditions constituted “material weaknesses” in the audited financial statements.

At its meeting, your Committee met with the Director of Finance, the First Deputy Corporation Counsel, and Russell Yamane and Randall Taniguchi from Russell Yamane & Associates CPAs, Inc.

There was no public testimony.

Mr. Yamane advised that this was the third year the requirements of GASB Statement No. 34 have been implemented.

In reviewing the management letter, your Committee noted that the Department of Finance has modified its procedures to improve its accounting for capital improvement projects, as recommended by an earlier management letter.

Your Committee questioned whether the scope of the audit included making recommendations to improve operations. Mr. Yamane stated that auditors are required to evaluate the system of internal controls in the course of performing an independent audit of financial statements; however, auditors are not also required to develop and recommend specific improvements.

Your Committee voted to recommend filing of the communication.

Your Budget and Finance Committee **RECOMMENDS** that County Communication No. 05-58 be **FILED**.

Adoption of this report is respectfully requested.

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