

Committee Meetings

February 14, 2008

Board present: Roy Oyama, Ian Costa, Dee Crowell, Leland Kahawai, and Steven Kyono.
Absent & excused: Donald Fujimoto and Bernie Sakoda.

Staff present: Wynne Ushigome, Gregg Fujikawa, Paul Ganaden, William Eddy, Keith Fujimoto, Bruce Inouye, Faith Shiramizu, Amy Esaki, Dustin Moises, and Deputy County Attorney Mona Clark.

FINANCE COMMITTEE MEETING:

Finance Committee Chair Steven Kyono called the Finance Committee Meeting to order at 10:10 a.m.

Re: Claims Payable:

WATER UTILITY FUND:..	\$1,575,587.47
BOND FUND:	\$ -0-
FRC FUND:	\$ 5,426.20
STATE FUND:	\$ -0-
TOTAL	<u>\$1,581,013.67</u>

Mr. Costa moved that the claims be approved for payment, seconded by Mr. Kahawai; motion was carried.

Re: Draft Annual Audit:

Mr. Wils Choy, Partner, and Mr. James Nakayama, Senior Manager of KMP, LLC were present at the meeting to give the Board an overview of what their firm was tasked with doing, which is the DOW's annual audit as well as a Single Audit of our Federal expenditures.

Mr. Choy stated that our operations were relatively the same as before, except for the 2 major expense increases. There were no new disclosures, no material adjustments were proposed, no concern of our accounting policies, and no difficulties conducting the audit while working with Management.

Single Audit:

Mr. Nakayama discussed that a Single Audit is required as the DOW received more than the threshold of \$500,000 via the State Revolving Fund grant program. He gave a briefing of the Single Audit findings that there were no significant control deficiencies, no material weaknesses and no issues on non-compliance.

Discussion:

Mr. Choy also added that there is a new regulation that the auditors would need to report to the boards in much greater detail of their findings. These findings would need to stay on the record;

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the reason being that boards change and even though the present board may feel that, for example, the proposed finding and its changes would not be cost effective, the future board may say that it is cost effective. Mr. Choy added that it is not a reflection on management, per se, but it is the lowering of the threshold of reporting to the Board.

As a result, Mr. Nakayama stated that previously the annual audits had a separate management report that included their findings and proposed changes; however, in this year's audit, this report will be incorporated into the annual audit to have one complete report. The management report in the audit report is now labeled, "Schedule of Findings".

Mr. Nakayama gave a status of last year's 6 control deficiencies, that 3 were resolved. The other 3 are ongoing insignificant issues: 1) keeping up with defective meters to minimize estimating billings; 2) continue the efforts to review all of the available accounting modules; and 3) use the Maintenance Management Information System (MMIS) to integrate the systems in Accounting and Operations Divisions. Mr. Nakayama stated that these are considered insignificant issues, as nothing is wrong but only an efficiency issue.

On query by Mr. Kahawai, Mr. Nakayama stated that these deficiencies are not recent; however, the Department has been working on it and there has had some progress. Mr. Nakayama remembered that when he first started doing the audit for the DOW, the DOW had manual accounting procedures and now most of the accounting modules are in place. It is just a matter to complete the installation of all of the modules.

On query by Mr. Kahawai, Mr. Choy stated that there are no new findings this year and the old findings are not significant; however, for continuity purposes, they kept it on the audit report.

Next Year's Audit:

Mr. Nakayama discussed that next year's audit will be much more intensive as there will be 8 new auditing standards, which is call the Risk Assessment Standards. This stems from the Enron scandals, etc. that has now trickled down into the private companies. The audit will be a lot more detail-oriented and would need to link it to the regular audit procedures.

Mr. Choy added that the auditors would need to assist the Board in getting a better understanding of the importance of addressing internal controls.

Mr. Nakayama also added that they plan to start earlier next year to work with the DOW management to implement these new procedures.

On query by Mr. Kahawai, Mr. Choy and Mr. Nakayama stated that they would look into getting other audits of a water utility that is comparable to the DOW. However, Mr. Nakayama added that there are unique water utilities across the nation; therefore, there could not be an exact comparison. Mr. Choy added that they would check with the Honolulu Board of Water Supply.

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Mr. Kahawai felt that seeing audits of other water utilities would give him a better perspective on how the Kauai DOW is doing.

Mr. Nakayama thanked the staff for their assistance with the audit. Mr. Choy and Mr. Nakayama both left the meeting at about 10:35 a.m.

Mr. Oyama moved to approve the draft annual audit and to refer this matter to the March 13, 2008 Regular Meeting of the Board for final approval, seconded by Mr. Costa; motion was carried.

RULES COMMITTEE MEETING:

Rules Committee Chair Dee Crowell called the Rules Committee Meeting to order at 10:35 a.m.

Acting Manager Ushigome stated that she specifically wanted to review the Non-Development Agreement, which is a rule in the DOW. She wanted to inform the Board that this rule was crafted to be restrictive. She recommended that the Board review the DOW's rules and if it is the Board's desire to amend these rules, then the Board would need to go through the rule-making process.

She added that the Non-Development Agreement signifies what constitutes a family member and it also defines what we deem as development. There can be no further development, no additional dwellings, no increase in the demand for water, etc.

Acting Manager Ushigome gave the Board a heads up that the Department has something that is coming up that needs to be addressed via the rule-making process; therefore, that would be an opportune time to include any other rule amendments that the Board is interested in amending. She added that the upcoming rule needs to be in place by June 30, 2008; therefore, it will be up for Board approval at the March 13, 2008 Board Meeting. This upcoming rule is for fire protection standards and part of the standards state that there would be a sunset as of July 1, 2008.

Acting Manager Ushigome stated that she ultimately wanted to give the Board a heads up on the purpose of the Non-Development Agreement.

There was some discussion that the applicant at the last Board Meeting should have instead gotten his 2 water meters, which is allowable for his lot and then later subdivide. Then the Non-Development Agreement would not be a factor.

On query by Acting Manager Ushigome, Mr. Fujikawa stated that as part of the subdivision process, his staff would verify that there is adequate water for the full build out of the lot. They would also take into consideration the subdivision ordinance and comprehensive zoning

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ordinance (CZO) to make their recommendation of what the subdivider would need to do in order for the DOW to approve their subdivision request.

On query by Mr. Crowell, Mr. Fujikawa stated that, yes, the applicant could have not subdivided initially and instead apply for 2 water meters and build his 2 houses. However, if he would have then done a subdivision of that lot, the DOW water requirements would be applicable again on the maximum build out of each of the proposed 2-lot subdivision. Mr. Fujikawa stated that if the subdivider sells his/her lot that the future owner would be assured that the water requirements have been fulfilled for the full build out of their lot.

Chair Oyama stated that the decision made at the last Board meeting stands; however, the Board needed to review how the Board would address these types of issues in the future.

Mr. Costa stated that there is a long-term tracking issue to police family ownership if the owner signs the Non-Development Agreement and then the property gets sold again and again. He also added that the Non-Development Agreement does also include hanai family, which probably does not have a guiding legal rules.

There being no other business, Mr. Oyama moved to adjourn the Rules Committee Meeting at 10:48 a.m., seconded by Mr. Kyono; motion was carried.

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