

SPECIAL BOARD MEETING MINUTES  
BOARD OF WATER SUPPLY  
Tuesday, August 15, 2017

The Board of Water, County of Kaua'i, met in a special meeting at Department of Water's Conference Room in Lihue on Tuesday, August 15, 2017. Audit Committee Chair Lyle Tabata called the meeting to order at 3:32 p.m. Roll call, the following Audit Committee members were present:

BOARD: Mr. Lyle Tabata, *Chair*  
Mr. Beth Tokioka  
Mr. Thomas Canute (*entered meeting @ 3:40 p.m.*)  
Mr. Sherman Shiraishi, *Board Chair*

Quorum was achieved with 3 Audit Committee members present.

STAFF: Mr. Kirk Saiki, Manager and Chief Engineer  
Ms. MJ Akuna  
Deputy County Attorney Mahealani Krafft

GUESTS: Mr. Hall Parrott, Private Citizen

**C. ACCEPTANCE OF THE AGENDA**

The Audit Committee accepted the Agenda as circulate with no objections.

**D. NEW BUSINESS**

1. Discussion and Possible Action on the Scope of a Performance Audit of the Department of Water

**BACKGROUND:**

This was the first Performance Audit Committee meeting that discussed possible action on the scope for a performance audit. Chair Tabata created a draft that was finance based, as he served on other corporate boards and said finances drove the audit committee. Within an audit committee there are operational audit reviews which lead back to the financials. Chair Tabata said he could limit the scope to be a performance audit format and shared the following language: "To ensure, determine whether government services are being efficiently, effectively and economically delivered." A performance audit could be conducted for all offices, agencies, departments, programs or operation of the department. He asked the committee if there was something driving the need for audit? Was there a specific section within the Department that should be targeted for an audit?

**DISCUSSION:**

Board Chair Shiraishi shared some history when he was Board Chair two years ago. He said Board Member Mr. Dahilig brought up the need for a performance audit. Since Board Chair Shiraishi has been on the Board, he has had ideas and suggestions on a performance audit but not for the whole Department. He believes that certain problem areas should be identified and requested input from the Audit Committee.

The purpose of this meeting would be to define or limit the scope of performance audit and discuss who would be doing the audit. The State of Hawai'i has a State Auditor but the County of Kaua'i does not have an Auditor. The Department would have to contract an Auditor with a budget of approximately \$150,000.

Chair Tabata envisioned seeking professional services by procurement for a consultant to present a proposal to measure Operations Division against best practice in the industry (in the region or nationally). The consultant should have the ability to research with benchmarks.

Board Chair Shiraishi would like to focus on the following areas:

- 1) IT - There have been some problems in implementing some of the systems and communications with IT and Engineering in regards to getting systems in place. Is staffing a problem? (The Board has been told staffing is an issue.)
- 2) Billing system – When Board Chair Shiraishi first started, the Department was implementing a new billing system. They were supposed to replace the old billing system and the Department spent a lot of money on this effort. Money is still being thrown in towards this billing system.
- 3) Engineering Division – Board Chair Shiraishi is disappointed because projects are not getting done in a timely manner. Before he came on the Board, there was a split up of the Engineering Division and Construction Management (CM) Division.  
What were the problems or reasons for the split up into two separate divisions?  
What are the advantages of the split up?

Ms. Tokioka would focus the audit on:

- 1) Contract management - There is constant amending and adding costs to contracts. She was not sure if scoping is the problem or not managing the contractor well?
- 2) IT – After implementing a whole new system, the Department has to upgrade it again in a year and spend double the money. The audit could clarify why this happened and help avoid such issues in the future.

Mr. Canute's focus would be on:

- 1) Getting contracts out – He mentioned there was \$15M budgeted for projects last year and only \$2M spent. Another project was extended that started at \$200,000 but ended up spending \$1M. If the Department budgets to do projects and only spends a fraction of it, then that is what the Facilities Reserve Charge is there for to complete the projects.

Chair Tabata mentioned Engineering projects as another focus:

- 1) Getting to construction
- 2) Delivery of projects from cradle to grave
- 3) Where are the bottlenecks?

Manager Saiki did not think the audit would serve Ms. Tokioka's IT focus. Manager Saiki was unsure if an audit could be done by buying an IT program and upgrading it. Is the Department asking the right questions on how long this program is going to last before having it upgraded? Ms. Tokioka said writing the Request For Proposals (RFP) and/or the scoping could be looked at. The Manager said to look at IT based on billing issues and how much money is spent because usually the results are tied to money and manpower. Ms. Tokioka recommended focusing on what the Department could do better and differently.

Manager Saiki mentioned that if an audit was done on Engineering and took out \$2M every year and spent \$1M every year on consultants, it may take 3 – 4 years to get a project done. The numbers could be found and then compared to the industry standard. It could be a department of 10 people who can do \$20M worth of work, \$5M worth of consulting, plus look at change orders, then a comparison on industry standard could be done. By buying programs and upgrades, he was not sure how an audit could be done or to ask the right the questions (i.e., how long would the upgrade last?).

This was one of the questions Mr. Dill was asking during the Finance Committee meetings on the IT budget. What is the staffing on Maui, the Big Island and O'ahu as compared to Kaua'i's operations?

Chair Tabata asked the committee what kind of assessment needs to be gathered to prepare the procurement to find an Auditor? Manager Saiki confirmed the Department has the Statement of Qualifications (SOQ) and a list for the consultants and resumes selecting from. The committee would need to define the scope of the audit.

Manager Saiki did a quick research on a performance audit statement that says “performance audit objectives can be thought of as questions about the program that the auditor seeks to answer based on evidence obtained and assessed.” Example: One question is how does the cost of the IT billing system compare to other billing systems? There could be 100 different questions. Mr. Canute mentioned the cost is comparable. Board Chair Shiraishi mentioned it is also the cost of procurement. Mr. Canute added another fair question would be how does DOW compare to other utility operations on the other islands? By looking at the relationship of what they are doing on a scale, then it is almost impossible. The Manager did not agree with Mr. Canute’s comment because Maui shares Kaua’i’s same consultant on the program. The Honolulu Board of Water Supply (BWS) uses the same program and the Big Island is separate and on their own. Board Chair Shiraishi said the scope could be expanded on comparables and could go to the mainland or non-water utilities. Board Chair Shiraishi had a copy of the BWS performance audit that included comparable cities from the mainland based on population and size. Chair Tabata agreed that service size needs to be looked at for the Department.

The BWS audit was for the billing system, operations, public relations, setting of the rates. The audit concluded that the Board couldn’t articulate why they raised their rates. Also, it covered actual meter readings which could have been a problem on O’ahu but not on Kaua’i. Manager Saiki clarified BWS did estimated meter readings. Kauai meters are now read by Automatic Meter Readings (AMR) which is a drive by reading (with electronic devices). The Big Island is testing AMR but 20% keep dying. The Department’s next step is for the meter readers to not have to leave the office and the readings will be remotely read and transmitted back to the office. The meter would have to be changed or a transponder installed.

The Auditor could look at the overtime (OT) issue in Operations but Mr. Dahilig will be addressing this with Chief of Operations Val Reyna. This may be handled in house and should have been addressed some time ago. Chair Tabata agreed the OT issue has been a long standing problem in the Department with employees manipulating OT. In the past before Board Chair Shiraishi started, he understood OT was a big problem but OT has been drastically reduced. Manager Saiki explained the “25/10” meaning; if a field employee worked 16 hours in one day, they got paid for the next day (i.e., Monday, Wednesday, or Friday). This was used to manipulate the system. Ms. Tokioka said scheduling 30 days out would be in line with the union contracts and could avoid some overtime.

The scope would need to be budgeted to determine the total cost of the audit. If the cost is over \$150,000, the priority items would be limited. Manager Saiki said Private Secretary Ms. Akuna contacted a former employee who was not aware of any audits being done for the Department in the past.

Mr. Canute asked if the scope of the performance audit included the reliability of the system? Would this be included in a performance audit? He mentioned the reliability of the pumps on the Big Island with 6 pumps failing within 1 year. Board Chair Shiraishi mentioned when the pumps that failed in Kalāheo, the Department had to have public hearings. One problem was redundancy and the back-up pump died which taught the Department a big lesson to avoid in the future.

Chair Tabata and Manager Saiki suggested some items to look for in the performance audit:

- 1) Operations:
  - a. Overtime
  - b. Reliability of the system

- c. Record keeping
- d. Overall maintenance of the system
- e. Age of the system and water main breaks
- f. Look at the crew size; do they actually maintain their equipment?

Mr. Canute asked if the Department could do a spot check to not exceed the budget? The \$150,000 would be for three people for 50 days of auditing (approx. 1 month to 2 months). Ms. Tokioka commented there may be areas that are technical. There may be a need to hire a specialized consultant in the mechanics of the system versus the operations or financials.

Discussion on prioritizing separate audits - Manager Saiki said to break the areas down to individual audits and see what it would cost for the billing system and Engineering; IT and billing system are related. The billing system is different from the accounting system, but they should be able to talk to each other.

What frustrated the Board during budget time was that the system was stream lined to limit the number of line items, but the Board wanted to see more detail. However, the new system was designed to reduce the number of line items. Mr. Canute added with more line items detailed, it becomes easier to find what you are looking for instead of picking out things in a single line item. Some of the financial details were not comprehensive and deep enough for the Board to see. Previously the chart of accounts was huge which was reduced to 1/3 the size. Manager Saiki said there were more details in the budget worksheets.

Chair Tabata described Engineering in Public Works which includes: design, project management & construction management. The responsibilities overlap and some engineers do design. There is a regulatory section and everyone overlaps in responsibilities as a well-rounded engineer. If employees are in job specific areas, then there are inefficiencies.

Discussion on the split of Engineering and CM - Ms. Tokioka asked if the split of Engineering and CM is working better? Is it working efficiently? Could it be improved? The Auditor can find the pros and cons but Board Chair Shiraishi said the Department may be stuck with the current organizational chart (dealing with civil service rules, union rules). Manager Saiki commented if an employee is at a certain rating running a division, and if you merge the two divisions together, the person who runs the merged division cannot be at the same rating. You would need to hire somebody or move someone up.

Chair Tabata said the Audit Committee is not proposing to merge the Engineering and CM but to examine what was done to see if it runs better or not. Depending on the findings and if the two divisions are not running better, then the Board has to deal with the situation. The audit should be on what was done in the past, what is done currently and if efficiency is gained.

Ms. Tokioka would like to focus on the things that need to be improved on:

- 1) The speed in which projects move through the process and are implemented/constructed.
- 2) Are we spending the money efficiently? Are we wasting money due to process? Are there too many redundancies? How can we get better and move faster through the system?
- 3) Look at outcomes in managing the dollars with contract management.
- 4) IT – get an analysis of what is working and what is not working with the billing system, financial system and as it relates to other divisions.

Chair Tabata shared that the designers design, there are project managers, and engineers in house who oversee the consultants on what they are designing. The department is managing the consultant to also create the procurement documents, to hire a contractor, lastly someone manages the contractor. When the

phases of design are completed, the next phase is procurement for the construction phase, bids are then solicited getting a contractor to install what was designed by the consultant. Then CM will go to the field to check what the contractor is building. He is able to see why the Department carved out the CM group because a few years ago, there were a lot of projects. About six years ago in Public Works, Deputy County Engineer Tabata was criticized on why the Department of Water (DOW) was able to get many projects moving; Public Works never had any jobs. The goal is to get projects shovel ready and out the door. The Engineering Division was tasked with getting projects ready for CM, with inspectors to monitor the work. He added Public Works has a revolving fund to hire people but are only temporary hires.

Discussion on purchasing new software - Ms. Tokioka said when purchasing new software, make sure the vendor is including necessary upgrades for a certain period of time. Manager Saiki said the upgrades can't be controlled. Board Chair Shiraishi said what was promised in the past was not delivered. Money that was spent two years ago was to solve the problem. Manager Saiki clarified it was not to solve the problem, it was because the Department had to get off the Honolulu BWS system and had to buy the Department's own billing system with Maui DWS. Earlier there was the purchase of a new accounting system to help with budget reports; this system is not being upgraded. The accounting system is still on the Great Plains program. Manager Saiki added the budgeting package system may be purchased to run on Great Plains. Customer Care and Billing (CC&B) is an Oracle program (data based) that can talk to Great Plains.

Chair Tabata would like to see the budget package. Public Works system can be done on Excel and merge with system. The new IT system is CC&B which is the same program that Honolulu BWS has and they are deciding to update or run unsupported. Ms. Tokioka shared it becomes frustrating when a program is purchased and then 12 months later it is obsolete. During scoping, the software purchase should include any necessary upgrades for a specified period, such as three years.

***Mr. Hall Parrott, Private Citizen provided his testimony.***

Mr. Parrott was confident with the discussion of the Department of Water (DOW) and the Audit Committee during this meeting. Every item discussed had good points. He has researched extensively with other California city governments such as Palo Alto and Los Angeles and provided input on what happened with those cities on the items the Audit Committee discussed.

The billing system will get torn apart with findings by the auditors, as well as the auditors of the Department of Water Supply, County of Maui (DWS) and may upset the DWS with its findings. DWS managed their budgeting cycle with a Government Finance Officers Association certified audit; they will not want to lose their certification as a result of certified audit findings in the future. He mentioned Palo Alto (Silicon Valley) audited their meters, which the DOW is looking at, which he believes is required by the State of Hawaii, and can create big problems on Kaua'i.

Another point Mr. Parrott mentioned is nobody is looking at how to deal with the customers in an effective way. Accounting and Engineering are looking at the customer on the objective side. But on the subjective side the department needs to look at how people's lives are affected and what upsets our customers. This caught everyone by surprise within the other departments of water (Palo Alto, Los Angeles and Honolulu). Each board has said "nobody told us" or "we didn't know."

Mr. Parrott suggested that the Board outreach to the DOW divisions in a comfortable way and to understand what is happening to avoid being blindsided. This is distilled from three (3) audits (Palo

Alto, Los Angeles and Honolulu) during the last four (4) years. Everybody is going to the Cloud with seven (7) fiber optics running through Kauai. The DOW needs to gear up for it and find people who can do it.

Mr. Parrott shared websites from various Hawai'i counties and California cities for the Audit Committee as resources listed below:

Maui Budget (Department of Water Supply, County of Maui)  
<http://www.co.maui.hi.us/1896/Budget-Documents-Ordinances>

➤ Click on FY-2018 Operating and Capital Budget

Honolulu (Honolulu Board of Water Supply)  
<https://www.boardofwatersupply.com/bws/media/files/bws-management-and-performance-audit-report-2014.pdf>

Palo Alto, California  
<https://www.cityofpaloalto.org/civicax/filebank/documents/46104>

Los Angeles, California  
<https://www.bsa.ca.gov/pdfs/reports/2014-105.pdf>

A SOCIOLOGICAL PERSPECTIVE ON DECISION-SUPPORT SYSTEMS IN ENVIRONMENTAL MANAGEMENT

<https://publications.europa.eu/en/publication-detail/-/publication/9918d715-42f9-4fa8-8351-2fb2b7144fb6>

➤ Click on pdf mid-page

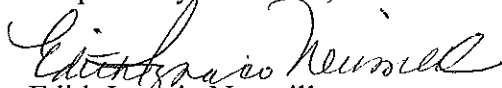
Chair Tabata will present an Audit Committee report with recommendations for the full Board at the August Board meeting for their input. If the Board decides to expand the scope, and if there is not enough funds, the Board would have to prioritize items or to do another audit next year. There could be additional funds if needed.

Deputy County Attorney Krafft clarified that the Board could authorize the Audit Committee to procure the Auditor which should be in the recommendation on the Audit Committee report. There would be limitations on the expertise of the individual selected on the evaluation committee which she will review. When an Auditor is procured, based on their resume and being the most qualified, the Audit Committee will then ask for their proposal. The best qualified Auditor would be selected and three bids are not required.

**E. ADJOURNMENT**

Chair Tabata adjourned the Special Board Meeting of the Audit Committee at 4:31 p.m., with no objections.

Respectfully submitted,

  
Edith Ignacio Neumiller  
Commission Support Clerk

Approved,

  
Beth Tokioka  
Secretary – Board of Water Supply