

Audit Committee Meeting

Monday, October 2, 2017
1:30 p.m.

Committee Members Present: Mr. Lyle Tabata, *Chair*, Mr. Beth Tokioka, Mr. Thomas Canute

Board Members Present: Sherman Shiraishi, Board Chair

Staff Present: Kirk Saiki, Manager and Chief Engineer, MJ Akuna, Dustin Moises, Deputy County Attorney Mahealani Krafft

Guests: Mr. Hall Parrott, Private Citizen

Chair Tabata called the meeting to order at 1:38 p.m. A quorum was established with all committee members present at roll call; with no objections to the Agenda.

C. ACCEPTANCE OF THE AGENDA

Mr. Canute approved the agenda as circulated; seconded by Ms. Tokioka; with no objections; motion carried with 3 ayes.

D. OLD BUSINESS

1. Manager's Report No. 18-73 – Discussion and Possible Action on the Scope and Procurement of Professional Services for a Performance Audit of the Department of Water

BACKGROUND:

Chair Tabata mentioned from the last Audit Committee Meeting held on August 15th, various options were discussed on the Scope and Procurement of Professional Services for a Performance Audit of the Department of Water (DOW). The Outline of the Scope of Work was distributed to the members and "Received for the Record." The committee asked the Manager, based on the professional Statement of Qualifications (SOQ) resumes received, to identify the Scope of Work and begin the procurement. The Scope of Work were general notes for this committee's discussion. The committee would select from the resumes the top candidates for the Manager to negotiate with.

Manager Saiki commented that only one SOQ was submitted but three (3) SOQ's are required. He will determine a Selection Committee and will bring the SOQ's before the Audit Committee for comments. Based on the Selection Committee's recommendations on the Scope of Work, possibly two (2) items can be audited depending on the funding available. The rest of the items could be deferred to the following fiscal year or to add money to the contract to meet the needs of the committee and the Board.

Ms. Tokioka mentioned the basic items are listed in the Scope of Work and tasks need to be well defined. Item No. 1 Staffing – How Does Kaua'i DOW compare to the other water departments in the state? If compared, the Department would have fewer staff. Comparisons should include Kaua'i's service area and customers. Additional questions included: are we utilizing the comparison with other water departments

in the state? Is the DOW appropriately staffed or comparatively sized as in the mainland? Manager Saiki said this may not be a “yes” or “no” answer; it depends on what we are looking at. Example: Service connection may be “yes” equally sized, miles of pipe “no” not equally sized. The auditors should be able to pick the critical parameters and evaluate DOW’s staffing. Ms. Tokioka asked what do we want the auditors to tell the Department in comparison to the other water departments? Chair Tabata also mentioned the per capita, service connections, area and miles of pipe or water source.

Manager Saiki commented by being too specific (per capita) or too broad, the Department may not get an answer. Mr. Canute added if questions are too specific instead of being broad, it may provide more information. There could be a comparable per capita (miles of pipe or revenue) which may increase the cost if too broad. This would come out during the negotiation period and bid.

Operations – Manager Saiki commented that Operations does not have a State and Best Practices. Ms. Tokioka said the Operations Division practices could be compared to industry Best Practices. Manager Saiki added there should be operations and maintenance practices that Operations should be doing. The question is “are we doing that?”

Fiscal – Determine the cost-effectiveness of the implementation of new billing system. Ms. Tokioka asked whether or not the Department is saving money with the new billing system? Chair Tabata referred to his Board Report that looked at 1) the new Oracle billing system, reliability, support, and security and 2) the Great Plains financial reporting system, report on practical use to report operating activities, CIP and budget creation. From previous discussions, is the Great Plains what the Department bargained for? The committee has not seen previous project developments and there were a lot of details missing from the budget. Finance Chair Lawrence Dill was a little frustrated from what he was used to with budgets.

Board Chair Shiraishi commented when the Manager and committee meet with the consultant, the scope will be discussed. The consultant will then give input on what they suggest.

Deputy County Attorney Krafft suggested the committee prioritized which areas to be selected based on the list that was submitted to the Board. Areas that are in common could be the focus. The committee understood that there is not enough money. Regarding procurement, services for \$100,000 or more require a minimum of three (3) rankings. If the scope is very broad, the committee would never get three rankings. Once the Manager selects an SOQ, he would meet with the consultant to refine the scope and to get a cost and to make sure they have experience (criteria) on what the Department wants them to do.

Ms. Tokioka referred back to Fiscal and the new billing system and asked if the billing system is doing what the Department thought it would do? Are we getting the full benefit of the system? Manager Saiki said the billing system is doing what the Departments wants. He thought the intent was to figure out whether or not the Department is paying too much for the billing system (includes amount of effort and labor of running the system).

Chair Tabata’s Board Report listed several of the areas previously discussed by the committee. He mentioned when a company does an audit on operations, a financial auditor finds the right specialist for operations, engineering, and construction to consolidate the information the Department is seeking. The Department’s financial auditor, along with an established contractor, and a change order could be done to audit specific fields.

Manager Saiki’s concern was the cost to do a financial audit this year. If the cost is \$30,000, the Department could double or triple their contract the next three years to include a performance audit in the

areas the committee prioritizes. Ms. Tokioka preferred the talking points under Recommendations in Chair Tabata's Board Report which provides a better perspective of what the committee is looking for. Chair Shiraishi asked if the Department could ask the financial auditors if dual tracks could be done to assist in the different areas plus get other proposals from contractors? Manager Saiki said the financial auditors may have to do one track at a time and that this is the first year of a three year contract. Chair Tabata asked what would the additional cost be and value if the financial auditors could include a performance audit? Ms. Tokioka added they could respond to the SOQ.

Private citizen Mr. Hall Parrott said this is an independent audit and it may be complex to ask the financial auditors to get involved in operation matters.

Chair Tabata added, to hire anyone external of the corporation would be independent. Ms. Tokioka also said the performance audit and financial audit should be for the Board. The financial audit cost is \$84,000 x 5 years. The Manager would have to 1) ask the Procurement Officer (Deputy County Attorney Krafft) to review the contract and ask the present financial auditors if they could do a performance audit based on the scope and 2) what is the cost? Based on the five areas, it could be broken down to one performance each year. Deputy County Attorney Krafft agreed to review the contract first and then will ask if the financial auditors if they could provide the service. Ms. Tokioka added the financial auditors may not be the most qualified contractor for this type of audit. Chair Tabata said the financial auditors could gather information for Fiscal and staffing but not Operations and Engineering. Many audits may be in narration form, added Mr. Canute that may lead to a financial component. The SOQ that was received is not from the financial auditors.

Deputy County Attorney Krafft asked the committee for new guidance if they were looking for all five areas for a report to the Board. Chair Tabata added there is the ability to add a performance audit scope. The committee ranked their priorities as follows:

No.1 - Engineering	Manager Saiki suggested:	No. 1 - Staffing
No. 2 – Operations		No. 2 - Engineering
No. 3 – Staffing		No. 3 - Operations
No. 4 & No. 5 – Fiscal & IT		No. 4 - & No. 5 – Fiscal & IT

Board Chair Shiraishi commented these five areas were priorities when the Audit Committee first met.

Ms. Tokioka moved to approve the priority of the five component areas to No. 1 – Staffing; No. 2 – Engineering; No. 3 – Operations; No. 4 & No. 5 – Fiscal & IT; seconded by Mr. Canute; with no objections, motion carried with 3 Ayes.

Manager Saiki asked if he could email the completed Scope of Work to the Audit Committee members for their review? The talking points in Chair Tabata Board Report will be pursued.

Ms. Tokioka moved to approve the Department to redraft the Scope of Work for the Audit Committee's review; seconded by Mr. Canute; with no objections, motion carried with 3 Ayes.

Chair Tabata requested to discuss the Scope of Work with Manager Saiki after the meeting which should come back to the Audit Committee in a Manager's Report for approval.

Mr. Hall Parrott, Private Citizen provided his testimony.

Mr. Parrott commented that \$679,000 was a million dollar plan by the former Manager David Craddick a few years ago. This plan drove Facilities Reserve Charge (FRC) and rates. Currently the

Department is sitting on \$30M of profit from the rates because nobody could shut it off. They could not figure it out and could not build three quarters of a billion dollars' worth of stuff. The Department is in a position to make another \$4M in clear profit in the enterprise fund and \$50M of unrestricted funds because nobody knows how to shut it off (on Board approvals). Making money hand over fist is a problem. By not having the cash (for a performance audit), the committee is saying, "we don't have the money to fix why we are making so much money that we should not even be making" because you don't know how to shut it off.

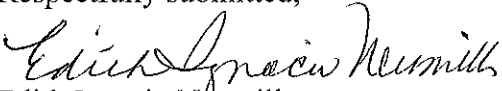
Department of Water Supply, County of Maui (DWS) actually includes financial officers in the county's government. There are five positions that do not exist in the DOW with this financial. The people on Kaua'i would thank the committee by starting to identify these in a timely manner so that you are not accumulating \$40M a year of clear profit. He suggested the Audit Committee and the Board can dip into this profit to step up a performance audit. By trying to spend \$100,000 this year would mean the Department would make \$390M in profit. Nobody is managing \$50M that the Department is sitting on with no finance officer. DWS does not have this problem because they have a finance officer who can pull the projects out and matches it with the money that can be built and could move forward with this process that does not exist with the DOW.

Mr. Parrott commented to do what the committee thinks they can carry. The people of Kaua'i will thank the committee for it whether and if a consultant could review the Department every quarter. Do something for the future and to go forward for the DOW.


E. ADJOURNMENT

Ms. Tokioka moved to adjourn the Audit Committee meeting at 2:16 p.m.; seconded by Mr. Canute; with no objections, motion carried with 3 Ayes.

Respectfully submitted,


Edith Ignacio Neumiller
Commission Support Clerk

Approved,


Beth Tokioka
Secretary – Board of Water Supply