

MINUTES
BOARD OF WATER SUPPLY
Thursday, February 16, 2023

The Board of Water Supply, County of Kaua'i, met in a regular meeting in Līhu'e on Thursday, February 16, 2023. Chair Kurt Akamine called the meeting to order at 9:32 a.m. The following Board members were present:

BOARD:

Mr. Kurt Akamine, *Chair*
Ms. Julie Simonton, *Vice Chair*
Mr. Tom Shigemoto (*remote*)
Mr. Ka'aina Hull (*entered at 9:36 a.m.*)
Mr. Larry Dill (*remote*)

EXCUSED:

Mr. Troy Tanigawa

Quorum was achieved with 4 members present at Roll Call. (Board member Hull entered the meeting at 9:46 a.m.)

ANNOUNCEMENTS

Next Scheduled Meeting: Thursday, March 16, 2023

APPROVAL OF AGENDA

The agenda was approved with no objections.

APPROVAL OF MEETING MINUTES

1. Regular Board Meeting – January 26, 2023
2. Executive Session – January 26, 2023

The meeting minutes were approved with no objections.

PUBLIC TESTIMONY

CORRESPONDENCE

1. Letter from N&K CPAs, Inc. dated September 6, 2023, Re: Audit Planning of Department of Water, County of Kauai financial statements as of June 30, 2022
2. Letter from N&K CPAs, Inc. dated January 30, 2023, Re: Audit Conclusion of Department of Water, County of Kauai financial statements as of June 30, 2022

NEW BUSINESS

1. *Manager's Report No. 23-21*: Discussion and Receipt of the Department of Water's (DOW) Draft Audit Report by N&K CPAs, Inc. for Fiscal Years 2022/2021

Ryan Iwane and Lawrence Chew of N&K CPAs, Inc. joined the meeting remotely and provided a presentation of the Draft Audit Report for Fiscal Years 2022/2021. Manager Tait commended Mr. Iwane and Mr. Chew for the very thorough job they did under the very tight window they had in receiving information from staff. He added that this is the first year N&K CPAs conducted an audit for DOW and is the same firm that conducts the audits for the County's Finance Department.

Mr. Iwane provided an overview of the Summary of Auditor's Results, highlighting some of the internal control deficiencies that were found:

2022-001 Improve Internal Communication

During the progression of the audit, there were instances where it was noted the Department did not fully evaluate the effect of certain significant matters and activities that were relevant to DOW's financial statements. These were non-standard, non-routine matters that would be a bit more difficult to get a handle on from an accounting standpoint and involved a degree of uncertainty where management's assessment of whether or not the likelihood of liability exists, and its magnitude could change from day to day depending on the facts and circumstances that arise throughout the period. There needs to be effective communication in order to ensure DOW's financial statements address these issues if required. An example was given of a water tank that was determined as not being an issue as of the June 30, 2022 financial statements; however, it is something that is indeed being constantly monitored. With circumstances like these, it is important to have effective internal communication of both relevant and timely information so primary decision makers can provide input, and to ensure the financial statement effect is properly considered.

2022-002 IT General Control Deficiencies

This is a repeat finding from the prior year, and they are aware that DOW is in the process of addressing all of these findings. Because of the timing last year, it was not realistic to expect that all of the corrective actions would be fully implemented. However, management is well on its way to addressing these deficiencies and progress will continue to be monitored during next year's audit.

2022-003 Improve Procedures to Identify and Account for Contracts

During FY 2022, DOW needed to implement a new government accounting standard pertaining to leases, which is a major standard that could potentially have an impact on government financial statements. However, it was noted during the audit that the full impact of GASB statement number 87 was not completed as of the start of the audit and was not completed until the latter portion of the audit. The potential issue was that the accumulation and evaluation of these contracts as well as the policies and procedures currently in place did not facilitate an effective and timely review of those contracts. There is no centralized mechanism to identify and assess the accounting implications of all these contracts.

Board member Dill asked to clarify if the Corrective Action Plan is complete and appropriate as a response to the findings. Mr. Iwane stated that it is not in their scope to audit the CAP; however, they are required to evaluate the Manager's response to ensure it is not inconsistent or in conflict with any of their findings or recommendations. Though management did not have a long period of time to fully come up with a plan, the auditors agree with the general overview of what management intends to do. Mr. Dill requested that the Department provide a schedule for accomplishing the tasks identified in the CAP at the next Board meeting.

Board member Hull referenced Page 19 of the agenda packet under "Corrected and Uncorrected Misstatements" and asked for details regarding the approximately \$1.8 million of unrecorded liabilities. Mr. Iwane explained that this is related to Internal Control finding No. 2022-001. He noted it was not a standard liability and involved some uncertainty in its ultimate resolution. Mr. Hull added that may be something to be discussed in executive session.

Board member Dill referenced Page 20 of the agenda packet under “Other Matters”, and asked for clarification on the last sentence that states they did not express an opinion on the RSI. His understanding is that the RSI revolves around OPEB and its related issues and there is a lot of discussion surrounding OPEB liabilities in their review. Mr. Dill expressed much concern that the OPEB is being administered correctly, and if it was not audited, how will the Department ensure that. Mr. Chew stated that the OPEB liability that is sitting on the Statement of Net position is audited, but the additional required GASB disclosures, tables and percentages are just reviewed to make sure nothing looks out of the ordinary in comparison to what was audited. That review is not sufficient to provide any assurance, therefore, they do not provide an opinion on any supplementary information. Mr. Iwane referenced the Schedule of Proportionate Share on Page 79 of the agenda packet, which is required supplementary information by GASB standards, but is not subject to the same audit procedures performed on the basic financial statements. Mr. Dill stated that it sounds like it is reviewed, but not as in depth as the other items covered within the scope of the audit.

Vice Chair Simonton asked if the Department were to get a letter grade, what would that be as compared to other utilities or government institutions. Mr. Iwane stated that is a difficult question to answer, but they have seen worse. They look at this as an opportunity to reevaluate some of these areas and strengthen internal controls over financial reporting in these areas.

Board member Dill asked for elaboration on the first sentence of the second paragraph on Page 19. Mr. Iwane explained that the timing and completion of the audit was impacted by delays in receiving requested schedules and information during the course of the audit. Also, as previously mentioned, there were some internal control issues such as the GASB 87 implementation, the evaluation and analysis of potential accounting issues that were not done until the audit was already underway. Mr. Dill stated that he did not see this noted under significant deficiencies and material weaknesses and asked if the Manager feels the CAP will adequately address these issues. Manager Tait replied that the Department was deficient in providing the documents as requested by N&K throughout the audit process and did not meet what he considers proper standards for an audit process. One of the significant deficiencies noted regarding Internal Controls relates to documents, contracts, leases, etc., which Manager Tait recognizes has been a problem for quite some time. DOW does not have a catalog or database that adequately and efficiently documents when agreements or permits expire, or whether a technology package or program version is up to date. The Department’s objective is to rectify that starting with a third-party assessment of our IT systems and retaining the right people. Mr. Iwane added that Page 19 specifically references the analysis and impact of GASB Statement 87 which pertains to leases, noting that in order to evaluate the impact of GASB 87, the first step would be to identify all your contracts. Without that centralized view of all DOW’s contracts, it was difficult to completely identify those contracts that may be within the scope of GASB 87 as well as other accounting standards.

Chair Akamine thanked Mr. Iwane and Mr. Chew for their hard work and thorough presentation.

Commission Support Clerk Cherisse Zaima advised that the Board was not required to take any action on this item unless they wished to officially direct the Manager to implement the Corrective Action Plan, or if they had any amendments to the Corrective Action Plan they would like to direct the Manager to implement. However, if they are in agreement with the established

CAP, the draft audit would simply be received and submitted accordingly. Mr. Dill restated his request for a schedule of tasks to be implemented in the CAP.

STAFF REPORTS

1. Public Relations Activities – updates on Public Notices & Announcements, Community Outreach & Education and Upcoming Events

Information Specialist Terrilyn Amorin provided a summary of the Public Relations Staff Report submitted. She highlighted their participation on their STREAM night (Science, Technology, Reading, Engineering, Arts and Math) which was also their science fair night where they hosted 2 activities. The conservation theme for this month is minimizing outdoor water waste in which they are encouraging the use of drought tolerant plants and giving away lavender seed packets; lavender is a drought tolerant plant. This year's annual Project WET Make-A-Splash event is set for Friday, September 15, 2023.

Board member Hull asked what the difference in water usage is between a bath and a shower to which Ms. Amorin stated 20 gallons.

2. Fiscal – Monthly service dashboard and highlights

- a. Statement of Revenues and Expenditures
- b. January Monthly Summary Budget
- c. Accounts Receivable Aging Summary

Waterworks Controller Marites Yano provided a summary of the charts submitted. She added that the financials for this month have not been completed due to extreme short staffing in the Fiscal Division. She requested that if the Board has any concerns on the financials, she will address them as needed. Manager Tait asked whether the financials can be provided at the next meeting to which Ms. Yano replied they only have two accountants left in Fiscal, and she has given her notice of resignation, so she is unsure how they will accomplish meeting the monthly deadlines for the Fiscal report. Manager Tait added that this is officially Ms. Yano's last Board meeting. Chair Akamine stated that the short staffing did create some reporting difficulties which will need to be discussed to determine how to address what is a critical component of the Department.

Vice-Chair Simonton asked for a status update on what they had previously discussed regarding the accounting software being outdated and wanting to implement a new program. Ms. Yano stated they have experienced some roadblocks and have not found a fix to date. Ms. Simonton asked to clarify that because of the issues with the accounting software they have not been able to generate a report to which Ms. Yano replied yes, which had been a problem since July of last year in addition to the recent staff shortages. Manager Tait asked to clarify that much of the data in those reports are manually compiled and then transferred to a spreadsheet to which Ms. Yano confirmed. IT Specialist Wayne Takabayashi explained that they are currently talking with a vendor, which happens to be the original vendor that the Department had been using back in 2021. There was a replacement company in mind; however, the Department changed their mind and have since been in talks with the previous vendor. Manager Tait added that those things occurred prior to Mr. Takabayashi coming on board and are in the process of being cleaned up. He noted that issue ties into the discussion had earlier regarding contracts, licensing, expiring programs, etc. They are currently looking to upgrade the Great Plains software we currently

have, which would be a better option for now than to migrate to something unknown. Once they get a current version running, they can then determine what is wrong, obtain the data and then move to a new software.

3. Operations – Monthly service dashboard and highlights

Chief of Operations Val Reyna provided a summary of the Operations Dashboard submitted. He noted that the Fuel Master system is installed and operational and the technicians are on-site conducting final installations for the cloud-based connection.

In response to Board Member Dill's question, Mr. Reyna stated we are currently above the industry standard for water loss at 15 to 20 percent; industry standard is 10 to 15 percent. Mr. Dill noted Nov., Dec. and Jan. show 18 to 20 percent and asked if there is a plan to get it to the range of industry standard. Mr. Reyna explained yes, their leak detection staff person is diligently addressing leaks before they become larger and cause more damage.

Referencing the Overtime chart, Mr. Dill stated it would make it easier for him to interpret if it showed the monthly budget amount vs. the monthly expenditure as opposed to just the total annual budget vs. cumulative. Mr. Reyna pointed out the table on the subsequent page that shows the December and January budget vs. actual. Mr. Dill would still like the chart to reflect the information he requested.

Mr. Dill asked what the Fleet Management numbers represent. Mr. Reyna stated because the dashboards were only recently implemented, the data is limited to December and January; however, the formula includes the previous months from July to November, which inaccurately skews the data. Mr. Dill requested that if the data is inaccurate or does not make sense that it not be included.

4. Engineering

Acting Engineering Division Head Jason Kagimoto provided a summary of the Engineering dashboard submitted.

He noted that about one-third of their positions in Engineering are vacant, which is reflected in their overtime amounts. Currently the permit review process takes about a month, and while they are able to keep up with their current tasks, they would like to improve in their responses to both customers and operational staff which is challenging due to the current staff shortages.

He highlighted that bid opening for the Kapaa Homesteads 2.5-million-gallon tanks project at approximately \$14.5 million starts on April 14. That along with the Kalaheo project at approximately \$25 million last year are some of the Department's largest projects. Mr. Kagimoto stated that they are receiving support from Construction Management professional services which is the only way they are able to keep these projects moving. They are currently addressing high-need projects like pipeline replacement projects at Kuhio Highway, Wailua-Kapaa Corridor, Kuamoo, etc. On the Water Resources side they are continuing to move ahead with the Water Systems Investment Plan, and scoping for the Lead and Copper Rule Revision program to meet their regulatory goals. Board member Dill noted that the Overtime current fiscal year to date budget amount shows \$42,000 and we are well under that having expended

only \$34,000. However, looking at the graph on the left and projecting based on the line out, it looks like we will exceed our total annual budget by the end of the year. As he previously mentioned with the Ops dashboard, he would like to see a month-by-month budget vs. actuals. Mr. Kagimoto stated they will work on cleaning up those graphs.

Vice Chair Simonton asked if there is a way to screen the building permits received and filter the ones that are easier or more standard to keep those moving faster. Mr. Kagimoto stated there are different ways to approach things and they are always reassessing to find a balance between the ease of processing and chronological order.

5. Manager and Chief Engineer – Monthly service dashboard, update on monthly activities, personnel matters, and required communications to the Board

Manager Tait stated they are continuing discussion with Grove Farm on making improvements to the contract so it can be brought back to the Board with a recommendation. Staffing challenges continue in Fiscal as well as Engineering. Mr. Kagimoto stated they did some interviews and will be going back out for recruitment.

Manager Tait has had preliminary discussions with KCC/UH along with the bargaining units on a potential pilot program for apprenticeship/internship programs. Given the challenges of filling positions, and getting in-house staff trained, the bargaining units are strongly in favor.

Pictures will be provided at the next meeting of the advanced stages of the Hanalei Base Yard, which is getting closer to completion, and will provide another option for staging and equipment placing on the North end of the island.

The Department has made connection with the Bureau of Reclamation for the Water Conservation team to receive some fairly significant grants.

TOPICS FOR NEXT BOARD OF WATER SUPPLY MEETING: *(March)*

1. Update regarding DOW's Water System Investment Plan

TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING

1. Updates on various DOW Programs *(April)*
2. Report from Manager and Chief Engineer – Manager's DOW Performance Audit *(June)*

EXECUTIVE SESSION:

Pursuant to Hawai'i Revised Statutes (HRS) §92-7(a), the Board may, when deemed necessary, hold an executive session on any agenda item without written public notice if the Executive Session was not anticipated in advance. Any such executive session shall be held pursuant to HRS §92-4 and shall be limited to those items described in HRS §92-5(a).

Pursuant to Hawai'i Revised Statutes § 92-4 and § 92-5(a)(4), the purpose of this Executive Session is for the Board to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities as it relates to:

1. Goodfellow Bros.' Request for Reimbursements, Job No. 15-07, Reorganize Water System: Kaumuali'i Highway 16-Inch Main and Emergency Pump Connection, Hanapēpē Road 6-

Inch Main Replacement, Job No. 15-07, Water Plan Project No. HE-01, HE-10, Hanapēpē, Kaua'i, Hawai'i (Civil No. 5CCV-21-000098)

The Board invited Manager Tait, Deputy Manager Michael Hinazumi, Deputy County Attorney Hugo Cabrera and Deputy County Attorney Chris Donahoe into Executive Session as Resources

The Board entered into Executive Session at 11:00 a.m.

The Board resumed in open session at 12:18 p.m.

ADJOURNMENT

The meeting was adjourned at 12:18 p.m.

Respectfully submitted,

Approved,

Cherisse Zaima
Commission Support Clerk

Tom H. Shigemoto
Secretary