

## MINUTES

### **FINANCE/ECONOMIC DEVELOPMENT COMMITTEE**

**June 4, 2008**

A meeting of the Finance/Economic Development Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Jay Furfaro, Chair, at the Historic County Building, Room 201, Līhu'e, Kaua'i, on Wednesday, June 4, 2008, at 10:24 a.m., after which the following members answered the call of the roll:

Honorable Jay Furfaro  
Honorable Tim Bynum  
Honorable Ron Kouchi  
Honorable Bill "Kaipo" Asing, Ex-Officio Member  
Honorable JoAnn A. Yukimura, Ex-Officio Member

EXCUSED: Honorable Shaylene Iseri-Carvalho  
Honorable Mel Rapozo

The Committee proceeded on its agenda item as follows:

- C 2008-136 Communication (04/04/2008) from Robin K. Freitas, Manager, KMH LLP, transmitting for Council information, the following final audit reports for the year ended June 30, 2007:
- Comprehensive Annual Financial Report of the County of Kaua'i (CAFR);
  - Single Audit Report; and
  - Recommendations Designed to Improve Internal Accounting Controls and Administrative Efficiency Report for the year ended June 30, 2007. (Reports on file in the County Clerk's Office.)

**[This item was deferred.]**

JAY FURFARO, FINANCE/ECONOMIC DEVELOPMENT CHAIR: Thank you very much. I would like to share with the Councilmembers and appreciate from the Finance Director, there is correspondence dated May 30, 2008 from Wally Rezentes, Jr., in response to the questions that were circulated in my memorandum dated the week prior and asking for the Finance Department to provide a written response in regard to the General Federal Grant Management findings. I want to thank Mr. Rezentes for responding promptly and we do have a copy of those particular description issues that were in the audit report. Along with the particular findings number, there are also suggested recommendations made by Mr. Rezentes and his staff to those particular items that encompass either a financial or a compliance component. I would also like to make reference to a May 30, 2008 memorandum to myself to the Chairman and a calendar that would go into more

particulars going forward on the various committee meetings in Finance and Economic Development by the various departments that report to Mr. Rezendes.

I would also like to take a moment just to summarize a couple items. There has been recently a compression of the definitions of any deficiencies in an audit report where it was compressed from four previous conditions into three: controlled deficiencies, significant deficiencies, and material weaknesses. By compressing these areas, it actually raised the bar for the Accounting and Finance Department, but in particular today, I wanted to reference and examine the Single Audit Report, which is a federal condition that deals with examining entities that exceed or expend grant money in excess of \$500,000 for any federal assistance, and those are the ones that were the most urgent, and a preliminary response from the Finance Department was requested today, of which we have in writing. I just wanted to make that summary before we move forward.

And on that note, I would like to suspend the rules and ask Mr. Rezendes if he'd come up and join us and also thanking him for having some of his staff available to us today, although perhaps we will go into more detail in the committee meetings at this point, but thank you, Wally, for having your staff available to us today.

There being no objections, the rules were suspended.

Wallace G. Rezendes, Jr., Director of Finance: Good morning, thank you. For the record Wally Rezendes, Jr., Director of Finance. After receiving Councilmember Furfaro's request of May 30, 2008 we had meetings with appropriate department staff to go over again the findings of our auditors, and based on the request, we had contacted our granting agencies on O'ahu, both at the State and Federal levels. Specifically, the Housing Agency was in contact with the HUD Honolulu Field Chief's Office. The individual's name is Mr. Mike Flores. He's the Director of the Public Housing area, as well as Mark Chandler, who's the Director of Community Planning and Development section in the HUD Office on O'ahu. And they had a chance to review both the findings as well as our response to the findings and this is relative to the HUD and Home Loan findings in our audit. On their initial review, they advised us that there would be no impact on any HUD funding levels or continued operations of Section 8 and the Home Program Funds. So, we did get that confirmation verbally from the Honolulu Office yesterday. With respect to the Homeland Security finding that's related to the County Civil Defense Office, we are the sub-grantee through the State of Homeland Security funding and we did receive confirmation from that office, from the Homeland Security Office Branch Chief that, you know, as a result of the findings, it would not jeopardize future Kaua'i Homeland Security funding. So, we did get the confirmations from those federal sources and we also wanted to make mention that on May 8, 2008 the DOD fiscal staff from O'ahu did an on-site visit and found no deficiencies within the Civil Defense Office. So, that came after, you know, our auditors had basically completed their report.

Mr. Furfaro: You know, Wally, one of the things that I do want to note as there were about 7 items that actually reappeared in the '07 audit from '06, and we were about 6 or 7 months into the corrective action. But because the corrective action had not completed by the end of 2006, those items did appear again.

Mr. Rezendes: Right.

Mr. Furfaro: And many of them, when we looked at, were items that dealt with some of the Housing compliance items, and during that period of time, I was able to visit with Mr. Kodani and his staff and actually walk through some of the criteria and it was obvious to me that, you know, the standards were set higher, the reporting, everything from income verification and so forth that it would take us a little bit more time on the HUD compliance pieces for the reporting, not the actual accounting but the reporting. Was that part of their discussion with the HUD people?

Mr. Rezendes: I believe they have had ongoing discussions with the HUD folks and I think when the Housing Agency comes up on their time schedule with the Council, they'll report on their strategy of how they're gonna address the finding and how are they gonna proceed in the future to be on track with all the federal requirements and the percentages that you had mentioned...

Mr. Furfaro: Okay.

Mr. Rezendes: ...earlier.

Mr. Furfaro: You had mentioned the fact that we had gotten confirmation, especially on the Department of Defense grants that go to the Federal government, then go to the State, then are re-allocated to us that, you know, these subgrants were not in jeopardy. Did we get anything in actual writing from the DOD that indicated that on their May 5, 2008 visit?

Mr. Rezendes: We didn't get anything in writing from the DOD from that visit. We did get an email confirmation on the funding that I reported earlier, that the funding is not jeopardized as a result of the audit findings.

Mr. Furfaro: Okay. And how about on the no impact on the HUD pieces. I heard you say that we had a conversation with that office and...

Mr. Rezendes: We did not get anything in writing. It was all verbal and what had happened was that Housing had requested that they review, do a preliminary review of the findings and the responses that the department provided to those findings. And they were able to look that over yesterday with their appropriate staff people and they contacted us back verbally and Mr. Flores, who's the Director of Public Housing at the Honolulu Field Office, reported that verbally back to us.

Mr. Furfaro: Was there any discussion and I see it in your recommendation and obviously as we go forward, was there any discussion with the HUD people for them, as it comes to compliance and needing to extend us some staff, to review our training on the HUD reporting or anything? Are they prepared to do that if necessary?

Mr. Rezendes: I would have to...

Mr. Furfaro: Okay, we'll defer that question to someone from Housing.

Mr. Rezendes: Okay.

Mr. Furfaro: Let me go to other Councilmembers. Go ahead,  
Mr. Chair.

Mr. Asing: Councilmember Furfaro, will we be getting written  
correspondence from HUD because all of these were verbal that...

Mr. Rezentos: They normally do a review and if they have  
comments on it, they would comment or if they feel that the response was not  
sufficient, they would normally correspond back. But I don't think, I would need to  
ask the Housing Agency if on a regular basis if they respond back in writing.

Mr. Furfaro: I guess the Chair is re-emphasizing my point  
earlier...

Mr. Rezentos: Sure.

Mr. Furfaro: We had a verbal confirmation and I appreciate the  
urgency in a week that you responded to us, but the Chair's point is obviously going  
forward...

Mr. Rezentos: Sure.

Mr. Furfaro: You know, does an email suffice that they  
acknowledged that there's no impact, you know, we need to get that very clear.

Mr. Rezentos: Yeah, I mean, we just had a few days' turn-around  
time on this, you know, this go around, but what we can do if they don't customarily  
report back in writing, we could at least request it.

Mr. Furfaro: Okay. I think that's what you're suggesting.

Mr. Asing: Yes.

Mr. Furfaro: And I, as the Committee Chair, I would suggest the  
same as we go forward, that we actually, you know, request something from them  
that says, you know, you've corrected it and you're meeting compliance now, and  
here's something in writing that is a confirmation.

Mr. Rezentos: Yeah and it may be the response was adequate and  
then there's follow through on the response, you know. So that may be something  
that would be ongoing, you know, to attain compliance.

Mr. Furfaro: We're going to stay with the Councilmembers here  
if they have any questions for you and then I might ask if we could have particular  
Division Heads come up if there are questions directed that way. Councilwoman  
Yukimura.

Ms. Yukimura: Actually, I think my questions are specific to some  
of the items, so I'll wait until the agencies come up.

Mr. Furfaro: Okay, Mr. Bynum, do you have any questions of the  
Finance Director?

Mr. Bynum: Not at this time.

Mr. Furfaro: Okay. Mr. Rezentes, I do want to thank you for getting this thing turned around in a week as far as determining a preparation of response and the recommendations made here, but as Chairman Asing pointed out and as I've raised the question earlier, you know, anything that we can get from them that corrects, you know, a compliance verification or any financial aspect, I don't think it would be unwise not to, you know, do a follow up memorandum to them requesting such.

Mr. Rezentes: Mm-hm.

Mr. Furfaro: So, on that note, do we have someone here from Housing that would like and we'll just go through some general items at this time to hear what their plan of approach is? Maybe we can talk about the Section 8 fund balances. Is that Mr. Mackler?

Mr. Mackler, we just want to accomplish two items here today: to get a brief overview if your department has, in fact, responded to the compliance component and secondly, are we on target and are we realistic when you come up in the committee date that we gave you to have very fine, complete detail. Those are the two questions that I have and you know, then I'll open it up to committee members.

Gary Mackler, Housing Developer Coordinator: Okay. As to your first question about have we responded to the compliance requirement and you're referring to the specific findings. We've had one request from the HUD Field Office with respect to the three findings relating to the Home Program. These are 07-14, 07-15, 07-16, as referenced.

Mr. Furfaro: Yes.

Mr. Mackler: And we have sent in a written response. Their request letter came to us on May 23, 2008 and we sent the Honolulu Field Office a written response on May 30, 2008.

Mr. Furfaro: On May 31?

Mr. Mackler: May 30.

Mr. Furfaro: May 30.

Mr. Mackler: We have not yet heard back from the Field Office if they have any follow-ups to our response, but if they do, we'll certainly work with them to give them that information, whatever they need relative to those particular findings.

As far as the other findings that relate to the Section 8 Rental Assistance Program, I don't believe we've had a written request from the HUD Field Office as yet asking for more specific information, other than the information that was contained in the corrective action plan that was sent to them on May 30.

I do want to just add one more item to what Wally was reporting. We did receive an email from a staff person under Mike Flores who handles the Section 8 Rental Assistance Program confirming what we were told verbally yesterday by Mike concerning the fact that after their review of the Single Audit Report and the correction action plan response, that they do not, other than taking the corrective

action that management must take to resolve those items, they do not feel that there is anything there that they would consider that would cause penalty to the County or sanctions or any reason to disrupt funding or to intervene. So that is their position and Sandy Kaauwai informed me that she did receive an email this morning to that effect.

Mr. Furfaro: Okay. I would ask that your Division do the same request as suggested by Chairman Asing and myself as Committee, that although you have received the email, it would be appropriate and prudent to actually follow up with them to get that in writing.

Mr. Mackler: Okay.

Mr. Furfaro: That would be appreciated.

Mr. Mackler: We'll follow up with them on that.

As for your second question, we will be prepared to, as per your schedule, to come back to the Council or to the Committee with corrective action that we've taken or will be taking relative to all the findings that are identified in the Single Audit Report, and we look forward to coming back to talk with the Councilmembers on those items.

Mr. Furfaro: Thank you. I wanted to put a date out there that is realistic and, yet, we can both agree on because I do not plan to get to that date and defer it. So, I'm glad to hear that you can comply with that date. Let me ask my colleagues if they have any questions. Councilwoman Yukimura?

Ms. Yukimura: Regarding your 07-14, 07-15, and 07-16?

Mr. Mackler: Yes.

Ms. Yukimura: Am I to understand that you, I mean, you have right here in the communication to us your response and you say that you met with Mr. Flores and also got a follow-up email regarding these.

Mr. Mackler: What we did was I made contact with Mike Flores yesterday to request his Office conduct a preliminary review of the Single Audit and our corrective action plan, and he did have his appropriate staff conduct that review. He also requested Mark Chandler, who is the Director of Community Planning and Development at the HUD Honolulu Field Office that handles the oversight for the Home Investment Partnerships Program and the Community Development Block Grant Program, to look at findings 14 through 16, which they did. And in the afternoon yesterday, I received a voicemail from Mike Flores indicating what I've shared with the Council as far as their position. We do have an email, I haven't seen it yet, that came over this morning and we'll be happy to share it with you if you'd like, confirming what Mike told us yesterday.

Ms. Yukimura: Okay, which was basically that none of these items will jeopardize HUD funding to the County.

Mr. Mackler: Yes, correct.

Mr. Furfaro: And you are going to follow up to get that in writing.

Mr. Mackler: Yes. I think it would be best if we did that in a more formal way.

Mr. Furfaro: Yes, that is the desire of the Chairman of the Committee. I do want to also say to my colleagues since we've agreed on these dates, I don't want to go too much into depth on the actual compliance corrective action. What I want to hear today is the fact that this quick response led by the Finance team through Mr. Rezentes is, in fact, in motion, and we are not going to compromise any funding through the Single Audit at this point. We can go into detail during the committee piece. But the urgency that I conveyed in my memorandum was about protecting these assets for the County.

Ms. Yukimura: Okay, so the first threshold is addressed, that is no jeopardy of funds. The next threshold would be what I think you're referring to as committee work and we're in committee now, but you're talking about the next committee meeting?

Mr. Furfaro: Yes.

Ms. Yukimura: When the auditors will be back?

Mr. Furfaro: The auditors and I'll recap for everybody. The auditors had time a week ago at the Council when they presented us their findings. I wanted to, in the spirit of fair play, give the Administration an opportunity to come to the committee here to address, you know, what they're doing on the urgent items and then we will commit to detail on the compliance and corrective action in the various committee meetings. So, you're correct in that assumption, Councilwoman.

Ms. Yukimura: Okay, thank you for the explanation. I appreciate the procedure you've laid out, Finance Chair, because it saves a lot of time and going around in circles when we have the answers and the responses that give us a context for all of this. So and what I'm hearing is that the in-depth discussion on compliance and follow-up will happen in our next committee meeting.

Mr. Furfaro: Yes.

Ms. Yukimura: Okay. So, while I have some substantive questions, I'll hold those until we have that meeting.

Mr. Furfaro: I appreciate it and again, in the spirit of fair play, letting the Finance/Accounting, Housing and Grants people have an opportunity to come to us with a corrective action plan or the appropriate answers.

Ms. Yukimura: Okay and so we will have both the accountants and the responding agencies and the Finance Department here at our next committee meeting.

Mr. Furfaro: The next meeting will be on June 18, 2008 with the auditors here, and I would certainly put a red flag up now that there needs to be

staff members from the Administration here to listen through that. The corrective action and compliance issues will be handled in the respective committees outlined in my schedule.

Ms. Yukimura: I'm sorry to say that I won't be present at that meeting, but I'm sure that my colleagues will cover the issues and I'll take a look at the minutes or the committee reports.

Mr. Furfaro: Thank you, Councilwoman.

Ms. Yukimura: Thank you.

Mr. Furfaro: Do we have any more questions of Housing at this point? Mr. Mackler, we wish you much success in formulating these plan actions.

Mr. Mackler: Thank you and thank you for laying out a schedule that's reasonable for us to respond effectively to these items. Thank you.

Mr. Furfaro: I'm wondering if we could, Mr. Rezendes, we have somebody here that might represent the Grants and the DOD subcategory of...

Elton Ushio, Grant Coordinator: Hi, I'm Elton Ushio from Civil Defense.

Mr. Furfaro: Elton, in your particular case, we do know that, you know, there's kind of a, I don't want to say a double-standard, but there's a double reporting process with many of these federal grants that are then distributed to the State and then out to the counties, and, you know, again, we've got the same questions for you. Are there any urgent compliance items and how have we addressed that, and secondly, with the schedule that I've laid out, do you have any difficulties in preparing a presentation for the Council on those particular items that were surfaced in the report.

Mr. Ushio: As far as any pressing issues or corrective actions and compliance with timeline, we have no challenges or anything of that extent whatsoever. Pretty much with this finding, we acknowledged and appreciate the finding as I consider these guys to be the friendly auditors rather than the federal audit that comes down and can question and disallow cost and stuff, and it gives us time to make corrections. In this case, what it came down to was we are a sub-grantee. State Department of Defense Civil Defense Agency is the primary grantee from the feds. So actual, direct reporting to the feds takes place through DOD and the fiscal portion goes through DOD Fiscal. In our case, they tend to, how shall I say this, micromanage our fiscal side, which is a good thing in that they look at every single invoice, every single transaction that takes place. So, in a sense reporting is redundant, but the auditors pointed out to me very well and like I said it's very much appreciated that MOA states regardless of when we turn in any supplemental or special expenditure reports, etc., we're supposed to turn in something on or by the 5<sup>th</sup>. And lacking that in some instances, we were wrong. So, what we did immediately was before the findings even were published, immediately following the audit, we said okay, this is our policy from now on. I don't care if we turn in something two weeks before the due date on the quarterly, we're going to do it again. And that's what we've been doing ever since. So, compliance is moot in a sense in that we've already done the corrective actions as of last year.

Mr. Furfaro: Elton, I do appreciate that and again this is an item that showed up in 2006. We were 7 months into understanding some of the subcategories ourselves on the Council, but in the Memorandum of Agreement, the real trigger point in your area was this reporting date of the 5<sup>th</sup> of every month, I believe.

Mr. Ushio: For us, it wasn't a finding last year. I think our single finding was last year was one item of inventory was coded as equipment instead of grant equipment, and that was our only mistake last year in the finding, a typo.

Mr. Furfaro: Are we clearer now on grant money that actually purchase product equipment, that it actually bills on the asset list and so forth? Are we okay in understanding of this purchase now because...

Mr. Ushio: Yes.

Mr. Furfaro: ...that has been something I think prevalent in an understanding of what is a new asset and a book asset versus some kind of a repair and maintenance item.

Mr. Ushio: I believe we're clear. In fact, at the Department of Defense Fiscal On-site that Wally brought up, one of the items they checked was our inventory procedures. So that as far as our exit interview part was considered, that as well as everything else did not show up as any areas of concern or deficiencies.

Mr. Furfaro: So I assume now when we make a capital purchase, there is inputting this in our inventory; we're dealing with a sequence of reporting a serial number and all of that.

Mr. Ushio: Yup.

Mr. Furfaro: We're in compliance to what their expectations were.

Mr. Ushio: Yeah.

Mr. Furfaro: Are there any questions of my colleagues here?

Mr. Ushio: Not at this time.

Mr. Furfaro: And you're okay with the date that we set for review?

Mr. Ushio: Should be okay. I have to run it by my supervisor, but I think I'm available on that date, so it should be fine.

Mr. Furfaro: I want to thank you for your response and please clearly hear me. I do not plan to defer any of the dates once people agree on them. So, please get your supervisor to acknowledge the date.

Mr. Ushio: Okay, will do.

Ms. Yukimura: Just a question, please.

Mr. Furfaro: Go ahead, Councilwoman.

Ms. Yukimura: So the date you referred to is the schedule that your memo has with dates of... So for Civil Defense, it's July 2<sup>nd</sup>.

Mr. Furfaro: Yes.

Ms. Yukimura: Okay, then I know what I'm following. Thank you.

Mr. Ushio: Thank you.

Mr. Furfaro: Elton, thank you.

Mr. Bynum: Thank you.

Mr. Furfaro: And I think what I'd like to do is just ask Miles, if you can come up and join us. I want to talk about some of the particular items that... Will you be representing Mr. Saiki from Public Works too? Is he here? Is somebody from Public Works?

Miles Tone, Accounting Systems Administrator: No, I don't think Clint is here.

Mr. Furfaro: Okay. Well, Clint has...

Mr. Tone: For the record, Miles Tone, Finance Department.

Mr. Furfaro: Thank you, Miles. Clint has some specific dates and they are projects that we have been working on in the past. Miles, in your first glance of this follow-up schedule and some of the particular recommendations that the auditors have made, do you see any challenges for your department and can you live with the dates I've laid out in the calendar.

Mr. Tone: Well, I cannot speak for Clint, but as far as me appearing with Clint to the responses, I will be here too.

Mr. Furfaro: Okay. I appreciate that because as I read through the particular parts, there were some repair and maintenance items versus asset classifications, and there were some suggested asset recordings as well versus R&M, so I just want to make sure that we have a clearer understanding.

Mr. Tone: I don't want to go into the details, but we have corrected all of those.

Mr. Furfaro: Okay.

Mr. Tone: And we have implemented new procedures as far as how to capitalize fixed assets and construction in progress.

Mr. Furfaro: I know Clint isn't here, but I've had that discussion with him and I feel very confident. Again, I don't want to go through the details, I just want to make sure that the urgent items have been addressed and we can live with this calendar.

Mr. Tone: (Inaudible)

Mr. Furfaro: Any questions from any of my colleagues? No. Miles, thank you very much. Mr. Rezentes, I just want to say thank you very much for the quick response.

I'm going to open this up for public comments at this point. Is there anyone from the public that would like to talk to this committee. Yes, Mr. Mickens.

Glenn Mickens: Thank you, Jay. For the record Glenn Mickens. Jay, I want to say how much I appreciate your diligence in pursuing this thing. I know the public had questions and I think you're, you know, going after this thing very well. In this particular instance, it appears we're hearing two different things. Both you and Kaipō are asking for verification in writing. You get the auditors here, their report shows differently than what the Administration is obviously telling us at this stage, and I guess, again from what, you're getting them all together on June 18<sup>th</sup> or whatever the dates are. You'll delve into this thing even more, but yeah, there does sound like there is some, of course, I guess the lapsed time between the auditor's report and what these people from the Administration have done, very well may be a legitimate difference in opinion, I guess. But anyway, I do appreciate that. I do, going over this auditor's report, on page 12 and page 18, I don't know if you guys have it. I know you got the final auditor's report. Let me just, there's a couple of things that jumped out at me, Jay, and maybe you can clarify this for me or maybe somebody in the audience can. The opening paragraph on page 12: "The assets of government activities exceeded its liabilities at the close of the fiscal year by \$502.8 million in its government-wide financial statements, an increase of \$38.0 million from the prior year. Unrestricted net assets increased by \$13.9 million from the prior year and ending with \$48.7 million. Unrestricted net assets may be used to meet the County's ongoing obligations to citizens and creditors." Then at the bottom of that, the last paragraph of that same page says: "As of the close of the fiscal year, the County's governmental fund financial statements reported combined ending fund balances of \$129.0 million or 14 percent increase from the prior year. Approximately 37 percent of this total amount, or \$48.0 million, is available for spending at the County's discretion (unreserved-undesignated fund balance). The most significant change in unreserved undesignated fund balance came from the General Fund which increased 11.5 million or 55 percent from the previous fiscal year." So, and then over on page 18 it says, "General Fund - The General Fund is the chief operating fund of the County. As stated earlier the unreserved-undesignated general fund balance as of June 30, 2007 was \$32.3 million, while all other governmental fund balances amounted to \$15.6 million, representing increases of \$11.5 and \$2.5 million, respectively, in comparison to the prior year's total. Unreserved-undesignated fund balance represents 34 percent of the fund expenditures, a good financial indicator of its liquidity."

So, I guess, Jay, my basic question is, you know, we've been hearing how the General Fund was \$17 million, well actually I added \$2.2 more million, it was like \$19 million. I think you pretty much agreed; you went into detail about it. But we

see that the fund isn't \$17 million or \$19 million, it's \$34-point-some million. So why is this not the reported thing or are we talking about two different years on this.

Mr. Furfaro: I'm going to answer your questions. I'm gonna send those two questions over to Finance to have them specifically respond to the Council for the June 18<sup>th</sup>.

Mr. Mickens: Okay.

Mr. Furfaro: The other piece, as I've said in my email to you, I'd be glad to go through the particular audit books, but we had two areas that were not real clear. For example in money that we get for capital improvements from FEMA, there was this little clause that we could not book certain items based on the fact that if they had to move something from here to Hurricane Katrina, that asset would go because it's a federal asset. So, I think we've got that defined. We also had projects that were earmarked for these funds but were not initiated and I'm gonna leave that as the general comment for right now, but I'll put your two questions in writing and I will also make myself available to you.

Mr. Mickens: Sure because, you know, again, me as a member of the public look at this thing and you say the bottom line is \$34-point-some million is now in this Slush General Unappropriated Fund that happens to be there. So, it's far greater than what we're saying. So it appears that we keep on generating more money than we need and we're bringing it forward from, you know, one year to the next year. So...

Mr. Furfaro: You know, I don't mean to be rude, but as you know, in my committees I try to answer the questions, not get involved in the...

Mr. Mickens: Yes.

Mr. Furfaro: ...philosophical piece. The other thing I want to make sure we also recommend is, you know, I have a problem with the term "surplus" because, you know, if this was a private company and at the end of the year you had money leftover, it becomes membership equity or it becomes a positive variance to budget. But what we have is this surplus particulars and if we haven't procured the money for what we earmarked it for, you know, it just kind of shows up as, you know, not being released yet. But I'll go over that separately with you.

Mr. Mickens: Okay.

Mr. Furfaro: It's a very, for me it's a very challenging term, "surplus," because, you know...

Mr. Mickens: Well, like you said, it could be used, the terminology could be equity or however you want to put it, but the bottom line is there's still more money in that whatever you want to call it...

Mr. Furfaro: Yeah.

Mr. Mickens: ...you know, that has actually been reported, except by the auditor. And all they do, I guess, is basically take the figures and put it down, what's there and what isn't there, right?

Mr. Furfaro: In the past, like I said, with auditors, Glenn, you know, ever since the escapades with Enron and so forth, auditors have been held to a higher standard where they could in fact make recommendations in the past, but getting too close to corporate and government entities is one of the things that Enron told us all, we really want to separate the action from the auditors from the Administration and this is just us catching our breath at the same time they compress the criteria.

Mr. Mickens: These are independent auditors. They're not State auditors, are they?

Mr. Furfaro: No, independent.

Mr. Mickens: Because I think the paper or somebody said State and I said that it can't be State auditors. They're independent auditors, right?

Mr. Furfaro: You're correct. They are independent auditors hired by the Council.

Mr. Mickens: By the Council. Okay, thank you, again.

Mr. Furfaro: I'll get those two questions over for you, Glenn.

Mr. Mickens: Appreciate it. Thank you, Jay.

Mr. Kouchi: Jay.

Mr. Furfaro: Oh, I'm sorry. Mr. Kouchi has something for you.

Mr. Kouchi: No, I just earlier questioned, you know, the audit process takes several months. So they've been working with the departments for some time, and so if you recall last week I just suggested that it might be more beneficial to have the discussion with the auditors when we had all of the agency comments come back because a lot of times by the time the auditors have started and have identified some problems in the departments, it's not that they have a difference of opinion and have now put justification, a lot of times where they agree, then they start undertaking the work to correct it. And by the time the auditor submits the report and you got sunshine deadlines and, you know, a month or so...

Mr. Mickens: Sure.

Mr. Kouchi: ...may have lapsed by the time the auditors report gets to the committee. A lot of times the departments have implemented the changes, but it's a lot more sensational to talk about the auditor's report without a report from the Administration because it sometimes may look like they're doing something wrong, and I think today we hear that they're doing a lot of things right. I think it has reinforced what we talked about last week that we also have good people working for us if properly trained or pointed in the right direction. We'll make sure this doesn't happen again as well and so instead of being in a combative situation, you know, this is more of a productive working session...

Mr. Mickens: Sure.

Mr. Kouchi: And it's about how are we going to solve the problem instead of pointing the finger and blaming or trying to sensationalize something that really isn't a sensational issue and...

Mr. Mickens: Ronald, like with Wally, I appreciate, I believe he's made it possible now, he's put on the web the '05-'06 and '06-'07 auditor's report. It's there. It wasn't there prior to that time. I'm not sure why, but it wasn't. But anyway, I think Wally has probably proceeded to get this put on there, and the public can just go on-line and be able to pick this up.

Mr. Furfaro: Again, I think you acknowledged the methodology that I'm going about here, that Mr. Rezentes and last week he agreed that his immediate responses would also be up on the web for this particular period.

Mr. Mickens: Yes.

Mr. Furfaro: But the idea is, you know, set some goals. They may have some reach in them. He has reported as such and on the 18<sup>th</sup> where we defer this to, hopefully, we have the Administration and the auditors here, and we can have some of the acknowledgements from them that Mr. Kouchi pointed out so clearly that, you know, there's a timing issue here and many of our people who have been working quite diligently at this have made some corrective action.

Mr. Mickens: Yes.

Mr. Kouchi: And the other thing again in not pursuing sensationalism, I chose not to point out to the auditors that their chief – what is the word, auditor? Or on-site person? Manager-in-charge of the audit? Or whatever – who had done it was on a leave of absence for two or three months, and we had green people here and so... You know, I was not very happy that the impression left by the auditor at the last meeting is that the County seemed to be deficient in our responses and, you know, was solely responsible for the lack of timeliness in the reports that were there. But I did not feel that there was going to be much productivity about pointing out that absence, and trying to re-point the blame at the auditor as well, because the bottom line is we need to just get things put together, get everybody on the same page, be in compliance, go forward and work in the best interest. But, you know, as usual, you know, when you hear one version of the story, you know, you getting it through the glasses that that person is looking through and it's really interesting when you're able to go get the whole story.

Mr. Mickens: Course, you're only paying the auditor to come up with the report.

Mr. Furfaro: Well, you know, Glenn.

Mr. Mickens: And he takes the figures, right?

Mr. Furfaro: Let's, let's, I think Mr. Kouchi pointed out with some diplomacy here that we had an audit manager here that for five years had been doing it and this last audit he was not able to be on this project and so forth. So, there we lost familiarity with the account and so forth.

Mr. Kouchi: (Inaudible.)

Mr. Furfaro: There was a learning curve on both sides, which may have contributed to the delay, which also may have contributed to them invoicing us for a change order.

Mr. Mickens: Well, as you pointed out too, Jay, you know, it wasn't just from last year or the year before, and we got some carryovers here and, you know, you pointed that out obviously.

Mr. Furfaro: Thank you for your comment. I have no more questions.

Mr. Mickens: Thank you.

Mr. Furfaro: And my rules are if we ask you a question, you can respond. Glenn, I'll get those two questions out to you.

Mr. Mickens: Thank you.

Mr. Furfaro: Is there anyone else from the audience? Come right up, please. Just introduce yourself.

Russell Salmon: My name is Russell Salmon and I spoke with Lianne. I met her yesterday. Because if we can just pull back for a second, I'll spend just a quick moment from the individual exact details of everything, over the last number of months, I would say six months, been reading a variety of things. I work on a number of very large projects, businesses, etc., with only the right intent that I see right here on this island, and I visited this place for the first time nine days ago with my family, and then once I spent some time on my own I realized this is the complete opposite of the rest of the world because it's all by choice. You know what I'm saying, to work and do whatever's the right thing and not compromise it. In short...

Mr. Furfaro: Would you pull the mike a little closer.

Mr. Salmon: Sure, sure. You already know that, but in short, my name is Russ Salmon, originally from Tucson, Arizona, about 27 years. I'm 39 years old. My wife and children live in Redondo Beach, California. It's just a decision, I feel it, it's huge. We're working on some large projects. You've heard of YouTube? The video sharing? Came up with a concept about two months ago I've been working on with a good friend of mine. It's going to be the same kind of thing. It's not to sell anyone. I'm the whole person behind it. I want to work with anyone who wants to and is willing to and I'm going to use every last breath of my resources, time, whatever of everything that I've worked for growing large corporations on the mainland but realizing in the end being deeply hurt and that's the ego, of course, because your efforts were used by others for ill intent, if you know what I mean.

Mr. Furfaro: Well, Russell, I think I'm trying to follow you, but...

Mr. Salmon: Yeah.

Mr. Furfaro: ...in our rules here, and we do have rules...

Mr. Salmon: Okay.

Mr. Furfaro: ...you have to address the item that's on the agenda, so...

Mr. Salmon: Okay. You said you want the exact (inaudible) absolutely.

Mr. Furfaro: Those are our rules.

Mr. Salmon: Okay, whatever was just going over about funding issues, you have my word from me to you, I'm gonna work in any way possible immediately in the next one to two years to make it happen, this large enterprise, long story short, it's been called Planet MLS. It's, right now there's 900, it's like the world; it's a bunch of factions; they don't joint; they don't want to be together. Nine hundred separate real estate listing information services world-wide all by the private real estate industry and they all hold information close to the vest, which I noticed here on this island nobody does, which is really cool. As a result, there's huge inefficiencies in world real estate markets. It takes forever to sell a property. What if you're in a financial situation yourself and you sell property. You can't do that. It's all because of not sharing. We're creating a business model and we already worked on all that stuff (inaudible) I'm happy to share in every way. Show all that stuff, work on it, do whatever. I'll raise funds, whatever it is. In space you're going to, just like you have one big website now that takes over for everything, it's gonna be open sharing and it's gonna use the inefficiencies which are out there for whatever reason and it's basically going to be a for-profit corporation where it's going to act as a volunteer with 90% of its revenues. I mean, Internet businesses are basically, they have huge gross margins. There's no product. Yes? No? It's sharing. And as a result, there isn't an end product like a home or something, but you can extract value from true value. You know what I'm saying, I think. We're going to redistribute it all electronically and I've decided if anyone's willing, if not I'll still do it on my own. I want...

Mr. Furfaro: Excuse me, I just need to share with you. Our rules are for three minutes of testimony on the subject matter.

Mr. Salmon: That's plenty, then.

Mr. Furfaro: When the three minute is up...

Mr. Salmon: Thank you.

Mr. Furfaro: I did catch your points...

Mr. Salmon: We'll talk in the future, though.

Mr. Furfaro: ...about sharing...

Mr. Salmon: You got it.

Mr. Furfaro: ...public trust...

Mr. Salmon: Yeah.

Mr. Furfaro: ...web information and open sharing.

Mr. Salmon: But basically to redistribute whatever budget issues are here will not be an issue because you're not going to have to rely on any outside funding any more. It's gonna redirect hundreds of millions immediately over the coming few years where you people know exactly what you're doing. It's in your hands now, you know? You know what I'm saying.

Mr. Furfaro: Yeah. Thank you very much.

Mr. Salmon: I'll come back. Thank you, thanks for your time.

Mr. Furfaro: Is there anyone else in the audience that would like to give any public testimony? Come, please, come right up.

Alice Parker: Hi, for the record Alice Parker, and I spoke to Jay briefly a few minutes ago and this is on the budget but not directly on capital assets and maintenance and repair. But I was watching the proceedings on television about the budget and about the County Attorney's Office and fines and penalties. And in my experience as an IRS auditor, fines and penalties were never an ordinary, necessary business expense, and they're never deductible under Internal Revenue Law and I don't understand how they could be deductible or that the County should be responsible for them. I believe that the individual responsible for the failure that incurred the fine or penalty should pay that him- or herself. Thank you.

Mr. Furfaro: Thank you, Alice.

Mr. Bynum: Thank you.

Mr. Furfaro: And as we spoke, I think between the Council and the Administration, they are reviewing that exact policy going forward. Thank you.

Ms. Parker: Thank you.

Mr. Furfaro: Is there anyone else in the audience that would like to speak?

There being no one else wishing to speak, the meeting was called back to order.

Mr. Furfaro: I would like to ask the committee if we can defer this item until June 18<sup>th</sup>, I believe, at which time I hope to have the auditors back and at the same time have support information from the Administration.

Mr. Kouchi: So moved.

Mr. Bynum: Second.

Ms. Yukimura: Question.

Mr. Furfaro: Go ahead, Councilwoman.

Ms. Yukimura: We're deferring it in this committee and you're gonna be posting it in the other subject matter committees or is that for another time?

Mr. Furfaro: No, we'll be deferring it in this committee and we hope to post all of the pertinent scheduled meetings as they come up.

Ms. Yukimura: In the other committees. Okay, thank you.

Upon motion duly made by Councilmember Kouchi, seconded by Councilmember Bynum, and unanimously carried, C 2008-136 was deferred.

There being no further business, the meeting was adjourned at 11:16 a.m.

Respectfully submitted,

*Wilma Akiona*

Wilma Akiona  
Secretary

APPROVED at the Committee Meeting held on June 18, 2008:

  
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JAY FURFARO  
Chair, Finance/Economic Development Committee