

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

July 28, 2017

**Committee
Report No.** _____

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on July 11, 2017, makes reference to the following:

1. County Communication 14-17, from the County Auditor, transmitting the plan of audits proposed to be conducted during the remaining six months of Fiscal Year 2014.
2. County Communication 17-201, from the County Auditor, transmitting a copy of Audit Report 14-02, "Audit of Expenditures from the Fiscal Year 2012 Budget Appropriation for the Old Wailuku Post Office Rehabilitation Project" ("Audit Report").

At the start of the meeting, the Chair of your Committee limited the discussion to the review and questions relating to the Audit Report.

The County Auditor ("Auditor") said in addition to a brief overview of the significant findings of the audit, the report includes a "Lessons Learned" section. This section offers guidance to the Administration and the Council and if followed could improve communication and accountability of the use of public funds.

The Auditor said on February 1, 2013, the Budget and Finance Committee was notified the funds for the Old Wailuku Post Office Rehabilitation Project were used for the demolition of the historic building and the preparation of a master plan for the expansion of the Kalana O Maui campus. At that point in time, it was unclear whether the demolition was appropriate or legal, and whether the expenditure of funds was proper or a violation of the budget ordinance.

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Your Committee notes there was a disconnect between the Administration and the Council because of the uncertainty of the appropriateness of the use of funds for the project. The audit was conducted to address the public's interest in understanding the facts and circumstances surrounding the demolition of the post office.

The Auditor said the audit revealed a loophole in the County's Budget Ordinance, specifically in the General Budget Provisions, Section 10. He said the loophole severely diminished the accountability and transparency in the use of taxpayer funds.

The Auditor's correspondence to the Budget and Finance Committee, dated April 7, 2016, provided information prior to the publication of the Audit Report and prior to the Council's passage of the Fiscal Year 2017 Budget. The correspondence included an opinion from the Department of the Corporation Counsel relating to Section 10 of the General Budget Provisions. According to the opinion, the descriptions and justifications provided in the Mayor's proposed fiscal year budget were not incorporated into the Fiscal Year 2012 Budget ordinance.

Your Committee notes, Appendix "C" was added to the Budget Ordinance in Fiscal Year 2017 to address the concerns from the Audit Report. Section 10 of the Budget Ordinance reads "the capital improvement projects as described in Appendix "C," attached hereto, are incorporated herein by reference and made a part hereof, except as otherwise provided for in other sections of this ordinance." Appendix C provides the project title, description, and appropriation for all capital improvement projects.

The Auditor said projects without a clear description and scope of work should not be funded or included in the Fiscal Year Budget. Placeholders cause confusion for both the Administration, the Council, and the public. Rather, the Administration should put forth a budget amendment when the project is ready and can be thoroughly explained to the Council.

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Your Committee noted the County should be held accountable when changes are made to its own projects, just as developers and private individuals are accountable for changes to their projects. Your Committee further noted the Auditor's comment that "the County should lead by example and abide by the laws that it expects private citizens and developers to comply with."

Your Committee questioned whether proper precautions were taken before the building was demolished to address mold, asbestos, and lead paint. The Auditor said proper clearances and documentation were obtained before allowing heavy machinery to tear down the building.

The Auditor also informed your Committee the use of public funds to demolish the building required compliance with the Hawaii Environmental Policy Act. Neither an environmental assessment nor an administrative exemption declaration from conducting an environmental assessment was done. By not complying with the Act, the public was denied an opportunity to provide comments on the demolition of the building.

Your Committee expressed concern the demolition of the historic Old Wailuku Post Office building was in direct conflict with the Countywide Policy Plan. The Administration drastically changed the scope of the project for the Old Wailuku Post Office without providing an opportunity for the public to voice their concerns. Further, the Administration took the easiest path of demolishing a historic building, instead of considering alternatives for its preservation, rehabilitation, and re-use.

In the Auditor's opinion, an environmental assessment should have been conducted to comprehensively examine potential impacts of the demolition of the building and the construction of a six-story building in Wailuku town.

The Mayor stated the Audit Report is incomplete and the Auditor did not do a thorough review of the material relating to the Old Wailuku Post Office building. He explained the budget proposal included conceptual

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information, but the process eventually required detailed and specific information to obtain the necessary funding to carry out the project.

The Mayor said he was not provided an open forum to address the questions of the Old Wailuku Post Office project and the Audit Report. He said the public's impression is the Administration agrees with the Audit Report and the Council's review. He stated, for the record, the Administration does not agree with the final Audit Report and feels the report is incomplete and the Auditor did not thoroughly review all the material and varying aspects of the project.

The Auditor stood firm on his comments and recommendations contained in the final Audit Report.

Your Committee noted the Mayor may submit his comments and concerns in a communication to the Council, if he feels it is necessary. On page 9 of the Audit Report, it states "some employees said they could not recall if or what discussions occurred due to the passage of time..." Therefore, your Committee did not find it necessary to have the employees as resource persons before your Committee.

The Auditor issued no opinion as to whether a violation of the Fiscal Year 2012 Budget Ordinance occurred. He said the determination needs to be made through litigation and not through the issuance of an Audit Report. Your Committee recognized the current Administration's term will end on January 2, 2019. The Auditor's report on the Old Wailuku Post Office Rehabilitation Project is clear and speaks for itself.

Your Committee acknowledged the amount of time expended in conducting the investigation and interviews, the difficulty in obtaining information, and other unforeseen circumstances beyond the Auditor's control. However, your Committee expressed dissatisfaction over the length of time it took the Auditor to complete the audit and issue the report. The audit was included in the Audit Plan presented to the Council in January 2014.

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Your Committee noted the Audit Report cannot be changed or altered by Council or the Administration. It is a factual account of events and actions that occurred and provides recommendations to move forward. Therefore, your Committee accepts and supports the findings and conclusions of the Audit Report as presented by the Auditor.

Your Committee voted 8-0 to recommend filing of the communication. Committee Chair Hokama, Vice-Chair White, and members Atay, Carroll, Cochran, Crivello, King, and Sugimura voted "aye." Committee member Guzman was excused.

Your Budget and Finance Committee RECOMMENDS that County Communication 17-201 be FILED.

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This report is submitted in accordance with Rule 8 of the Rules of the Council.



RIKI HOKAMA, Chair

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