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July 15, 2025

Honorable Richard T. Bissen, Jr.
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

APPROVED FOR TRANSMITTAL

 7-16-25

Acting Mayor Date

For Transmittal to:

Honorable Yuki Lei K. Sugimura, Chair
and Members of the Budget, Finance, and Economic Development Committee
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Sugimura and Members:

**SUBJECT: ANNUAL COMPREHENSIVE FINANCIAL REPORT, SINGLE
AUDIT REPORTS, AND DEPARTMENT OF WATER SUPPLY'S
FINANCIAL AUDIT REPORTS (BFED-20(11))**

Pursuant to your letter dated July 2, 2025, regarding the above-referenced matter, below are the responses to the following questions:

1. Related to Transient Accommodations Tax:
 - a. A summary of the dollar amounts owed to the County and the number of accounts, subtotaled by fiscal year.

Response: Please see the table below with the requested information. Note that this information is presented by tax year rather than fiscal year.

<i>Tax Year</i>	<i>Number of Accounts</i>	<i>Balance Owed</i>
<i>2021</i>	<i>6,973</i>	<i>\$2,845,041.13*</i>
<i>2022</i>	<i>9,141</i>	<i>\$9,289,833.66*</i>
<i>2023</i>	<i>7,600</i>	<i>\$1,348,890.07</i>
<i>2024</i>	<i>6,469</i>	<i>\$533,784.40</i>
<i>2025</i>	<i>2,863</i>	<i>\$872,090.04</i>
		<i>\$14,889,639.30*</i>

** These balances have not yet been adjusted for pre-existing reservation exclusions. Some taxpayers may have exclusions into 2023, but they are minimal.*

- b. The total dollar value and number of accounts, by fiscal year, that are currently considered uncollectible or at risk of being written off.

Response: See the response to 1.c.

- c. What is the County's formal process for reviewing and approving the write-off of uncollectible transient accommodations tax accounts, including whether Council approval is required by policy or practice. Please explain.

Response: The Department has not yet established a formal process for reviewing and approving transient accommodations taxes that need to be written off or deemed to be uncollectible. Once the new software has been implemented, and the tax data has been validated, we will be able to develop an accurate accounts receivable.

With the exception for taxpayers who were assessed and

later determined to be deceased, there will be few write-offs in the short-term, as the Department has 15 years to collect following assessment (HRS 237D-9(c)).

The Department is anticipating there will be certain accounts from tax year 2021 that may be deemed as uncollectible as they were not assessed prior to the statute expiring (HRS 237D-9(c)).

- d. Does the Department assess penalty and interest to delinquent accounts. Why or why not?

Response: Yes, the Department assesses penalties and interest in accordance with MCC 3.47.150. There are various reasons why a taxpayer is assessed penalties and interest including late filings, late payments, and fraud.

- i. If yes, has the Department been actively collecting these charges? If so, how much has been collected to date.

Response: The Department is actively collecting penalties and interest. At this time, the MCTAT Office is unable to quantify the total penalties and interest collected to date. This is due to the way the online payment data is being imported into the cashiering system; the revenue from taxes and penalties and interest is all being booked under the TAT tax subobject code. The MCTAT Office has been in contact with ITS and the cashiering software vendor to properly separate out the revenue sources. Once the new software is implemented, the MCTAT Office will be able to accurately quantify the amount of revenue that needs to be reclassified to the penalties and interest subobject code.

The MCTAT Office can quantify penalty and interest collections that were manually cashiered: \$13,062.20. The MCTAT Office has assessed \$3,200,321.00 in penalties and interest to date. Additionally, the MCTAT Office has assessed \$3,895,318.88 in penalties and interest for filings that have no corresponding payments made yet. This could be due to in-transit

transactions for recent filings that the MCTAT Office has not yet matched up to payments or for taxpayers that have not yet paid.

- ii. Will the new software reduce the manual work currently required for billing and collection? Please explain.

Response: Yes, it absolutely will. The software will automate many of the MCTAT Office's manual processes, not just for billing and collections. The MCTAT Office still does not have an accounts receivable. The new software will simplify the reconciliation process between state filings and county payments, to establish an accounts receivable that will be the basis for assessments and collections. Once the MCTAT Office concludes its data cleanup and delinquent assessments, the focus will shift to real-time reconciliation discrepancies, assessments, and collections.

- e. A copy of the existing policy and procedure for managing transient accommodations tax accounts. Please clarify whether potential write-offs will require Council approval.

Response: While the Department has policies and procedures for daily operations, we have been consulting with Corporation Counsel regarding procedures for write-offs and handling uncollectible accounts. Likewise, we have also discussed the need to amend Maui County Code and create rules pertaining to the MCTAT program. Write-off thresholds will be codified in each.

- f. The Department's plan for pursuing collection of older and unpaid liabilities. Specifically, does the Department plan to use an outside collection agency or take legal action? If so, under what conditions?

Response: The MCTAT Office is systematically working from tax year 2021 forward to sanitize its data, process

pre-existing reservations exclusions, and determine how to proceed with delinquent accounts. The MCTAT Office plans to send out delinquent assessments for tax year 2022 in the second and third quarters of FY26, prior to the statute of limitation expiration to assess on April 20, 2026. Issuing the assessments will preserve the County's right to collect while still allowing the MCTAT Office time to work out any account discrepancies that resulted in an assessment that may be incorrect due to taxpayer error (e.g. the taxpayer filed in or paid the wrong county, or the taxpayer filed under one TA account but paid Maui County under a different TA account).

The Department recently amended its contract with its collections vendor to add the MCTAT Office. The MCTAT Office has not yet established when it will use this vendor's services as opposed to leveraging other enforcement avenues, such as with Planning, or pursuing legal actions.

- g. The Department's plan for identifying cases where entities may not have filed transient accommodations tax returns.

Response: The Department plans to transform the MCTAT Office into a separate division within Finance, which would include adding positions for enforcement and appeals.

The MCTAT Office has been working with the Department of Planning to match up permitholders with TA accounts as well as to discuss whether any code amendments that may be necessary to allow for cross-departmental reporting for enforcement purposes (e.g. adding the MCTAT Office to MCC 19.64.060(H), 19.64.065(F), 19.64.065(H), 19.65.070(G), 19.65.080(E), and 19.65.080(H)).

The Department is also exploring options for the MCTAT Office to provide Planning with a delinquent taxpayer report for its permitholders; requiring permitholders provide Planning with a tax clearance from the MCTAT Office; and for Planning to enforce its revocation authority under MCC

19.64.060(G) and 19.65.070(F) if a permitholder owes MCTAT).

Once the MCTAT Office has an enforcement position, it can plan to conduct proactive and reactive enforcement operations and investigations, which may include follow up on complaints that Planning receives. The MCTAT Office may also explore the details of Planning's contract with its vendor for scraping data from online reservation platforms for compliance.

- h. A summary of the project plan for the new software, including the projected cost, contract status, and a detailed implementation timeline with key milestones.

Response: The Department awarded the RFP to Fast Enterprises, LLC on June 24, 2025. The contract has not been executed yet. The purchase price is \$6,991,410 for a five-year contract with five, one-year options to extend. The MCTAT Office will start the project on September 1, 2025, and the vendor has committed to a nine-month implementation timeline with an expected go-live in June 2026. A detailed implementation timeline with key milestones will be forthcoming. Part of the implementation may include entering into a Memorandum of Understanding with the Department of Taxation to access real-time state filing data.

- i. Will the implementation change current or projected staffing needs? Please explain.

Response: This is to be determined. The MCTAT Office is anticipating that the vendor will be onsite during implementation and will require the users to dedicate significant time to scope and build based on existing laws, procedures, and workflows. Apart from the implementation, the MCTAT Office has already identified increase staffing needs as mentioned in the response to question 1.g.

- ii. Will the new software reduce the manual work currently required for billing and collection? Please explain.

Response: Duplicate question to 1.d.ii.

2. Related to Staffing:

- a. For Accountant III and Accountant IV, please provide the number of vacancies for each, in addition to the following:
 - i. The position title and department division.
 - ii. The current starting salary.
 - iii. The vacancy date and days vacant.
 - iv. The date recruitment was initiated and current status (open, closed, pending, candidate selected, etc.).
 - v. Whether the position is funded in the current fiscal year budget.

Response: For Accountant III, there are two vacancies and for the Accountant IV, there is one vacancy.

P-31618 Accountant III vacancy in the Accounts Division. The current starting salary is \$5,369 monthly. The vacancy opened on 01/16/2025 and it has been vacant for 166 days. Open Recruitment was initiated on 01/07/2025 but interviews conducted thus far have resulted in applicants declining the job offer. We are currently waiting for additional applicants. This position is funded in the current fiscal year budget.

P-33629 Accountant III vacancy in the Accounts Division. The current starting salary is \$5,369 monthly. This position was temporarily transferred in fiscal year 2025 from the Administration Division and was permanently transferred effective 07/01/2025. The position was originally open for recruitment on 09/01/2024, internal interviews were held but no selection was made. The Accountant III position has been on continuous open recruitment for over a year and half with no external applicants. This position is funded in the current fiscal year budget.

P-30594 Accountant IV is vacant in the Accounts Division. The current starting salary is \$6,043 monthly. The vacancy opened on 04/14/2025 and it has been vacant

for 84 days. Open Recruitment was initiated on 03/27/2025 but candidates declined interviews. We are currently waiting for additional applicants. This position is funded in the current fiscal year budget.

- b. Which of these vacancies, if left unfilled, present the highest risk to the County's financial operations? For each high-risk vacancy, please describe the Department's mitigation strategy if the position cannot be filled in the near term.

Response: The Accountant III (P-33629) position in the general ledger section poses the highest risk to the County's financial operations. If the position cannot be filled in the near term, the division will need to consider reallocating the position to attract applicants. The division also needs to consider adding more staffing to alleviate the workload.

- c. The Department's plan to increase competitiveness in recruitment, including any proposed adjustments to compensation, recruitment outreach, or remote work options.

Response: The Accounts division is working to offer a recruitment incentive for the vacant positions. The Department of Finance currently does not offer a remote work option.

- d. A description of the steps taken to mitigate staffing shortages, such as using temporary hires, contract accountants, or consultants. If these options have not been pursued, please explain why.

Response: The Accounts Division has not utilized the options above for various reasons. The division has not come across accountants who are willing to pursue temporary roles and from a bargaining unit perspective, we are not able to contract or use temporary agencies to hire accountants. The division will explore the use of consultants this fiscal year.

- e. A description of any structural changes, such as reassigning responsibilities or creating new positions, that have been implemented or are under consideration to address internal control and processing issues.

Response: Due to the vacancies, the division has had to temporarily reassign responsibilities to employees who may have the excess capacity. The department takes into consideration segregation of duties to address internal controls when assigning responsibilities.

- f. A description of the Department's current staff training plan to improve financial reporting accuracy and federal grant compliance. Please also describe any recent improvements to internal controls and how the Department is monitoring progress.

Response: The division has not had an opportunity to pursue staff training to the level that is necessary and desired. However, regarding federal grant compliance, the Grant Compliance Manager position is currently in open recruitment. Once the position is filled, this position will be responsible for the monitoring of federal grants and compliance.

- g. Has the Department encountered significant delays in processing recruitments for vacant positions? Please explain.

Response: Our department initiates the recruitment process as soon as we become aware that a position will be vacant. Any delays typically occur during the posting phase, which is handled by the Department of Personnel Services.

- h. The average turnover rate for each Department division for the last 12 months.

Response: The turnover rates listed below include movements within the division, within the department, and employees leaving the department. The turnover rates for the last 12 months are as follows: Purchasing Division 0%; Director's Office 6%; Treasury Division 16%; Accounts Division 23%; Real Property Assessment Division 24%; and DMVL Division 37%.

3. Related to Federal Grant Reimbursements and Cash Flow Planning:

- a. Please explain the County's current cash flow plan to manage the lag between federal grant expenditures and reimbursements, particularly for the Community Development Block Grant Disaster Recovery and Federal Emergency Management Agency grants.

Response: The cash management approach will be similar to that which we currently employ to pay our weekly accounts payable. These recovery payments will come through our accounts payable process. The County uses a tiered cash management approach utilizing cash flow forecasts. The U. S. Department of Housing and Urban Development (HUD) has committed to repayment of expenditures within one month of receipt of invoice. With a one- or two-month turnaround time, the County will be able to manage the cash outflow. Once cash inflows begin and the earlier outflows are replenished the entire process of cash outflow and inflow repeats and the impact to cash liquidity is minimized.

- b. What assurances does the Department have that the reimbursements will be timely and the County has the necessary cash flow should there be a lag or discrepancy in the expenditure? Please explain.

Response: The CDBG-DR team conducts monthly coordination meetings with the County's Department of Finance and Treasury Division to align financial processes and ensure adequate cash flow is maintained to support expenditures while awaiting reimbursement through HUD's Disaster Recover Grant Reporting (DRGR) system.

CDBG-DR has established robust financial controls to ensure that all CDBG-DR reimbursements are both timely and well-documented. Expenditures are continuously monitored and reconciled between HUD's DRGR system and the County's Finance Enterprise accounting system.

A dedicated fiscal team within the CDBG-DR Program has been established to manage this process. This team is responsible for tracking expenditures, submitting drawdown requests, and ensuring that reimbursement requests are submitted on a weekly basis. Additionally, any

discrepancies identified between expenditures and reimbursements are promptly investigated and resolved through established reconciliation protocols.

These internal procedures—along with monthly reconciliation across financial systems and ongoing oversight by the Office of Recovery—provide the County with confidence that cash flow needs will be met and reimbursement processes will remain timely, even in the event of delays or data discrepancies.

- c. The funding and drawdown process for the administrative component of the CDBG-DR grant. Please describe how these funds are requested, disbursed, and tracked.

Response: How Funds are Requested and Received:

- 1. The County submits draw requests to HUD through the Disaster Recovery Grant Reporting (DRGR) system after eligible costs have been incurred. This includes costs for County-led activities as well as work done by subrecipients, such as nonprofit or community organizations that have a contract with the County.*
- 2. All draw requests—whether for County or subrecipient expenses—must be supported by documentation such as invoices, timesheets, or contracts. The County reviews and approves these requests before submitting them to HUD. Once HUD approves, funds are released by the U.S. Treasury and deposited into the County's account.*

How Funds Are Tracked:

All funds are tracked in the County's financial system under separate accounts for each program or subrecipient. Subrecipients are required to submit regular reports and documentation to the County before any funds are reimbursed. The County performs regular monitoring and reconciliations to ensure that funds are spent only on eligible activities and are aligned with the approved Action Plan.

Oversight and Accountability:

The County uses strong internal controls to manage and monitor both administrative and program funds. In addition to staff oversight, we are supported by a disaster recovery consultant and an internal auditor. The County is also subject to HUD monitoring and independent audits to ensure transparency and compliance with federal rules.

- d. The County's plan for managing CDBG-DR grant reporting and compliance. Please include:
 - i. The process for preparing and submitting reimbursement requests.

Reimbursement Process:

1. *Document Expenses:* County departments and subrecipients must first incur eligible costs and gather all supporting documentation, such as invoices, contracts, and timesheets.
 2. *Submit to CDBG-DR Finance Team:* Documentation is submitted to the CDBG-DR Finance Team for review. The team verifies that expenses align with approved program budgets and HUD rules.
 3. *Review and Approval:* The CDBG-DR Program Office conducts a second-level review to ensure accuracy, eligibility, and proper documentation. If the costs meet all requirements, the reimbursement request is approved.
 4. *Draw Request to HUD:* The County submits the approved reimbursement request through HUD's DRGR system. Once HUD approves the draw, funds are released to the County.
 5. *Disbursement of Funds:* After receiving the funds, the County reimburses internal departments or subrecipients accordingly.
- ii. The roles and responsibilities of staff and any planned consultants.

Grant and Financial Management: The Grant and Financial Management Team is responsible for overseeing the sound financial stewardship of all CDBG-DR funds in accordance with HUD's financial management certification requirements, 2 CFR Part 200, and the CDBG-DR Universal Notice.

Programs Chief: The Programs Chief provides executive oversight for the implementation of the CDBG-DR program and the associated financial management framework:

- Lead overall implementation of the CDBG-DR program, including planning, policy development, program design, and performance monitoring*
- Oversee the development and execution of program management systems, staffing structures, and cross-departmental coordination*
- Supervise the integration of programmatic and financial operations to ensure compliance and efficiency*
- Coordinate development and submission of the Action Plan, amendments, performance reports, and other HUD-required documentation*
- Oversee risk management and monitoring activities to identify and resolve implementation challenges*
- Serve as the primary liaison with HUD, state and federal agencies, and external auditors on both programmatic and financial matters*
- Provides strategic leadership and oversight of the financial management framework for all CDBG-DR activities*

Fiscal Officer:

- Ensures financial policies and procedures are in place and consistent with HUD requirements, including internal controls, segregation of duties, and financial reporting standards*
- Coordinates across departments to align budget planning, expenditure tracking, and performance*

metrics

- *Leads the development of financial monitoring plans and risk assessments as required by HUD*
- *Coordinates with HUD and external auditors on overall financial performance and compliance*
- *Manages day-to-day accounting, budgeting, and cash management functions for the CDBG-DR program*
- *Prepares and reconciles financial statements, tracks expenditures against budgeted activities, and ensures timely drawdowns through the Disaster Recovery Grant Reporting (DRGR) system*
- *Supports procurement and contract finance reviews, including cost reasonableness, allowability, and allocability assessments*
- *Implements controls to ensure non-duplication of benefits, proper documentation of costs, and compliance with federal financial standards*

Grant Manager:

- *Coordination and supervision of program accountants responsible for processing expenditures, reconciliations, and documentation*
- *Manage and ensure the accuracy of all DRGR system entries, including obligations, drawdowns, and performance data*
- *Monitor expenditure trends across CDBG-DR activities to ensure consistency with approved budgets and Action Plan allocations*
- *Ensure timely and compliant drawdown requests, working with program and finance teams to reconcile spending and maintain audit-ready records*
- *Support the development of policies and procedures for financial compliance, internal controls, and documentation standards*
- *Prepare and review grant financial reports for HUD submissions, audits, and internal monitoring reviews*
- *Assist in the financial monitoring of subrecipients*

and contractors to ensure costs are eligible, allowable, and adequately supported

- *Preparing and submitting the County's quarterly performance report until grant close-out*

Audit: The audit functional area will be employed by the County Office of Recovery (OOR) and will report directly to the Mayor. Given the size of the County's CDBG-DR allocation and the complexity of its programs, internal audit will require a dedicated team rather than a single individual. The audit team conducts internal audits to ensure accountability, transparency, and compliance with federal, state, and local regulations related to CDBG-DR funds. Duties include but are not limited to:

- *Ensuring compliance with CDBG-DR policies and procedures*
- *Ensuring accurate grant reporting*
- *Conducting internal reviews, risk assessments, and audits to identify potential issues*
- *Recommending corrective actions based on identified issues*
- *Performing follow-up audits to check on implementation*
- *Coordinating with external auditors, including HUD and the HUD Office of Inspector General, as needed*

Implementation Contractor Oversight and Compliance Manager:

- *Tracks task order implementation and assesses contractor performance with contractual scope and deliverables. The County's implementation contractor will provide support for environmental reviews required for all applicable CDBG-DR-funded activities. This support may include preparing Environmental Review Records, conducting site assessments, coordinating with relevant regulatory agencies, and assisting with all documentation required.*

- iii. The steps the County is taking to ensure timely submissions, compliance with grant requirements, and ongoing monitoring.

Response: The County of Maui has implemented a series of measures to ensure timely submissions, compliance with HUD grant requirements, and effective ongoing monitoring of the CDBG-DR program.

Key Steps Include:

- 1. Dedicated Program Structure: A specialized CDBG-DR team has been established with defined roles and responsibilities across program, fiscal, and compliance functions to ensure alignment with federal requirements.*
 - 2. Formal Policies and Procedures: Required financial management policies and certifications, as required were approved by HUD.*
 - 3. Regular Monitoring and Risk Management: Internal reviews are conducted to assess compliance, track expenditures, and monitor subrecipient performance.*
 - 4. Use of HUD and Internal Systems: The DRGR system is used to track obligations, expenditures, and performance. Internal systems are maintained to reconcile data and ensure accuracy.*
 - 5. Training and Technical Assistance: Ongoing training is provided to staff and subrecipients on federal compliance requirements. The County also engages a disaster recovery consultant and a HUD provided technical assistance specialist to support policy development, monitoring, and quality control.*
 - 6. Established Reporting Schedule: A calendar of required HUD deliverables has been implemented to support timely submission of Action Plan amendments, quarterly performance reports, and other federal reports.*
- e. The current average processing time for FEMA and CDBG-DR reimbursements. Has the County experienced any reimbursement delays to date? Please explain.

Response: The County of Maui is preparing to submit its first

draw request for CDBG-DR funds through HUD's DRGR system. Based on ongoing coordination and preliminary reviews with HUD, no delays are anticipated. All required documentation, internal controls, and financial procedures have been established in accordance with HUD's requirements to support a smooth and timely reimbursement process.

The County continues to work closely with HUD to ensure timely, complete, and compliant submissions. These efforts are aimed at maintaining consistent cash flow and avoiding any disruptions in the implementation of disaster recovery activities.

The Department of Finance cannot speak to the processing time for FEMA reimbursements but depending on the declared disaster, payments are received at varying times.

Should you have any questions, please feel free to contact me or Deputy Director Maria Zielinski at extension 7722.

Sincerely,



MARCY MARTIN
Director of Finance

BFED Committee

From: Michelle L. Santos <Michelle.Santos@co.maui.hi.us>
Sent: Wednesday, July 16, 2025 2:57 PM
To: BFED Committee
Cc: Cynthia E. Sasada; Erin A. Wade; Josiah K. Nishita; Kelii P. Nahooikaika; Marcy L. Martin; Maria E. Zielinski; Stacey M. Vinoray
Subject: MT#11132 ANNUAL COMPREHENSIVE FINANCIAL REPORT, SINGLE AUDIT REPORTS, AND DEPARTMENT OF WATER SUPPLY'S FINANCIAL AUDIT REPORTS
Attachments: MT#11132-BFED Committee.pdf