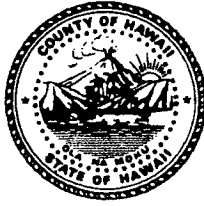


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December 11, 2006

Mr. Myles Y. Miyasato, Chair
and Commissioners
Cost of Government Commission
c/o 101 Aupuni Street, Suite 325
Hilo, Hawai'i 96720

Re: *Independent Audit of Hawai'i County*
(12/7/06 Agenda Item 7-k)

Dear Chair Miyasato and Commissioners:

It was a pleasure to work with the Commission last week. This letter is in response to the question raised at the meeting on whether, and how often, an independent audit of the County's departments is done. This question arose during the discussion of Mr. Sakaguchi's recommendation (agenda item 7-k) to contract every three years with the State of Hawai'i Legislative Auditor's Office to conduct a *management and program* audit of all or selected County departments to identify new practices or procedures which should be in place for efficiency and cost savings.

The County has a provision for a *program* audit. Article III, Section 3-16, of the Hawai'i County Charter, Mandatory Program Review, provides that at least once every four years the County Council must critically review every program supported wholly or partially by County funds, and unless the Council favorably authorizes its continuation at current or modified levels, the program will be terminated.

There is also a Charter provision for a *financial* audit. Article X, Section 10-13, of the Hawai'i County Charter, Post-Audit, provides for an annual audit. The County Council is responsible for providing an independent audit, at least once every year, of the accounts and other financial transactions of the County and of every County agency and executive agency. The audit must include both financial accountability and adequacy of the financial and accounting system. The audit must be done by a certified public accountant, or firm of accountants, who have no personal interest in the fiscal affairs of the County or its agencies.

This Charter section also provides that if the State of Hawai'i performs an audit, the Hawai'i County Council may accept it as satisfying the annual audit requirement. I spoke with Deanna Sako, controller at the Finance Department, who confirmed that the County as a whole is

Mr. Miyles Miyasato, Chair
and Commissioners
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audited annually. She clarified that if the state were to independently audit the counties, it would do so at the directive of the state legislature.

In addition to the County Charter provision for an annual financial audit, state law requires an annual audit of the Board of Water Supply, and the audit report filed with the County Council (*see* Hawai'i Revised Statutes Section 54-20).

I hope this information sufficiently addresses the Commission's question. Copies of the relevant County Charter sections are enclosed for your reference. Please feel free to contact our office if you have any further questions.

Very truly yours,



Diane A. Noda
Deputy Corporation Counsel

DAN:mc

Enclosures

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