

COMMITTEE ON RESOURCE MANAGEMENT
Dan Ahuna, Chairperson
Robert K. Lindsey, Jr., Vice Chairperson
Leina'ala Ahu Isa, At-Large
Kalei Akaka, O'ahu
Keli'i Akina, At-Large
Brendon Kalei'aina Lee, At-Large
Carmen Hulu Lindsey, Maui
Colette Y. Machado, Moloka'i/Lāna'i
John Waihe'e IV, At-Large



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**THE COMMITTEE ON
RESOURCE MANAGEMENT**

DATE: Wednesday, January 22, 2020
TIME: 10:00 am
PLACE: OHA Board Room, Nā Lama Kukui
560 N. Nimitz Hwy., Suite 200
Honolulu, HI 96817

AGENDA

- I. Call to Order
- II. Public Testimony*
- III. New Business
 - A. Approval of Minutes
 1. July 31, 2019
 2. September 4, 2019
 3. November 27, 2019
 4. December 4, 2019
 - B. Presentation by Administration of its DRAFT Recommendations Implementation Plan on the recommendations contained in the final report prepared by CliftonLarsenAllen LLP (CLA).
- IV. Announcements
- V. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting.

*Notice: Persons wishing to provide testimony are requested to submit 13 copies of their testimony to the Chief Executive Officer at 560 N. Nimitz, Suite 200, Honolulu, HI, 96817 or fax to 594-1868, or email BOTmeetings@oha.org 48 hours prior to the scheduled meeting. Persons wishing to testify orally may do so at the meeting, provided that oral testimony shall be limited to five minutes.

*Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.

*Notice: This portion of the meeting will be closed pursuant to HRS § 92-5.

A handwritten signature in black ink that reads "Dan Ahuna".

Trustee Dan Ahuna
Chairperson, Committee on Resource Management

01-15-2020

Date

COMMITTEE ON RESOURCE MANAGEMENT
Dan Ahuna, Chairperson
Robert K. Lindsey, Jr., Vice Chairperson
Leina'ala Ahu Isa, At-Large
Kalei Akaka, O'ahu
Keli'i Akina, At-Large
Brendon Kalei'aina Lee, At-Large
Carmen Hulu Lindsey, Maui
Colette Y. Machado, Moloka'i/Lāna'i
John Waihe'e IV, At-Large



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**THE COMMITTEE ON
RESOURCE MANAGEMENT**

DATE: Wednesday, January 22, 2020
TIME: 10:00 am
PLACE: OHA Board Room, Nā Lama Kukui
560 N. Nimitz Hwy., Suite 200
Honolulu, HI 96817

AGENDA

- I. Call to Order
- II. Public Testimony*
- III. New Business
 - A. Approval of Minutes
 - 1. July 31, 2019
 - 2. September 4, 2019
 - 3. November 27, 2019
 - 4. December 4, 2019
 - B. Presentation by Administration of its DRAFT Recommendations Implementation Plan on the recommendations contained in the final report prepared by CliftonLarsenAllen LLP (CLA).
- IV. Announcements
- V. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting.

*Notice: Persons wishing to provide testimony are requested to submit 13 copies of their testimony to the Chief Executive Officer at 560 N. Nimitz, Suite 200, Honolulu, HI, 96817 or fax to 594-1868, or email BOTmeetings@oha.org 48 hours prior to the scheduled meeting. Persons wishing to testify orally may do so at the meeting, provided that oral testimony shall be limited to five minutes.

*Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.

*Notice: This portion of the meeting will be closed pursuant to HRS § 92-5.

A handwritten signature in black ink that reads "Dan Ahuna".

Trustee Dan Ahuna
Chairperson, Committee on Resource Management

01-15-2020

Date

**STATE OF HAWAII'
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HIGHWAY, SUITE 200**

**COMMITTEE ON RESOURCE MANAGEMENT
MINUTES**

**September 4, 2019
10:00 am**

ATTENDANCE:

Chairperson Dan Ahuna
Trustee Kalei Akaka
Trustee Keli'i Akina
Trustee Brendon Kaleiaina Lee
Trustee Carmen Hulu Lindsey
Vice Chairperson, Robert K. Lindsey, Jr.
Trustee Colette Machado
Trustee John Waihe'e, IV

Zuri Aki
Brandon Mitsuda
Melissa Wennihan
Priscilla Nakama
Nathan Takeuchi

ADMINISTRATION STAFF:

Sylvia Hussey, CEO
Raina Gushiken, CC
Miles Nishijima, LPD
Luci Meyer, Genealogy
Lisa Victor, CTO
Keola Lindsey, CADV
Kahealani Peleas, CE
Grace Chen, RMFS
Gloria Li, ICFO

EXCUSED:

Trustee Leina'ala Ahu Isa

BOT STAFF:

Ron Porter
Kauikeaolani Wailehua
Kama Hopkins
Lopaka Baptiste
Maria Calderon
Alyssa Kau
Lehua Itokazu
Lei Ann Durant

GUESTS:

Kurt W. Klein, Board Counsel

I. CALL TO ORDER

Chair Ahuna calls the Committee on Resource Management meeting for Wednesday, September 4, 2019 to order at 10:02 a.m.

Chair Ahuna - Asks for a roll call vote. Below is the record of trustees **PRESENT**:

TRUSTEE			AT CALL TO ORDER (10:02 am)	COMMENTS
CHAIR	DAN	AHUNA	X	
TRUSTEE	LEINA'ALA	AHU ISA		Excused
TRUSTEE	KALEI	AKAKA	X	
TRUSTEE	KELI'I	AKINA	X	
TRUSTEE	BRENDON KALEIAINA	LEE	X	
TRUSTEE	CARMEN HULU	LINDSEY	X	
VICE CHAIR	ROBERT	LINDSEY	X	
TRUSTEE	COLETTE	MACHADO	X	
TRUSTEE	JOHN	WAIHE'E		Arrived at 10:03 am

At the Call to Order, SEVEN (7) Trustees are PRESENT, thereby constituting a quorum.

II. PUBLIC TESTIMONY

Chair Ahuna - Asks if there's any public testimony.

Germaine Meyers – Greets Trustees. Speaks about CLA Contract #3284, it's amendment and the CLA update by Kama Hopkins.

Chair Ahuna – States that for New Business III. C. Workshop Budget Realignment documents weren't received in time therefore; I'm requesting a 72 - hour waiver for this item.

Chair Ahuna – Calls on Ka Pounui Sylvia Hussey.

ICEO Hussey - Asks Ray Matsuura to come up and speak about Action Item RM 19-13 as it relates to the investment policy statement.

Ray Matsuura – Greets Trustees. Discussion occurs regarding revisions to various sections of the investment Policy Statement and Sections 4.

III. New Business

- A. **Action Item RM #19-13 – Approval of and authorization to amend page 1 of the Investment Policy Statement and Sections 4 (“Delegation of Authority”), Section 13 (“Procedure for Selecting and Reviewing Investment Advisors”) and Section 16 (“Adding New Asset Classes”).**

Trustee Waihe'e moves that the Board of Trustees approve the amendments to the Native Hawaiian Trust Fund Investment Policy Statement as described in Exhibit A.

Trustee Colette Machado seconds the motion.

Chair Ahuna- Is there any discussion.

Vice Chair R. Lindsey – Commends Ray and staff for a well-done Action Item. It's clear, concise and in his view its very rational. It makes sense that this item moves forward.

Chair Ahuna – Any other questions. Hearing none. He asks for a roll call vote.

Trustee Waihe'e moves that the Board of Trustees approve the amendments to the Native Hawaiian Trust Fund Investment Policy Statement as described in Exhibit A.

Trustee Colette Machado seconds the motion

TRUSTEE			1	2	Y	N	Kanlua	Abstain	Excused
CHAIR	DAN	AHUNA			X				
TRUSTEE	LEINA'ALA	AHU ISA							Excused
TRUSTEE	KALEI	AKAKA			X				
TRUSTEE	KELI'I	AKINA			X				
TRUSTEE	BRENDON KALEIAINA	LEE			X				
TRUSTEE	CARMEN HULU	LINDSEY							Not present at vote

VICE CHAIR	ROBERT	LINDSEY			X			
TRUSTEE	COLETTE	MACHADO		X	X			
TRUSTEE	JOHN	WAIHE'E	X		X			
					7			2

MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

B. Action Item RM #19-16 – Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

Chair Ahuna – Calls on Interim CEO Sylvia Hussey for Item III B.

A discussion occurs regarding Action Item RM #19-16.

Trustee Waihe'e moves that the Board of Trustees 1) Approve the new Fiscal Stabilization Policy including withdrawal guidelines as detailed in Attachment A. and 2) Eliminate the Fiscal Reserve withdrawal guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

Trustee C. Hulu Lindsey seconds the motion

Chair Ahuna- Asks if there's any discussion?

More discussion with Trustees.

Chair Ahuna – Any other questions? Hearing none. He asks for a roll call vote.

Trustee Waihe'e moves that the Board of Trustees 1) Approve the new Fiscal Stabilization Policy including withdrawal guidelines as detailed in Attachment A. and 2) Eliminate the Fiscal Reserve withdrawal guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

Trustee C. Hulu Lindsey seconds the motion

TRUSTEE			1	2	Y	N	Kanalua	Abstain	Excused
CHAIR	DAN	AHUNA			X				
TRUSTEE	LEINA'ALA	AHU ISA							Excused
TRUSTEE	KALEI	AKAKA			X				
TRUSTEE	KELI'I	AKINA			X				
TRUSTEE	BRENDON KALEIAINA	LEE			X				
TRUSTEE	CARMEN HULU	LINDSEY		X	X				
VICE CHAIR	ROBERT	LINDSEY			X				
TRUSTEE	COLETTE	MACHADO			X				
TRUSTEE	JOHN	WAIHE'E	X		X				
					8				1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

C. Workshop: Budget Realignment
Discussion on the budget realignment.

D. Review of CLA Status Report #4 – Kama Hopkins
Discussion on the CLA Status report #4.

III. EXECUTIVE SESSION

Chair Ahuna - Asks to call for the vote to go into executive session.

TRUSTEE			1	2	Y	N	Kanalua	Abstain	Excused
CHAIR	DAN	AHUNA			X				
TRUSTEE	LEINA'ALA	AHU ISA							Excused
TRUSTEE	KALEI	AKAKA			X				
TRUSTEE	KELI'I	AKINA			X				
TRUSTEE	BRENDON KALEIAINA	LEE			X				
TRUSTEE	CARMEN HULU	LINDSEY	X		X				
VICE CHAIR	ROBERT	LINDSEY			X				
TRUSTEE	COLETTE	MACHADO		X	X				
TRUSTEE	JOHN	WAIHE'E			X				
					8				1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Ahuna - Resolves the Board of Trustees into executive session at 11:38 a.m.

Chair Ahuna – RM meeting is back in open session at 11:49 p.m.

V. ADJOURNMENT

Chair Ahuna - Calls for the vote to adjourn the RM Committee meeting.

TRUSTEE			1	2	Y	N	Kanalua	Abstain	Excused
CHAIR	DAN	AHUNA			X				
TRUSTEE	LEINA'ALA	AHU ISA							Excused
TRUSTEE	KALEI	AKAKA			X				
TRUSTEE	KELI'I	AKINA			X				
TRUSTEE	BRENDON KALEIAINA	LEE			X				
TRUSTEE	CARMEN HULU	LINDSEY	X		X				
VICE CHAIR	ROBERT	LINDSEY			X				
TRUSTEE	COLETTE	MACHADO		X	X				
TRUSTEE	JOHN	WAIHE'E			X				
					8				1

Chair Ahuna – Adjourns the meeting at 11:50 am

Respectfully submitted,

Kauikeaolani Wailehua
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on _____.

Trustee Dan Ahuna
Chair
Committee on Resource Management

ATTACHMENT(s):

- Action Item RM #19-13, Approval of and authorization to amend page 1 of the Investment Policy Statement and Sections 4 ("Delegation of Authority"), Section 13 ("Procedure for Selecting and Reviewing Investment Advisors") and Section 16 ("Adding New Asset Classes").
- Action Item RM #19-16 – Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy
- Absence Memo – Trustee Lema'ala Ahu Isa


OFFICE OF HAWAIIAN AFFAIRS
Action Item

Committee on Resource Management
September 4, 2019

RM - # 19-13

Action Item Issue: Approval of and authorization to amend page 1 of the Investment Policy Statement and Sections 4 ("Delegation of Authority"), Section 13 ("Procedure for Selecting and Reviewing Investment Advisors") and Section 16 ("Adding New Asset Classes").

Prepared by:


Raymond Matsuura, CFA
Pou Kako'o Mahele Kumupa'a, Investment Manager

8/28/19

Date

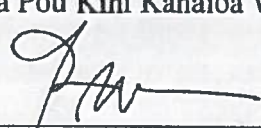
Reviewed by:


Gloria Li,
Ka Pou Kihi Kanaloa Wai Kūikawā, Interim CFO

8/28/19

Date


Reviewed by:


Raina P.B. Gushiken,
Ka Paepae Puka, Senior Corporate Counsel

8/28/19

Date

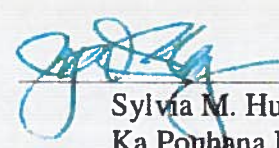
Reviewed by:


Lisa Watkins-Victorino, PH.D
Ka Pou Nui Kūikawā, Interim COO

8/28/19

Date

Reviewed by:


Sylvia M. Hussey, ED.D
Ka Pouhana Kūikawā, Interim CEO

8/28/19

Date

Approved by:


Trustee Dan Ahuna,
Luna Ho'omalua Komike, RM Chairperson

8/29/19

Date

I. Proposed Action:

The Board of Trustees (BOT) approves the amendments to the Native Hawaiian Trust Fund (NHTF) Investment Policy Statement (IPS) as described in **Exhibit A** (OHA IPS Revisions table and redline copy of IPS).

II. Issue:

Whether or not the Board of Trustees should approve the proposed changes to the Investment Policy Statement (IPS), as described in **Exhibit A**. The proposed changes to the IPS primarily relate to the selection process for Investment Advisors. Minor textual and grammatical changes will also be made to the IPS. By effecting the changes, the NHTF will be better positioned to achieve its long-term goals by streamlining, with the Investment Consultant, the manager selection/hiring process.

III. Background:

The Board of Trustees adopted the current NHTF IPS on September 27, 2017. The IPS serves as the foundation as to how the NHTF is to be managed. It specifies the responsibilities, procedures, guidelines, and constraints for decision making and management. It is reviewed on an annual basis and proposed changes are brought before the Board for approval. .

IV. Discussion:

The recommended changes are to update and clarify the language within the IPS, specifically to Page 1, and Sections 4 (“Delegation of Authority”), 13 (“Procedure for Selecting and Reviewing Investment Advisors”) & 16 (“Adding New Asset Classes”). The removal of some of the language on Page 1 specifically addresses the word “predominately”. The NHTF is strategically moving away from the Manager-of-Managers approach to hiring Investment Advisors directly; thus gaining greater transparency and reducing costs. The minor changes to Sections 4 and 16 are to improve clarity.

Section 13 outlines the specific process for the selection of Investment Advisors for approval by the BOT. The initial screening and recommendations will be made by the Investment Consultant; see background information in **Exhibit C** (Segal Marco Advisors “Manager Research Process”). This task had been previously assigned to the in-house Investment staff following State procurement procedures which required issuing a “Request for Proposal” (RFP). This process proved to be difficult because the staff did not have the resources for a broad advisor search nor the expertise in all investment markets. Clarification of HRS 103D-102(b)(2)(F), specifically identifies Investments as exempt from State procurement.

The proposed changes will streamline the investment manager selection process by allowing the Consultant, Segal Marco Advisors, to perform the initial search and screening of the candidates. Segal, as a fiduciary to OHA, does not receive any commissions or fees for

their work in the selection process. As part of their regular duties, Segal monitors not only performance but also any changes within the firms they recommend as part of their due diligence (**Exhibit C**).

Please see **Exhibit A** for the proposed changes to the Investment Policy Statement.

V. Recommended Action:

To approve and authorize the changes to the IPS as described in **Exhibit A**.

VI. Alternative Action:

- A. To approve the NHTF IPS amendments as described in **Exhibit A**.
- B. Decline to approve the amendments to the NHTF IPS.
- C. Take no action.

VII. Time Frame: Immediate action is recommended. If approved, the changes will become effective on November 1, 2019.

VIII. Attachments:

Exhibit A: OHA IPS Revisions Table and Redline Document

Exhibit B: OHA IPS Updated Final Version

Exhibit C: Segal Marco Advisors “Manager Research Process”

OHA IPS Revisions

Section and Page	Change	Old Text	New Text
Pg. 1	Remove	predominantly utilizing the Manager-of-Managers (MoM) approach	None
4.2b, Pg. 7	Replace	Select	Approve
4.2f, Pg. 7	Replace	Annual	Quarterly
4.3m, Pg. 8	Insert	None	Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;
13.1, Pg. 17	Replace	the OHA staff will select four finalists to make an oral presentation. Evaluation factors will include three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company. A contract will be executed pursuant to the Fund's Operational Procedures.	it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102F specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:



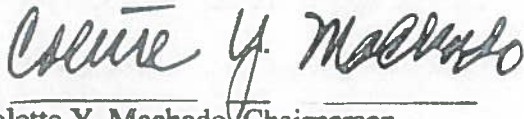
OHA IPS Revisions (cont.)

Section and Page	Change	Old Text	New Text
13.1a, Pg. 17	Insert	None	The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
13.1b, Pg. 17	Insert	None	The initial list will consist of eight to ten Advisors, but may be fewer depending on the investment approach.
13.1c, Pg. 17	Insert	None	OHA Procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
13.1d, Pg. 17	Insert	None	The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
13.1e, Pg. 17	Insert	None	OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
13.1f, Pg. 17	Insert	None	The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.

NATIVE HAWAIIAN TRUST FUND

INVESTMENT POLICY STATEMENT

The following Investment Policy Statement (IPS) has been duly adopted,
~~predominantly utilizing the Manager of Managers (MoM) approach,~~ by the Office
of Hawaiian Affairs, Board of Trustees at its meeting held on August 24, 2017 and
is in full force and effect on October 1, 2017.



Colette Y. Machado, Chairperson
Board of Trustees

9/27 / 17
Date

First Reading: August 1, 2017
Second Reading: August 24, 2017

Table of Contents

Section 1. Introduction and Scope	44
Section 2. General Objectives	55
Section 3. Standards of Care	66
Section 4. Delegation of Authority	66
Section 5. Asset Allocation Guidelines and Long Term Targets	99
Section 6. Cash Holdings	1212
Section 7. Pooled/Commingled Investments/Mutual Funds	1212
Section 8. Permissible Investments	1313
Section 9. Prohibited Investments	1616
Section 10. Derivatives Policy	1616
Section 11. Voting of Proxies	1616
Section 12. Trades, Exchanges & Valuation	1616
Section 13. Procedures for Selecting and Reviewing Investment Advisors	1717
Section 14. Liquidity Policy	1918
Section 15. Errors & Omissions	1918
Section 16. Adding New Asset Classes	1918
Section 17. Interpretation	1919
Section 18. Hawai'i Direct Investment Policy (HDIP)	1919
Section 19. Enhanced Liquidity Account Investments	2020
Section 20. Investment Risk Management Policy	2121

Distribution:

- 9- Each OHA Trustee via Asset & Resource Management Committee
- 1- OHA BOT Secretary
- 1- OHA Chief Executive Officer
- 1- OHA Chief Operating Officer
- 1- OHA Chief Financial Officer
- 1- OHA Controller
- 1- OHA Chief Investment Officer
- 1- OHA Investment Consultant
- 5- Each Investment Advisor / Non-Marketable Alternatives Provider
- 1- Custodian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

OBJECTIVES AND POLICY GUIDELINES

Section 1. Introduction and Scope

1.1 Introduction. This statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Fund").

This Policy Statement is set forth so that the Board of Trustees ("BOT") of the Office of Hawaiian Affairs ("OHA"), OHA Staff, Investment Consultant, Investment Advisors and Investment Managers (where appropriate), and beneficiaries may be made aware of the investment policy with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund's assets.

1.2 The Trust. OHA's mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the Fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement. In keeping with the fiduciary requirements and obligations of all parties involved in managing the Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") are to provide the:

- a) BOT, OHA staff, Consultant and Advisors with a clear and mutual understanding of the Fund's philosophy, investment objectives and policies;
- b) Advisors with guidance, objectives and limitations in investing the Fund's assets; and
- c) BOT with a meaningful basis to evaluate the Advisors' performance in order to meet the BOT's fiduciary responsibility to monitor prudently the Fund's investments.

This Statement represents the BOT's philosophy regarding the investment of the Fund's assets. The BOT will review and revise the Statement as needed to ensure that it continues to reflect the BOT's expectations and objectives. All of the BOT's modifications or amendments to the Statement shall be made in writing and will be provided to all Investment Advisors and Consultants.

It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable. It is further understood that all performance standards and return objectives in this Statement are intended as evaluation tools for determining whether to continue to retain the Advisors. The parties understand that the Advisors cannot give assurance of actual investment results and that the Advisors understand that the BOT will terminate its relationship with an Advisor based on a determination that the Advisor is not achieving the performance standards.

1.4 Manager-of-Managers Approach. The BOT has elected to employ Advisors in an outsourced manager-of-managers investment approach, without necessarily bundling custodial services. There is a preference for a full discretionary approach to invest across multiple asset classes. When necessary to achieve the Fund's objectives, the BOT may hire an Advisor with a non-Manager-of-Managers approach or to manage assets with a specific asset class mandate. Under the outsourcing agreement, the Advisors will assume certain BOT fiduciary responsibilities as set forth in the applicable agreement(s) between the Advisors and the BOT. The Advisors are accountable for the prudent management of all assets subject to their oversight and, where applicable, will make all key investment decisions, such as tactical asset allocation and manager selection, within the context set by this Statement and in adherence to the duties and powers set forth in the applicable management, advisory, or trust agreements. The BOT

still maintains responsibility for imposing guidelines, targets and asset allocation constraints as set forth in this Statement, and for monitoring the Advisors to ensure they act prudently and adhere to all aspects of the Statement.

1.5 Spending Policy. The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Fund's market value, excluding any Fiscal Reserve spending, using the methodology specified in the OHA Native Hawaiian Trust Fund Spending Policy. The calculation of the maximum withdrawal amounts are set forth in the Native Hawaiian Trust Fund Spending Policy and Fiscal Reserve Withdrawal Guidelines.

Section 2. General Objectives

2.1 Prioritized Investment Objectives. The overall objectives of the Fund are in the following order of priority:

- a) To grow the Fund's assets consistently by at least inflation plus five percent annually (Consistent Capital Growth);
- b) To invest in a manner that seeks to ensure the continuous preservation of purchasing power of the overall portfolio (Capital Preservation);
- c) To achieve a portfolio return that meets or exceeds the return of the Fund's Policy Portfolio Benchmark on a net of fee basis over a long time horizon (Benchmark Outperformance); and
- d) To diversify the portfolio by asset type, security (issuer) and Investment Manager to reduce the volatility of returns (Adequate Diversification).

2.2 Long-Term Objective. Consistent capital growth is the primary objective of the Fund. The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements. Consistent capital growth is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility. Since the Advisors will focus on long-term capital appreciation, the Fund may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

All parties named in this Statement shall carry out their business in compliance to all existing and future applicable state and federal regulations (Regulatory Compliance Requirement) and for assets subject to their discretion maintain adequate liquidity to meet all anticipated expenditures after sufficient notice (Adequate Liquidity Requirement).

2.3 Definition of Market Cycle. Throughout this Statement the term "market cycle" is used. Market cycles include both a rising and a declining market. Generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices. Therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

2.4 Definition of Investment Consultant, Investment Advisor and Investment Manager. Throughout this Statement the terms Investment "Consultant", Investment "Advisor" and Investment "Manager" are used. Consultant shall refer to the entity hired by the OHA Chief Executive Officer ("CEO") to assist OHA staff and BOT in overseeing the Fund and to monitor and evaluate the Advisors; "Advisor" shall refer to each Fiduciary (typically utilizing the "manager-of-managers" approach) hired by the BOT to exercise investment discretion over a portion of the Fund's assets within the parameters set forth in the Statement; and "Manager" shall refer to any portfolio manager selected by the Advisors to invest the Fund's assets.

Section 3. Standards of Care

3.1 Board of Trustees and OHA Staff. The standard of care applied to the BOT and OHA internal staff assigned to the Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

3.2 External Providers. The standard of care applied to all external providers (i.e., Consultant, Advisors (indirectly Investment Managers hired by the Advisors), and Custodian) shall be as set forth in the agreement between the BOT or CEO, as appropriate, and each external provider. The BOT will negotiate a standard for the Investment Advisors that is similar in effect to the "prudent expert" standard, defined as: "Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

3.3 Code of Ethics. OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions. OHA Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. OHA employees and officers shall refrain from undertaking personal investment transactions with entities that conduct business with the Fund. Should any Trustees have personal involvement with any direct investment transaction or any perceived conflicts of interest, the Trustee should disclose the involvement immediately and be recused from discussions and votes on said investment. OHA Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual.

Section 4. Delegation of Authority

The Office of Hawaiian Affairs Native Hawaiian Trust Fund maintains a structured and organized process in implementing its investment program. To accomplish the mission, objectives and desired investment returns of the Fund, the Board of Trustees has delegated authority to various individuals and organizations.

4.1 BOT Composition. The BOT currently consists of representatives from:

- a) O'ahu
- b) Kaua'i and Ni'ihau
- c) Moloka'i and Lana'i
- d) Hawai'i
- e) Maui
- f) At large (4)

4.2 BOT Responsibilities. The BOT recognizes that it may not possess sufficient expertise to manage directly the assets of the Fund. The BOT, therefore, employs the services of various external experts to act as Fiduciaries--Consultants, Advisors and/or Custodians and seeks advice from independent parties. The BOT does rely on this expertise in carrying out its responsibility to oversee the overall management of the Fund's assets, and will meet quarterly to review the performance of the Fund and the activities of the external providers for reasonable consistency with the objectives of the Fund as set forth in this Statement. When necessary, the BOT will provide

guidance to the investment process. BOT may delegate certain of its responsibilities to the CEO to assist with the implementation of this Statement. BOT responsibilities include, but are not limited to:

- a) Approve the Investment Policy Statement and all modifications to the Statement;
- b) ~~Select-Approve~~ Advisors and Non-Marketable Alternatives Providers. The BOT delegates authority to the CEO to select the Custodian, Consultant and Investment Advisory Committee (IAC) members;
- c) Monitor results of all Fund assets as a whole and those assigned to each Advisor. The BOT shall include in its quarterly assessment such topics as: economic outlook, portfolio diversification, asset allocation and structure, Advisors' strategies, potential risks, and the performance of the overall portfolio as well as each of the Fund's asset classes versus its benchmark rate of return and peer institutions;
- d) Review quarterly reports regarding the activities of Advisors, Consultant, Investment Advisory Committee and OHA staff overseeing the Fund;
- e) Review quarterly reports from the Custodian and Advisors regarding the composition of each Advisor's assets under management versus the Fund's strategic target and the asset class strategies of each Advisor;
- f) Review the ~~annual~~-quarterly report of the Consultant regarding the performance of the Fund and the Advisors;
- g) As necessary, review the Fund's strategic direction or significant issues impacting the Fund or Fiduciaries, and take action as appropriate;
- h) Attend a minimum of two investment educational events held in Hawai'i per year; and
- i) Attend out-of-State training, educational or due diligence events that are recommended by the CEO and approved by the Chairperson of the BOT.

4.3 Duties of the Consultant, Investment Advisory Committee, CEO and OHA Staff. The duties of the Consultant will be as set forth in the agreement entered into between the CEO and the Consultant. The duties of the Investment Advisory Committee are as outlined in the Committee's Charter. This Committee has no authority to make decisions, but only serves to provide independent comments to the Consultant, the CEO and staff, and BOT representatives regarding the economic outlook and the Fund's assets, strategies, performance, risks and Fiduciaries. The duties of the CEO, OHA staff, Investment Advisory Committee and Consultant will be set forth in the OHA Native Hawaiian Trust Fund Operational Procedures. The CEO is responsible for approving these Operational Procedures and for reviewing and approving all investment decisions not made by an Advisor, except those reserved for the BOT. The Consultant and OHA staff are responsible for assisting the CEO and the BOT in the execution of their responsibilities. Duties of the Consultant and OHA staff jointly include, but are not limited to:

- a) Monitor the performance of each Advisor's portfolio as frequently as market conditions dictate, including review of the Advisor's monthly reports;
- b) Aggregate as necessary and monitor the performance of the Fund's investment portfolios monthly and prepare quarterly performance and Advisor activity reports for review by the CEO and BOT;
- c) Monitor the monthly reconciliation of the portfolio positions and valuations among the Custodian and Advisors (OHA staff only);
- d) Seek to ensure that assets are invested in accordance with the requirements specified in this Statement;
- e) Recommend to the CEO and implement operational procedures that will enhance the investment program of the Fund and ensure that proper internal controls are implemented to safeguard the assets of the Fund, including preparing Investment Guideline Summaries for each of the Advisors;
- f) Recommend benchmarks for approval to the CEO;
- g) Prepare periodic market-cycle and annual reviews of the Fund's investments and the Advisors' performance, including findings from annual due diligence visits for presentation to the BOT;
- h) Conduct onsite annual due diligence of the Advisors and Custodian;
- i) Coordinate and vet changes to the Investment Policy Statement and serve as chair (Consultant) and secretary (OHA staff) to the Investment Advisory Committee;
- j) Evaluate the reasonableness of recommendations of Advisors and Non-Marketable Alternatives Providers regarding investment decisions and policies requiring the approval of the CEO.
- k) Evaluate and recommend Direct Investments in Hawaii for the approval of the CEO and BOT, as appropriate;

- l) Manage the Fund's Enhanced Liquidity Account assets awaiting disbursement to OHA consistent with the Operational Procedures reviewed by the CFO and approved by the CEO; and

m) Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;

- m)n) Maintain knowledge of current trends and conditions with respect to investment management through continuing education.

4.4 Duties of the Advisors. The duties of the Advisors shall be as set forth in the agreements entered into between the BOT and the Advisors, and will explicitly include this Statement as an addendum. The Advisors act as Fiduciaries of the Fund for the assets they have under management. Duties of the Advisors include, but are not limited to:

- a) Invest the assets of the Fund within the constraints of the Statement while adhering to the investment management style, concepts and principles for which they were retained by the BOT. Advisors are responsible for tactical asset allocation and manager selection unless otherwise stated in the management and/or trust agreement with OHA;
- b) Where applicable per the Advisor management agreement, for all investment decisions requiring the CEO's approval, recommend specific investments and provide strategic and/or tactical investment advice to the BOT, CEO, OHA staff, and Consultant as appropriate to render a decision that will achieve the Fund's investment objectives;
- c) Seek to achieve best execution and price for all transactions effected on behalf of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis and if appropriate, facilitate the recapture of commissions on behalf of the Fund;
- d) Reconcile within tolerance limits monthly accounting, transaction, valuation and asset summary data with the Custodian's transactions, valuations and holdings, including resolving any discrepancies with the Custodian;
- e) For investments where a market value is not available, assist the Custodian as necessary in finding appropriate pricing sources or establishing fair value procedures.
- f) Report to the BOT on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel and performance relevant to the management of the Fund. Items relevant to the Fund include those that would have a direct or indirect impact on the ability of the Advisor to continue to provide a high level of service;
- g) Vote the proxies of invested companies (or delegate the vote to Managers), as they deem appropriate, although the BOT reserves the right to vote proxies in separately managed accounts if it so chooses;
- h) Periodically conduct capital market studies and make recommendations to the BOT regarding changes to the Statement and strategic asset allocation targets and ranges based on the risk/return objectives of the Fund and the economic and market outlook. The timing of these analyses, and either reaffirmation or recommendation of modifications to this Statement, shall be as agreed upon with the BOT, but normally every two to five years, but no less frequently than every six years;
- i) Select qualified Investment Managers, and monitor existing Managers' style consistency and performance at least monthly, including due diligence of those Managers regarding personnel, ownership, risk management and the investment process;
- j) Negotiate fee arrangements and other contract terms with the investment Managers on behalf of the Fund;
- k) Communicate with the Consultant and/or OHA staff on at least a monthly basis regarding actions taken, or any material changes, issues or circumstances warranting attention including performance of the Fund, market conditions and outlook, manager-turnover, Managers' or Advisor's staff turnover, etc;
- l) Prepare and present a quarterly executive summary report to the BOT as requested by the Consultant or OHA staff including performance versus benchmarks, asset allocation, economic outlook, fees, Manager summary, and any other significant issues impacting the Fund;
- m) Assist the Consultant and OHA staff in preparing Investment Guideline Summaries for the approval of the CEO covering the assets under their management and annually prepare a compliance and derivatives usage report (Each Advisor's Investment Guideline Summary will govern the assets under their management in conjunction with the Investment Policy Statement and the Investment Management Agreement between the

Advisor and OHA);

- n) Host an annual onsite comprehensive and/or topical due diligence for the Consultant and OHA staff and officials and as requested provide portfolio analytics and style consistency adherence at the manager-level for the Advisor's commingled vehicles;
- o) Negotiate and arrange for brokerage and any applicable recordkeeping services;
- p) Render special projects at the request of the BOT, the Consultant or OHA staff; and
- q) Provide certain other services, as described elsewhere in this Statement, such as investment training, market research, educational programs, analytical tools, etc.

4.5 Duties of the Custodian. The duties of the Custodian shall be as set forth in the agreement between the BOT and the Custodian. In addition to other responsibilities contained in that agreement the Custodian will:

- a) Provide complete custody and depository services for the Fund's assets including obtaining market values or fair values for all assets on at least a monthly basis;
- b) Provide a monthly report of transactions by the Advisors and, where applicable, by OHA (Enhanced Liquidity Account) as set forth in the Custody agreement;
- c) Provide audited monthly and annual accounting statements for all the Fund's assets and transactions;
- d) Collect all interest income, dividends and principal realization and properly report them in all accounting statements;
- e) Disperse funds to cover expenses, accept funds from OHA or the Advisors, and disperse funds to OHA or the Advisors as properly instructed by CEO or OHA staff, and properly report these transactions in all accounting statements; and
- f) Reconcile monthly accounting, transaction and asset summary data and communicate and resolve any discrepancies with the Advisors.

Section 5. Asset Allocation Guidelines and Long Term Targets

The BOT prefers Advisors who can construct and manage a portfolio encompassing multiple strategic asset classes using a Manager-of-Manager approach and utilize the Fund's strategic target index as their primary benchmark (strategic target weight times strategic benchmark index return for each strategic asset class). The purpose of the strategic target asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. The minimum and maximum levels listed below are targeting guidelines as opposed to absolute barriers; Advisors should bring asset allocations which are outside of their approved targeting range back to the range per their rebalancing policy unless granted a written exception by the CEO. The Traditional and Alternative Assets Advisors are not responsible for Hawai'i Direct Investments and the Enhanced Liquidity Account. OHA staff may hedge the allocation to Hawai'i Direct Investments in a traditional asset class managed by one or more Advisors until such investments are made. The Alternatives Advisor may hedge the under or over exposure to asset classes with barriers to entry and exit (Non-Marketable Alternatives) with similar liquid (marketable) asset classes (e.g. hedge underexposure to targeted private equity using traditional equity or marketable equity alternatives).

5.1 Asset Allocation.

Asset Class Portfolios	Maximum	Minimum	Strategic Target	Benchmark Index	Primary Objective
Traditional Asset Classes					
Traditional Global Equities	55%	22%	40%	MSCI ACWI	Growth
Traditional Global Fixed Income	22%	11%	17%	Bloomberg US Aggregate	Income
Traditional Global Real Assets	11%	0%	5%	US TIPS +3%	Inflation Hedge
Total Traditional Assets	88%	33%	62%		
Alternative Asset Classes					
Hedge Funds	19.2%	6.4%	12%	3-Month T-Bills +4%	Volatility Management
Private Markets*	25.6%	0%	18%	MSCI ACWI +3%	Growth
Total Alternative Assets	44.8%	6.4%	30%		
Enhanced Liquidity Account					
Enhanced Liquidity	10%	0%	3%	1-3 Year Treasury	Liquidity
Hawai'i Direct Investments					
Hawai'i Direct Investments	10%	0%	5%	US TIPS +3%	Inflation Hedge
*The Private Market allocation will consist of the previous Non-Marketable Equity, Credit, and Real Assets & Opportunistic portfolios					

The Strategic Targets for the Asset Classes listed in the table above multiplied by the benchmarks recommended by the Consultant and approved by the CEO constitute the Policy Portfolio. The table below regroups the Asset Classes by their primary objective.

Asset Class Portfolios	Maximum	Minimum	Strategic Target
Growth			
Traditional Global Equities	55%	22%	40%
Private Markets	25.6%	0%	18%
Total Growth	80.6%	22%	58%
Income			
Traditional Global Fixed Income	22%	11%	17%
Total Income	22%	11%	17%
Volatility Management			
Hedge Funds	19.2%	6.4%	12%
Inflation Hedge			
Traditional Global Real Assets	11%	0%	5%
Hawai'i Direct Investments	10%	0%	5%
Total Inflation Hedge	21%	0%	10%
Liquidity			
Enhanced Liquidity	10%	0%	3%

The CEO has the delegated power to allocate up to \$25 million from the Fund for a Direct Investment Program. Direct investments made from the Fund shall follow the guidelines set forth in the Hawai'i Direct Investment Policy section of this Statement. All Hawai'i-based Direct Investments are excluded from the discretionary Manager-of-Managers framework. The OHA staff with the assistance of the Consultant will be responsible for the due diligence, performance monitoring and reporting of such investments.

Private Market investments are accomplished outside of the discretionary Advisor framework as the Advisors do not have investment discretion over these assets. Approved Non-Marketable Alternatives Providers will provide OHA staff and the Consultant with sufficient information and analyses to evaluate their investment recommendations. The information may include Manager due diligence reports and portfolio analytics so that the CEO can make an informed decision relating to the investment. It is recognized that there may be underinvestment or overinvestment in these illiquid asset classes due to the timing of capital calls and distributions.

5.2 Benchmarks. Each Advisor will use the primary strategic benchmark index listed in their Investment Guideline

Summary as a guide in managing assets under their control. The strategic asset allocation targets and ranges, performance benchmarks, and additional investment guidelines are also set forth in each Advisor's Investment Guideline Summary or Investment Management Agreement. As necessary, the Consultant will recommend changes to the strategic targets, ranges, performance benchmarks, and any additional guidelines and the CEO must approve those changes before they become effective. The CEO will notify the BOT of Investment Guideline changes in writing.

Every new product of an Advisor must be assigned to one of the above asset classes as agreed upon between the Advisor and OHA Staff and/or the Consultant, with notification of the CEO. In addition, each investment may have a custom benchmark different from that of the asset class as agreed upon with the Consultant. The secondary benchmark is the Consumer Price Index (CPI) plus 5.0% annually for the Fund as a whole. The Consultant will also recommend, in consultation with each Advisor, peer manager and peer institution benchmarks and these will be approved by the CEO. Besides reporting portfolio performance versus these portfolio benchmarks, the Advisors shall report investment results on individual funds or portfolios versus their custom benchmarks.

The BOT recognizes that the actual asset allocation of the Fund may vary between or even outside of the minimum and maximum in the short term depending on market conditions and/or tactical asset allocation shifts. Asset classes not contemplated above or elsewhere in this Policy may be added to the Fund upon approval in writing by the BOT. The Advisors will only be responsible for meeting the investment objectives applicable to the portion of the Fund entrusted to such Advisors.

5.3 Rebalancing Policy. The primary purposes of rebalancing are to (1) ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation; and (2) improve the performance of the Fund. The CEO will ensure that any agreement entered into with an Investment Advisor sets forth a rebalancing policy satisfactory to the BOT.

Section 6. Cash Holdings

It is the policy of the Fund that the Advisors fully invest the assets of the Fund under their control except to accommodate large cash flows. Unhedged cash and equivalents may be held in the Fund for defensive purposes at the Advisor's discretion during abnormal market conditions. The equity portion of the Advisor's portfolio should strive to maintain less than 5% of the portfolio in cash equivalents, unless the cash is hedged to achieve the appropriate asset class exposure. The fixed income portion of the Advisor's portfolio may maintain higher cash balances (e.g., as barbell strategies necessitate this exposure to cash).

Cash equivalents maximize liquidity and safety of principal. Maturities should be short enough that cash equivalents can be liquidated with a limited loss of principal. The following types of cash equivalents are eligible for investment:

- a) Money market mutual funds (2a7) which invest solely in U.S. Treasury and government agency securities;
- b) Deposits which are 100% federally insured or collateralized with U.S. government or agency securities with a market value of at least 100% of the face amount of the certificate;
- c) U.S. Treasury bills and short-term U.S. government agency securities;
- d) Overnight repurchase agreements collateralized with U.S. government or agency securities with a market value of at least 102% of the face amount; and
- e) Commercial paper of the highest two grades as rated by a nationally recognized rating agency.

Section 7. Pooled/Commingled Investments/Mutual Funds

Commingled investment vehicles where there is a pooling of securities owned by multiple clients for diversification, risk reduction, or cost benefits, include mutual funds, trust funds, private placements, and limited

partnerships, and are explicitly permissible. Although private placements and limited partnerships are exempt from both federal and state securities registration, they are considered appropriate vehicles for the Fund.

Section 8. Permissible Investments

8.1 Asset Class Definitions, Objectives, Permissible Instruments, Strategies, & Requirements. Investments in each asset class listed in Section 5, except for those investments excluded from the Advisors' responsibility, must be well diversified as defined below and in the Investment Guideline Summary or Investment Management Agreement of each Advisor. Advisors, as Fiduciaries, must exercise prudence in all matters and invest solely for the benefit of the Fund. For each asset class, the Advisors will retain Managers who invest in separate accounts or in commingled vehicles. An Advisor may select itself, an affiliated Manager, or an external Manager. Advisors may also retain Managers to provide "active overlay" strategies that use securities, currencies and derivative instruments, including but not limited to forwards, options, futures contracts, options, currency forwards, futures contracts and swaps (e.g. interest rate, credit default and total return) to replicate an index or combination of indexes. These overlay strategies will seek to (a) manage Fund exposure to various asset classes, (b) manage overall Fund risk, and (c) under certain conditions, enhance total return with tightly controlled leverage constraints.

Each Advisor must demonstrate that it has the capability to manage the risks involved in each asset class. Key to controlling risks is the ability to conduct robust ongoing due diligence on the Managers it selects and the ability to measure, manage and report portfolio risks, including issuer concentration, market, credit, duration, liquidity, leverage, currency and other major risks. The Consultant, with the assistance of OHA staff and the Advisors, must document the investment restrictions and risk controls for the portfolio of each Advisor in the Investment Guideline Summaries. The Advisors are not allowed to leverage the Fund's assets at the portfolio level without prior written approval of the BOT, although individual managers or commingled vehicles in certain asset classes and strategies may employ leverage under controlled conditions. Risk hedging in each asset class is explicitly permitted, including currency risks relative to the benchmark index and temporarily hedging the exposure in an illiquid asset class with a similar liquid asset class.

a) **Traditional Global Equity - Common & Preferred Stocks and Un-levered Equity Derivatives.** The primary role of traditional global equity is to seek to provide total return in excess of inflation, consistent with the appropriate benchmark index. Traditional equity may be actively managed in diversified portfolios of long only positions and/or long and short positions netting to approximately 100% long, be passively managed, utilize active overlay strategies, or be managed in any combination of active, passive and overlay strategies. The goal of an actively managed stock portfolio will be to achieve a net return after fees in excess of its benchmark index with comparable risk. Securities should be publicly owned and traded actively enough to insure liquidity without significantly adverse effects on price due to rapid sale. The Advisor should diversify the portfolio by geography—domestic and international, both developed and emerging markets, by investment style—value and growth, by manager, by approach—quantitative versus fundamental, by sector and industry, and capitalization—small, mid and large. An Advisor may select itself or an affiliated Manager in this asset class.

b) **Traditional Global Fixed Income – Cash Equivalents, Bonds, Loans and Un-levered Fixed Income Derivatives.** The primary role of Global Fixed Income is to seek to: 1) generate income while diversifying the investment assets, 2) provide a safe, stable return, and 3) provide a deflationary hedge. The fixed income asset class may include, but is not limited to the following components:

- a) Cash equivalents;
- b) US core credit including investment grade corporate, asset-backed, municipals and mortgage securities;
- c) High-yield securities and liquid loans; and
- d) Foreign government securities, investment grade foreign corporate debt denominated in US dollars or foreign currencies from both emerging markets and developed countries.

Advisors should ensure that managers are carefully managing portfolio duration, convexity, yield curve structure, sector exposure, issuer concentration, credit quality, non-U.S. securities, and currency risk to achieve a balanced and

reasonable risk budget relative to the benchmark index for the fixed income portfolio. An Advisor may select itself or an affiliated Manager in this asset class.

c) Global Real Assets – Real Estate Investment Trusts (REITs) and Treasury Inflation Protected Securities (TIPS). The primary role of global real estate is to seek to provide total return in excess of inflation, consistent with an appropriate real estate benchmark index. The Managers selected by the Advisors must have demonstrated a favorable record in managing real estate portfolios. The public real estate asset portfolio of the Fund may be comprised of commingled pools and/or a portfolio of real estate investment trusts (REITs), which are well diversified by property type and geographic location. Advisors shall invest in instruments which comprise a portfolio well diversified by the four main property types, including office, retail, industrial, and multifamily residential, as well as by geographic region, and tenancy/leasing structure. If a real estate investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle will serve as the operative policy. The Advisors are responsible for ensuring that the selected vehicle or portfolio has adequate risk controls in place and that the Manager is investing according to the operative policy. The Advisors may also invest in TIPS as a diversifier, or if they believe that they provide a better value than REITs, as an inflation hedge. An Advisor may select itself or an affiliated Manager in this asset class.

d) Low Volatility Marketable Alternatives – Funds of Hedge Funds, Individual Hedge Funds, Commodity Funds, and Mutual and Exchange Traded Funds employing alternative strategies. The primary role of this asset class is to seek to provide a consistently positive return source above the risk free rate that has low volatility and low correlation to the other asset classes, and the secondary role is to provide an inflation hedge through a commodity allocation. This asset class consists of a diversified portfolio of hedge fund strategies deemed appropriate by the Advisor for this role, including but not limited to macro, commodity trading advisors, relative value, opportunistic, global tactical asset allocation, distressed, and opportunistic. The Alternatives Advisor may utilize funds of hedge funds, a portfolio of individual hedge funds, mutual funds or market neutral overlay strategies designed to achieve a consistently positive return above the risk free rate. The Alternatives Advisor may select itself or an affiliate as the fund-of-funds Manager or as one or more of the hedge fund Managers. The Alternatives Advisor is responsible for ensuring that the selected vehicle has adequate risk controls in place. The Alternatives Advisor will seek to ensure that Managers invest according to the offering memorandum or partnership agreement. The Alternatives Advisor may select Managers that utilize reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their individual hedge funds. The liquidity requirements for individual hedge funds or hedge fund-of-funds will be defined in the Advisor's Investment Guideline Summary. Advisors should seek to avoid direct or indirect investments in funds with redemption gates or side pockets, as well as funds which lack reasonable transparency consistent with the investment strategy. Advisors should also avoid any funds with excessive fees in relation to market practice and/or expected returns, or terms which do not align the interests of the Manager with the client, as well as those that have the majority of assets in illiquid investments.

The primary role of the commodities allocation is to seek to provide a consistently positive return above inflation with a low or negative correlation to the other asset classes. Commodities provide an inflation hedge and should consist of a diversified portfolio of energy, metal, agricultural and other commodities, including but not limited to oil, natural gas, grains, metals, and livestock. The Alternatives Advisor may utilize separate accounts or commingled funds using a single Manager or a multi-manager approach. The Alternatives Advisor should utilize strategies that have at least monthly liquidity under normal conditions and further liquidity guidelines will be specified in the Advisor's Investment Guideline Summary. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one of the Managers. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor will seek to ensure that Managers utilizing funds invest according to the offering memorandum or partnership agreement.

e) Non-Marketable Equity Alternatives – Private Equity Funds, Funds of Private Equity Funds, Equity Hedge Funds, and Cash Equivalents & Overlay Strategies. The primary role of Non-Marketable Equity Alternatives is to seek to provide enhanced total return to traditional equity through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but employ strategies which go beyond the long only equity portfolio. Equity Alternatives include, but are not limited to, investments in private equity, venture capital, portable alpha, and long-biased equity hedge funds. The Alternatives Advisor may utilize hedge funds that correlate to the equity markets or

overlay strategies such as portable alpha to hedge an underexposure to the targeted level of Non-Marketable Equity Alternatives, and hold cash temporarily to meet capital calls. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class. The CEO may approve funds of private equity funds, which consist of funds making primary and/or secondary investments in underlying private equity funds as well as some direct investments. These funds are managed for returns with low correlation to returns in the traditional equity markets, and with very little liquidity. Assets invested in these private funds are generally illiquid for five to ten or more years. The CEO needs to invest the Fund's assets in a consistent long-term approach so as to limit the vintage year risk where there is a wide range of performance depending on the year the fund is launched. The Non-Marketable Alternatives Providers will seek to ensure that general partners invest according to the offering memorandum or partnership agreement. The Providers are responsible for ensuring that the selected vehicle has adequate risk controls in place and invests within the stated style and the scope of its offering memorandum or partnership agreement. Due to the long-term nature of a private equity investment, the measurement period for complete evaluation will be over a ten-year period. A ten-year return is intended to cover at least one complete market cycle, and is consistent with the average term of private equity fund-of-funds investments. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

f) Non-Marketable Credit Alternatives — Mezzanine Debt Funds, Specialty Loan Funds, Distressed Debt Funds, and Credit Hedge Funds. The primary role of Non-Marketable Credit Alternatives is to seek to provide enhanced total return to traditional credit through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but provide access to fixed income strategies with higher return potential. Credit alternatives include, but are not limited to mezzanine debt, bank loans, distressed debt, special situations, portable alpha, and hedge funds utilizing credit strategies. These strategies should have returns with moderate correlation to traditional fixed income returns and low correlation to the other asset classes. The Non-Marketable Alternatives Providers are responsible for ensuring that their selected vehicles have adequate risk controls in place and that their selected vehicles conform to the offering memorandum or partnership agreement. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class using credit hedge funds, overlay strategies, or traditional credit strategies. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

g) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLP's) and unique investments that do not fit into another Asset Class. The primary role of Non-Marketable Real Assets & Opportunistic Alternative investments is to seek to provide an inflation hedge, and the secondary role is to provide enhanced total return above Traditional Real Assets by committing capital for ten years or more to private market real asset strategies. Real assets include, but are not limited to real estate, TIPS, commodities, and natural resources. The OHA Staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class. The Alternatives Advisor may hedge target exposure using such marketable assets as MLP's, CTA's, REITs, TIPS, overlay strategies, or mutual and exchange-traded funds utilizing real asset strategies. The Alternatives Advisor may select itself or an affiliated Manager to hedge underexposure in this asset class.

h) Hawaii Direct Investments. The primary role of Hawaii Direct Investments is to seek a total return of five percent in excess of inflation from real property that provides office space to OHA in Hawaii. This asset class includes the legacy investment in Russell Investments Private Real Estate Fund. All direct real estate investments must be made within the context of the Direct Investment Policy Statement.

Section 9. Prohibited Investments

The following investments are prohibited. Should a prohibited transaction occur, the Advisor must report it immediately after discovery to the Consultant and OHA staff, who will report it at the next BOT meeting.

9.1 Self-Dealing Transactions. Managers cannot purchase or hold any security of the Advisor who selected them, unless permitted by law.

9.2 Financial Institution Deposits including CDs. Direct deposits may not exceed the Federal Deposit Insurance Corporation insurance limit unless they are 100% collateralized by eligible U.S. government securities or fully covered by a surety bond.

9.3 Letter Stock. Letter stock and other unregistered equity securities are prohibited except in the alternative asset classes.

Section 10. Derivatives Policy

This Derivatives Policy applies to all investments with the exception of those permitted in funds in the alternative asset classes. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in. Structured securities, futures, forwards, total return swaps, interest rate swaps, credit default swaps, options and other derivatives are permitted only if they are used in a defensive hedging manner (e.g. to hedge a currency, equitize cash, or to create an overlay strategy or structured fixed income portfolio). Advisors will be required to report on a periodic basis (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

Section 11. Voting of Proxies

The BOT has delegated the authority to Advisors and Managers to vote proxies. For separately managed accounts (not pooled vehicles), the BOT reserves its right to exercise its proxy rights when it so chooses and to vote the proxies of invested companies as it deems appropriate. The proxy voting review process and guidelines are set forth in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 12. Trades, Exchanges & Valuation

12.1 Selling or Exchanging Securities. Investment Managers may sell or exchange securities in the course of daily management of specific funds. The goal of all such trades is to maximize portfolio performance while maintaining an appropriate risk profile.

12.2 Marking to Market. To account for market fluctuations and volatility, the Custodian or its agent (independent pricing agent) will mark to market all securities at least monthly. When market values are not available, the Custodian will follow the prevailing best practices regarding fair valuation. If a significant market event takes place during the month that impacts the value of the portfolio, the Custodian or its agent will determine the impact on the portfolio.

Section 13. Procedures for Selecting and Reviewing Investment Advisors

13.1 Review Process. Fund investments will be managed by professional Advisors and Managers except to the extent the BOT specifically delegates investment authority for other strategies for which the Fund's Advisors do not have specific expertise under the Manager-of-Managers' approach or for OHA's Enhanced Liquidity Account. When the BOT elects to retain a new Investment Advisor(s), ~~the OHA staff will select four finalists to make an oral presentation. Evaluation factors will include three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.~~ A contract will be executed pursuant to the Fund's Operational Procedures. it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102(b)(2)(F) specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:

- a) The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
- b) The initial list will consist of either eight to ten Advisors, but may be fewer depending on the investment approach.
- c) OHA procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
- d) The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
- e) OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
- f) The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year, and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.
- g) OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
- h) Final selection will be approved by the BOT.
- i) Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
- j) OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.

13.2 Selection Criteria for Advisors. Criteria will be established for each Advisor search undertaken by the BOT and will be tailored to the BOT's needs. These criteria are applicable to discretionary Manager-of-Managers and may not necessarily be applicable to the Enhanced Liquidity Account Manager. In general, eligible Advisors will possess attributes including, but not limited to, the following:

- a) For Manager-of- Manager searches, the firm must exhibit capabilities to offer Manager-of-Manager programs across a variety of asset classes and are capable of utilizing qualified Hawaii-based Managers;
- b) For specific asset class searches, the firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the BOT;
- c) The firm must have a minimum five-year history with managing institutional assets, demonstrate continuity of key personnel, ~~and offer a reasonable fee schedule~~; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms;
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- e) The firm must have an asset base sufficient to accommodate the Fund's portfolio: Manager of Managers should have at least \$20 billion of discretionary institutional assets under management; the Fund's portfolio

- should represent no more than 5% of the firm's total asset base for any Advisor;
- f) The firm must demonstrate adherence to the investment style sought by the BOT, and adherence to the firm's stated investment discipline;
- g) The firm should promote good governance in its proxy voting policy and adhere to best practice standards regarding transparency, manager fee structure, leverage, and liquidity in the alternative asset classes;
- h) The firm's fees should be competitive with industry standards for each product category and overall;
- i) The firm must comply with the "Duties of the Investment Advisors" outlined in this Statement and should conform to GIPS (Global Investment Performance Standards) for performance reporting;
- j) The firm must be able to offer investment education programs to the BOT and OHA staff at least once a year; and
- k) The firm must be able to provide analytics tools and/or reports necessary for OHA staff and Consultant to monitor and analyze asset allocation, risk, and manager performance.

13.3 Criteria for Advisor Review and Monitoring. The BOT reserves the right to terminate an Investment Advisor at any time with reasonable notice as defined in the contract between the BOT and the Investment Advisor. Grounds for termination may include, but are not limited to:

- a) Failure to comply with the guidelines agreed upon for the management of the Fund's assets; including holding restricted securities and conducting prohibited transactions;
- b) Failure to achieve performance objectives specified in this Statement or the Advisor's contractual guidelines;
- c) Significant deviation from the Advisor's stated investment philosophy/style and/or process.
- d) Loss of key personnel or significant ownership changes that create instability in the organization;
- e) Evidence of illegal or unethical behavior by the Investment Advisor;
- f) Lack of willingness to cooperate with reasonable requests by the BOT, Investment Consultant or OHA staff for information, meetings or other material;
- g) Loss of confidence by the BOT; and
- h) A change in the Fund's asset allocation program which necessitates a shift of assets to another process or style.

The presence of any one, or a combination of these, factors will be carefully reviewed by the BOT, but will not necessarily result in an automatic termination.

13.4 Performance Monitoring. The OHA staff and Consultant shall monitor monthly statements and receive quarterly performance reports from the Advisors. The Advisors shall monitor, at least monthly, the investment results of each Manager under contract to determine whether or not that Manager is performing up to the standard required by the benchmark of performance specified in the Manager's contract.

13.5 Advisors Total Return Comparison. The BOT expects that each Advisor's total portfolio performance over a market cycle will meet or exceed the benchmark index established for that Advisor.

13.6 Total Portfolio Returns. The BOT expects that the Fund's combined investment results over a market cycle will be in the top 50% of a nationally recognized universe of foundations and endowments with similar sized portfolios.

13.7 Asset Class Returns. Specific asset class investment results shall be measured against benchmarks as detailed in the Advisor's Investment Guideline Summary.

13.8 Advisor Alerts. Advisors are expected to keep the BOT, OHA staff and Consultant informed of any material changes in their respective firms (i.e. change in personnel, ownership, policy, etc.).

13.9 Termination. If at any time the standard required is not being met by an Advisor, the BOT will determine what action will be taken toward the Investment Advisor. The decision to terminate an Investment Advisor shall be by majority vote of the BOT present at the meeting subject to the contractual agreement.

Section 14. Liquidity Policy

The Redemption liquidity of the total Trust Fund will be maintained with a minimum 65% of the Fund's assets able to be liquidated at market value under normal conditions on at least a quarterly basis (advance notification and some restrictions may apply). Investments with liquidity less than quarterly require the approval of the CEO. At least 50% of the total Trust Fund's assets must be liquid on at least a monthly basis at market value without restriction or advance notice longer than five business days under normal conditions. The Liquidity requirements for each Advisor and the assets under their management will be specified in their Investment Guideline Summaries and/or Investment Management Agreements.

Section 15. Errors & Omissions

The Advisor is to correct any material violation of the provisions of this Statement within a reasonable time period upon discovery. The Advisor will reimburse the Fund for a realized loss resulting from a material violation as agreed in the contract between the BOT and the Advisor.

Section 16. Adding New Asset Classes

The Investment Consultant with the assistance of OHA staff will work with the Advisors to assign each investment (e.g. fund) to an asset class portfolio, a custom benchmark index, and a peer manager universe. If the Advisor proposes an investment that does not fit into one of the approved asset classes listed in Section 5, the Advisor will prepare a written recommendation to the OHA staff / Consultant justifying the investment. The recommendation must include a description, of the new asset class, rationale for including the new investment, historical returns and risk statistics, liquidity, analysis of impact on the risk/return of the Fund, the benchmark index and manager peer universe. —OHA staff and the Consultant will provide a recommendation to the BOT. Adding a new asset class will require the approval of the CEO and the BOT.

Section 17. Interpretation

This Statement will be incorporated as an addendum in the agreements between the OHA BOT and each Advisor. In the event of any conflict or inconsistency between the terms of the agreement and this Statement, other than the Section 4.4 Duties of the Investment Advisors and anything designated as a Fundamental Investment Policy, the terms of the agreement with the Advisor shall govern.

Section 18. Hawai'i Direct Investment Policy (HDIP)

The CEO has the delegated power to allocate up to \$25 million, but not to exceed 10% of the market value of the Fund at the time of investment, on a cost basis for Hawai'i Direct Investments, including real estate and equity positions in companies based in Hawaii or with significant operations in Hawaii. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding BOT-approved lending programs for Native Hawaiians. This allocation may not be used for any other purpose until the acquisition of OHA's first corporate headquarter real estate property is complete. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT. The combined cost of all direct investments, less any return of capital to the Fund from these direct investments, cannot exceed the \$25 million allocation.

18.2 Delegation of Authority. All final acquisition, development, and/or disposition decisions of Hawai'i direct investments must be approved by the BOT. The BOT delegates to the CEO the authority to:

- a) Administer the HDIP and approve and implement procedures to carry it out;
- b) Delegate duties to OHA staff as necessary to fulfill and implement this policy;
- c) Deny opportunities that do not satisfy current policy, guidelines, and/or criteria approved by the BOT;
- d) Execute contract and agreements;
- e) Conduct investment due diligence, negotiations, and on-going performance monitoring;
- f) Structure real estate financing terms for approval by the BOT;
- g) As necessary, oversee and manage the operational functions associated with each investment, including selecting and terminating service providers, negotiating leases and setting fee schedules (including market-based lease terms for OHA occupied space), obtaining and approving permits, licensing, and leasing, approving tenant improvements, sub-leases, evictions, use and service agreements, and making all other operational decisions associated with the investment; and
- h) Determine when to segregate assets to fund acquisitions and to place those assets with OHA staff to invest in the Enhanced Liquidity Account (ELA) until acquisitions are closed. These funds do not count toward the spending limit on annual transfers to the ELA

The BOT reserves the right to approve all other decisions not listed above.

18.3 Permissible Investment. For OHA's headquarter corporate real estate acquisition, OHA is to invest in real estate located on the island of O'ahu. OHA may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or vice versa, during the course of the holding period of the investment. Realized gains generated from real estate dispositions should credit the cost of the investment allocated to the direct investment program.

All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.

18.4 Leverage. OHA may finance the acquisition of corporate real estate with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be counted toward the \$25 million allocation.

18.5 Market Valuation. Market valuation of corporate real estate is determined by biennial appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Section 19. Enhanced Liquidity Account Investments

The BOT has authorized the use of an Enhanced Liquidity Account (ELA) utilizing primarily short-term and intermediate-term U.S. government and agency securities, TIPS, MLP's, liquid alternative risk premia strategies, and passive beta strategies to manage OHA's short-term (less than 18 months) cash flow. The ELA may be managed internally by OHA staff or externally by a registered investment advisor. The primary objectives of the ELA are to expedite the ability to meet fiscal obligations and efficiently manage short-term cash needs; a secondary objective is to provide a highly liquid, low volatility, low or anti-correlating asset to the Fund. As such, OHA may hold up to 10% of the net assets of the Fund in the ELA. The custody of short-term investment assets shall remain with OHA's Fund Custodian.

19.1 Permissible Investments. Assets held within the ELA must have no less than monthly liquidity under normal conditions. Passive index mutual funds, passive exchange-traded funds, passive institutional commingled funds, liquid alternative risk premia strategies, short-term U.S. government and agency securities, cash, and cash equivalents are permitted. A list of allowable investment vehicles for each asset class must be reviewed by the CFO

and Consultant, approved by the CEO, and presented to the BOT for review. OHA staff or its external Manager may only select from this Approved List of investments vehicles in the ELA.

19.2 Asset Allocation and Rebalancing. The investments should be highly liquid with low volatility. Under normal conditions, the ELA's assets should be targeted no more than 2.0 percentage points (absolute) away from the strategic target allocation set forth in the ELA Manager's Investment Guideline Summary or Investment Management Agreement. OHA staff and the Consultant will devise a targeting and rebalancing process with a maximum tolerance approved by the CEO. If managed internally, OHA staff will execute the process; otherwise the external Manager will execute the process. Decisions to target the asset allocation outside of the maximum 2.0% tolerance shall be reviewed by the Investment Advisory Committee and/or CFO, approved by the CEO, and reported to the BOT prior to implementation.

19.3 Internal Controls. Internal operational controls and procedures relating to short-term investments shall be outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

19.4 Advisor and Manager Selection. The BOT will approve OHA staff under the supervision of the CFO and CEO as the Advisor and an external Manager to manage the ELA. The external Manager may not have full investment discretion; therefore, provisions relating to discretionary Advisors in this Statement may not necessarily apply to the ELA Manager. The duties of the ELA Manager shall be established based on the Investment Management Agreement between the Manager and the BOT. BOT presentations by four finalists are not necessary for ELA Manager selection.

19.5 ELA Policy Benchmark & Investment Guidelines. The Policy performance benchmark for the ELA shall be the combination of market indexes and the risk free rate as set forth in the Manager's Investment Guideline Summary or Investment Management Agreement, which will also establish investment guidelines for managing the account.

Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund ("NHTF") Investment Risk Management Policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the NHTF investment portfolio. The OHA Board of Trustees ("BOT") recognizes that the undertaking of risks is generally unavoidable in investment management. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures. Risk control measures include continuous monitoring and timely reporting by OHA staff to ensure the effectiveness of OHA's investment risk management system. This Policy is not intended to provide an exhaustive list of risks or provide a comprehensive list of process and procedures to identify and mitigate risks. Rather, this policy provides generally accepted approaches to risk management that can be implemented through investment guidelines and operational policies and procedures.

Risk Management

Key risk factors may stem from internal or external sources. The assessment of risk may be both qualitative and quantitative. The OHA staff and Consultant shall conduct an annual qualitative risk assessment identifying key risk factors, sources of risk, risk mitigants, and remediation plan, if necessary, to manage these risks. OHA staff shall also provide quantitative risk reporting to the BOT using commonly accepted quantitative risk reporting measures on a quarterly basis. Risk management measures may include the following:

- 1) Establish internal policies and procedures to minimize operational and legal risks;
- 2) Establish investment guidelines for eligible investments, diversification, rebalancing, liquidity, leverage, and use of derivatives;

- 3) Annual reporting of portfolio volatility (measured using standard deviation of returns) and expected volatility and return provided by the Investment Advisors;
- 4) Annual reporting of tracking error for OHA's liquid assets;
- 5) Annual reporting of leverage, currency risk, concentration risk, and liquidity risk;
- 6) Annual external financial audit by a reputable independent audit firm; and
- 7) Periodic review of the Investment Policy Statement and Risk Management Policy as necessary to assess the relevance and effectiveness of these policies.

Implementation

It is the responsibility of OHA's Chief Executive Officer to ensure that risk management policies and procedures are in place to identify, monitor, and manage investment risk. It is the OHA staff's responsibility to implement internal procedures and continuously monitor the investment portfolio and Advisor activities to ensure policy and guideline compliance. OHA staff shall rely on most recent data available provided by the Custodian and Advisors to analyze risk statistics and provide risk reporting. A risk management review shall be provided to the BOT by the Investment Consultant on an annual basis, or more frequently as needed.

OHA IPS Revisions (cont.)

Section and Page	Change	Old Text	New Text
13.1g, Pg. 17	Insert	None	OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
13.1h, Pg. 17	Insert	None	Final selection will be approved by the BOT.
13.1i, Pg. 17	Insert	None	Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
13.1j, Pg. 17	Insert	None	OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.
13.2c, Pg. 17	Remove	and offer a reasonable fee schedule	None
16, Pg. 19	Insert	None	OHA staff and the consultant will provide a recommendation to the BOT.

NATIVE HAWAIIAN TRUST FUND

INVESTMENT POLICY STATEMENT

The following Investment Policy Statement (IPS) has been duly adopted,
by the Office of Hawaiian Affairs, Board of Trustees at its meeting
held on October 3, 2019 and is in full force and effect on November 1, 2019.

Colette Y. Machado, Chairperson
Board of Trustees

Date

First Reading: September 5, 2019
Second Reading: October 3, 2019

Table of Contents

Section 1. Introduction and Scope	4
Section 2. General Objectives.....	5
Section 3. Standards of Care	6
Section 4. Delegation of Authority	6
Section 5. Asset Allocation Guidelines and Long Term Targets.....	9
Section 6. Cash Holdings.....	12
Section 7. Pooled/Commingled Investments/Mutual Funds.....	12
Section 8. Permissible Investments.....	13
Section 9. Prohibited Investments.....	16
Section 10. Derivatives Policy	16
Section 11. Voting of Proxies	16
Section 12. Trades, Exchanges & Valuation.....	16
Section 13. Procedures for Selecting and Reviewing Investment Advisors	17
Section 14. Liquidity Policy	18
Section 15. Errors & Omissions.....	19
Section 16. Adding New Asset Classes	19
Section 17. Interpretation.....	19
Section 18. Hawai'i Direct Investment Policy (HDIP).....	19
Section 19. Enhanced Liquidity Account Investments	20
Section 20. Investment Risk Management Policy	21

Distribution:

- 9- Each OHA Trustee via Asset & Resource Management Committee
- 1- OHA BOT Secretary
- 1- OHA Chief Executive Officer
- 1- OHA Chief Operating Officer
- 1- OHA Chief Financial Officer
- 1- OHA Controller
- 1- OHA Chief Investment Officer
- 1- OHA Investment Consultant
- 5- Each Investment Advisor / Non-Marketable Alternatives Provider
- 1- Custodian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

OBJECTIVES AND POLICY GUIDELINES

Section 1. Introduction and Scope

1.1 Introduction. This statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Fund").

This Policy Statement is set forth so that the Board of Trustees ("BOT") of the Office of Hawaiian Affairs ("OHA"), OHA Staff, Investment Consultant, Investment Advisors and Investment Managers (where appropriate), and beneficiaries may be made aware of the investment policy with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund's assets.

1.2 The Trust. OHA's mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the Fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement. In keeping with the fiduciary requirements and obligations of all parties involved in managing the Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") are to provide the:

- a) BOT, OHA staff, Consultant and Advisors with a clear and mutual understanding of the Fund's philosophy, investment objectives and policies;
- b) Advisors with guidance, objectives and limitations in investing the Fund's assets; and
- c) BOT with a meaningful basis to evaluate the Advisors' performance in order to meet the BOT's fiduciary responsibility to monitor prudently the Fund's investments.

This Statement represents the BOT's philosophy regarding the investment of the Fund's assets. The BOT will review and revise the Statement as needed to ensure that it continues to reflect the BOT's expectations and objectives. All of the BOT's modifications or amendments to the Statement shall be made in writing and will be provided to all Investment Advisors and Consultants.

It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable. It is further understood that all performance standards and return objectives in this Statement are intended as evaluation tools for determining whether to continue to retain the Advisors. The parties understand that the Advisors cannot give assurance of actual investment results and that the Advisors understand that the BOT will terminate its relationship with an Advisor based on a determination that the Advisor is not achieving the performance standards.

1.4 Manager-of-Managers Approach. The BOT has elected to employ Advisors in an outsourced manager-of-managers investment approach, without necessarily bundling custodial services. There is a preference for a full discretionary approach to invest across multiple asset classes. When necessary to achieve the Fund's objectives, the BOT may hire an Advisor with a non-Manager-of-Managers approach or to manage assets with a specific asset class mandate. Under the outsourcing agreement, the Advisors will assume certain BOT fiduciary responsibilities as set forth in the applicable agreement(s) between the Advisors and the BOT. The Advisors are accountable for the prudent management of all assets subject to their oversight and, where applicable, will make all key investment decisions, such as tactical asset allocation and manager selection, within the context set by this Statement and in adherence to the duties and powers set forth in the applicable management, advisory, or trust agreements. The BOT

still maintains responsibility for imposing guidelines, targets and asset allocation constraints as set forth in this Statement, and for monitoring the Advisors to ensure they act prudently and adhere to all aspects of the Statement.

1.5 Spending Policy. The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Fund's market value, excluding any Fiscal Reserve spending, using the methodology specified in the OHA Native Hawaiian Trust Fund Spending Policy. The calculation of the maximum withdrawal amounts are set forth in the Native Hawaiian Trust Fund Spending Policy and Fiscal Reserve Withdrawal Guidelines.

Section 2. General Objectives

2.1 Prioritized Investment Objectives. The overall objectives of the Fund are in the following order of priority:

- a) To grow the Fund's assets consistently by at least inflation plus five percent annually (Consistent Capital Growth);
- b) To invest in a manner that seeks to ensure the continuous preservation of purchasing power of the overall portfolio (Capital Preservation);
- c) To achieve a portfolio return that meets or exceeds the return of the Fund's Policy Portfolio Benchmark on a net of fee basis over a long time horizon (Benchmark Outperformance); and
- d) To diversify the portfolio by asset type, security (issuer) and Investment Manager to reduce the volatility of returns (Adequate Diversification).

2.2 Long-Term Objective. Consistent capital growth is the primary objective of the Fund. The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements. Consistent capital growth is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility. Since the Advisors will focus on long-term capital appreciation, the Fund may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

All parties named in this Statement shall carry out their business in compliance to all existing and future applicable state and federal regulations (Regulatory Compliance Requirement) and for assets subject to their discretion maintain adequate liquidity to meet all anticipated expenditures after sufficient notice (Adequate Liquidity Requirement).

2.3 Definition of Market Cycle. Throughout this Statement the term "market cycle" is used. Market cycles include both a rising and a declining market. Generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices. Therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

2.4 Definition of Investment Consultant, Investment Advisor and Investment Manager. Throughout this Statement the terms Investment "Consultant", Investment "Advisor" and Investment "Manager" are used. Consultant shall refer to the entity hired by the OHA Chief Executive Officer ("CEO") to assist OHA staff and BOT in overseeing the Fund and to monitor and evaluate the Advisors; "Advisor" shall refer to each Fiduciary (typically utilizing the "manager-of-managers" approach) hired by the BOT to exercise investment discretion over a portion of the Fund's assets within the parameters set forth in the Statement; and "Manager" shall refer to any portfolio manager selected by the Advisors to invest the Fund's assets.

Section 3. Standards of Care

3.1 Board of Trustees and OHA Staff. The standard of care applied to the BOT and OHA internal staff assigned to the Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

3.2 External Providers. The standard of care applied to all external providers (i.e., Consultant, Advisors (indirectly Investment Managers hired by the Advisors), and Custodian) shall be as set forth in the agreement between the BOT or CEO, as appropriate, and each external provider. The BOT will negotiate a standard for the Investment Advisors that is similar in effect to the "prudent expert" standard, defined as: "Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

3.3 Code of Ethics. OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions. OHA Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. OHA employees and officers shall refrain from undertaking personal investment transactions with entities that conduct business with the Fund. Should any Trustees have personal involvement with any direct investment transaction or any perceived conflicts of interest, the Trustee should disclose the involvement immediately and be recused from discussions and votes on said investment. OHA Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual.

Section 4. Delegation of Authority

The Office of Hawaiian Affairs Native Hawaiian Trust Fund maintains a structured and organized process in implementing its investment program. To accomplish the mission, objectives and desired investment returns of the Fund, the Board of Trustees has delegated authority to various individuals and organizations.

4.1 BOT Composition. The BOT currently consists of representatives from:

- a) O'ahu
- b) Kaua'i and Ni'ihau
- c) Moloka'i and Lana'i
- d) Hawai'i
- e) Maui
- f) At large (4)

4.2 BOT Responsibilities. The BOT recognizes that it may not possess sufficient expertise to manage directly the assets of the Fund. The BOT, therefore, employs the services of various external experts to act as Fiduciaries--Consultants, Advisors and/or Custodians and seeks advice from independent parties. The BOT does rely on this expertise in carrying out its responsibility to oversee the overall management of the Fund's assets, and will meet quarterly to review the performance of the Fund and the activities of the external providers for reasonable consistency with the objectives of the Fund as set forth in this Statement. When necessary, the BOT will provide

guidance to the investment process. BOT may delegate certain of its responsibilities to the CEO to assist with the implementation of this Statement. BOT responsibilities include, but are not limited to:

- a) Approve the Investment Policy Statement and all modifications to the Statement;
- b) Approve Advisors and Non-Marketable Alternatives Providers. The BOT delegates authority to the CEO to select the Custodian, Consultant and Investment Advisory Committee (IAC) members;
- c) Monitor results of all Fund assets as a whole and those assigned to each Advisor. The BOT shall include in its quarterly assessment such topics as: economic outlook, portfolio diversification, asset allocation and structure, Advisors' strategies, potential risks, and the performance of the overall portfolio as well as each of the Fund's asset classes versus its benchmark rate of return and peer institutions;
- d) Review quarterly reports regarding the activities of Advisors, Consultant, Investment Advisory Committee and OHA staff overseeing the Fund;
- e) Review quarterly reports from the Custodian and Advisors regarding the composition of each Advisor's assets under management versus the Fund's strategic target and the asset class strategies of each Advisor;
- f) Review the quarterly report of the Consultant regarding the performance of the Fund and the Advisors;
- g) As necessary, review the Fund's strategic direction or significant issues impacting the Fund or Fiduciaries, and take action as appropriate;
- h) Attend a minimum of two investment educational events held in Hawai'i per year; and
- i) Attend out-of-State training, educational or due diligence events that are recommended by the CEO and approved by the Chairperson of the BOT.

4.3 Duties of the Consultant, Investment Advisory Committee, CEO and OHA Staff. The duties of the Consultant will be as set forth in the agreement entered into between the CEO and the Consultant. The duties of the Investment Advisory Committee are as outlined in the Committee's Charter. This Committee has no authority to make decisions, but only serves to provide independent comments to the Consultant, the CEO and staff, and BOT representatives regarding the economic outlook and the Fund's assets, strategies, performance, risks and Fiduciaries. The duties of the CEO, OHA staff, Investment Advisory Committee and Consultant will be set forth in the OHA Native Hawaiian Trust Fund Operational Procedures. The CEO is responsible for approving these Operational Procedures and for reviewing and approving all investment decisions not made by an Advisor, except those reserved for the BOT. The Consultant and OHA staff are responsible for assisting the CEO and the BOT in the execution of their responsibilities. Duties of the Consultant and OHA staff jointly include, but are not limited to:

- a) Monitor the performance of each Advisor's portfolio as frequently as market conditions dictate, including review of the Advisor's monthly reports;
- b) Aggregate as necessary and monitor the performance of the Fund's investment portfolios monthly and prepare quarterly performance and Advisor activity reports for review by the CEO and BOT;
- c) Monitor the monthly reconciliation of the portfolio positions and valuations among the Custodian and Advisors (OHA staff only);
- d) Seek to ensure that assets are invested in accordance with the requirements specified in this Statement;
- e) Recommend to the CEO and implement operational procedures that will enhance the investment program of the Fund and ensure that proper internal controls are implemented to safeguard the assets of the Fund, including preparing Investment Guideline Summaries for each of the Advisors;
- f) Recommend benchmarks for approval to the CEO;
- g) Prepare periodic market-cycle and annual reviews of the Fund's investments and the Advisors' performance, including findings from annual due diligence visits for presentation to the BOT;
- h) Conduct onsite annual due diligence of the Advisors and Custodian;
- i) Coordinate and vet changes to the Investment Policy Statement and serve as chair (Consultant) and secretary (OHA staff) to the Investment Advisory Committee;
- j) Evaluate the reasonableness of recommendations of Advisors and Non-Marketable Alternatives Providers regarding investment decisions and policies requiring the approval of the CEO.
- k) Evaluate and recommend Direct Investments in Hawaii for the approval of the CEO and BOT, as appropriate;
- l) Manage the Fund's Enhanced Liquidity Account assets awaiting disbursement to OHA consistent with the

Operational Procedures reviewed by the CFO and approved by the CEO; and

- m) Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;
- n) Maintain knowledge of current trends and conditions with respect to investment management through continuing education.

4.4 Duties of the Advisors. The duties of the Advisors shall be as set forth in the agreements entered into between the BOT and the Advisors, and will explicitly include this Statement as an addendum. The Advisors act as Fiduciaries of the Fund for the assets they have under management. Duties of the Advisors include, but are not limited to:

- a) Invest the assets of the Fund within the constraints of the Statement while adhering to the investment management style, concepts and principles for which they were retained by the BOT. Advisors are responsible for tactical asset allocation and manager selection unless otherwise stated in the management and/or trust agreement with OHA;
- b) Where applicable per the Advisor management agreement, for all investment decisions requiring the CEO's approval, recommend specific investments and provide strategic and/or tactical investment advice to the BOT, CEO, OHA staff, and Consultant as appropriate to render a decision that will achieve the Fund's investment objectives;
- c) Seek to achieve best execution and price for all transactions effected on behalf of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis and if appropriate, facilitate the recapture of commissions on behalf of the Fund;
- d) Reconcile within tolerance limits monthly accounting, transaction, valuation and asset summary data with the Custodian's transactions, valuations and holdings, including resolving any discrepancies with the Custodian;
- e) For investments where a market value is not available, assist the Custodian as necessary in finding appropriate pricing sources or establishing fair value procedures.
- f) Report to the BOT on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel and performance relevant to the management of the Fund. Items relevant to the Fund include those that would have a direct or indirect impact on the ability of the Advisor to continue to provide a high level of service;
- g) Vote the proxies of invested companies (or delegate the vote to Managers), as they deem appropriate, although the BOT reserves the right to vote proxies in separately managed accounts if it so chooses;
- h) Periodically conduct capital market studies and make recommendations to the BOT regarding changes to the Statement and strategic asset allocation targets and ranges based on the risk/return objectives of the Fund and the economic and market outlook. The timing of these analyses, and either reaffirmation or recommendation of modifications to this Statement, shall be as agreed upon with the BOT, but normally every two to five years, but no less frequently than every six years;
- i) Select qualified Investment Managers, and monitor existing Managers' style consistency and performance at least monthly, including due diligence of those Managers regarding personnel, ownership, risk management and the investment process;
- j) Negotiate fee arrangements and other contract terms with the investment Managers on behalf of the Fund;
- k) Communicate with the Consultant and/or OHA staff on at least a monthly basis regarding actions taken, or any material changes, issues or circumstances warranting attention including performance of the Fund, market conditions and outlook, manager-turnover, Managers' or Advisor's staff turnover, etc;
- l) Prepare and present a quarterly executive summary report to the BOT as requested by the Consultant or OHA staff including performance versus benchmarks, asset allocation, economic outlook, fees, Manager summary, and any other significant issues impacting the Fund;
- m) Assist the Consultant and OHA staff in preparing Investment Guideline Summaries for the approval of the CEO covering the assets under their management and annually prepare a compliance and derivatives usage report (Each Advisor's Investment Guideline Summary will govern the assets under their management in conjunction with the Investment Policy Statement and the Investment Management Agreement between the

Advisor and OHA);

- n) Host an annual onsite comprehensive and/or topical due diligence for the Consultant and OHA staff and officials and as requested provide portfolio analytics and style consistency adherence at the manager-level for the Advisor's commingled vehicles;
- o) Negotiate and arrange for brokerage and any applicable recordkeeping services;
- p) Render special projects at the request of the BOT, the Consultant or OHA staff; and
- q) Provide certain other services, as described elsewhere in this Statement, such as investment training, market research, educational programs, analytical tools, etc.

4.5 Duties of the Custodian. The duties of the Custodian shall be as set forth in the agreement between the BOT and the Custodian. In addition to other responsibilities contained in that agreement the Custodian will:

- a) Provide complete custody and depository services for the Fund's assets including obtaining market values or fair values for all assets on at least a monthly basis;
- b) Provide a monthly report of transactions by the Advisors and, where applicable, by OHA (Enhanced Liquidity Account) as set forth in the Custody agreement;
- c) Provide audited monthly and annual accounting statements for all the Fund's assets and transactions;
- d) Collect all interest income, dividends and principal realization and properly report them in all accounting statements;
- e) Disperse funds to cover expenses, accept funds from OHA or the Advisors, and disperse funds to OHA or the Advisors as properly instructed by CEO or OHA staff, and properly report these transactions in all accounting statements; and
- f) Reconcile monthly accounting, transaction and asset summary data and communicate and resolve any discrepancies with the Advisors.

Section 5. Asset Allocation Guidelines and Long Term Targets

The BOT prefers Advisors who can construct and manage a portfolio encompassing multiple strategic asset classes using a Manager-of-Manager approach and utilize the Fund's strategic target index as their primary benchmark (strategic target weight times strategic benchmark index return for each strategic asset class). The purpose of the strategic target asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. The minimum and maximum levels listed below are targeting guidelines as opposed to absolute barriers; Advisors should bring asset allocations which are outside of their approved targeting range back to the range per their rebalancing policy unless granted a written exception by the CEO. The Traditional and Alternative Assets Advisors are not responsible for Hawai'i Direct Investments and the Enhanced Liquidity Account. OHA staff may hedge the allocation to Hawai'i Direct Investments in a traditional asset class managed by one or more Advisors until such investments are made. The Alternatives Advisor may hedge the under or over exposure to asset classes with barriers to entry and exit (Non-Marketable Alternatives) with similar liquid (marketable) asset classes (e.g. hedge underexposure to targeted private equity using traditional equity or marketable equity alternatives).

5.1 Asset Allocation.

Asset Class Portfolios	Maximum	Minimum	Strategic Target	Benchmark Index	Primary Objective
Traditional Asset Classes					
Traditional Global Equities	55%	22%	40%	MSCI ACWI	Growth
Traditional Global Fixed Income	22%	11%	17%	Bloomberg US Aggregate	Income
Traditional Global Real Assets	11%	0%	5%	US TIPS +3%	Inflation Hedge
Total Traditional Assets	88%	33%	62%		
Alternative Asset Classes					
Hedge Funds	19.2%	6.4%	12%	3-Month T-Bills +4%	Volatility Management
Private Markets*	25.6%	0%	18%	MSCI ACWI +3%	Growth
Total Alternative Assets	44.8%	6.4%	30%		
Enhanced Liquidity Account					
Enhanced Liquidity	10%	0%	3%	1-3 Year Treasury	Liquidity
Hawai'i Direct Investments					
Hawai'i Direct Investments	10%	0%	5%	US TIPS +3%	Inflation Hedge
*The Private Market allocation will consist of the previous Non-Marketable Equity, Credit, and Real Assets & Opportunistic portfolios					

The Strategic Targets for the Asset Classes listed in the table above multiplied by the benchmarks recommended by the Consultant and approved by the CEO constitute the Policy Portfolio. The table below regroups the Asset Classes by their primary objective.

Asset Class Portfolios	Maximum	Minimum	Strategic Target
Growth			
Traditional Global Equities	55%	22%	40%
Private Markets	25.6%	0%	18%
Total Growth	80.6%	22%	58%
Income			
Traditional Global Fixed Income	22%	11%	17%
Total Income	22%	11%	17%
Volatility Management			
Hedge Funds	19.2%	6.4%	12%
Inflation Hedge			
Traditional Global Real Assets	11%	0%	5%
Hawai'i Direct Investments	10%	0%	5%
Total Inflation Hedge	21%	0%	10%
Liquidity			
Enhanced Liquidity	10%	0%	3%

The CEO has the delegated power to allocate up to \$25 million from the Fund for a Direct Investment Program. Direct investments made from the Fund shall follow the guidelines set forth in the Hawai'i Direct Investment Policy section of this Statement. All Hawai'i-based Direct Investments are excluded from the discretionary Manager-of-Managers framework. The OHA staff with the assistance of the Consultant will be responsible for the due diligence, performance monitoring and reporting of such investments.

Private Market investments are accomplished outside of the discretionary Advisor framework as the Advisors do not have investment discretion over these assets. Approved Non-Marketable Alternatives Providers will provide OHA staff and the Consultant with sufficient information and analyses to evaluate their investment recommendations. The information may include Manager due diligence reports and portfolio analytics so that the CEO can make an informed decision relating to the investment. It is recognized that there may be underinvestment or overinvestment in these illiquid asset classes due to the timing of capital calls and distributions.

5.2 Benchmarks. Each Advisor will use the primary strategic benchmark index listed in their Investment Guideline

Summary as a guide in managing assets under their control. The strategic asset allocation targets and ranges, performance benchmarks, and additional investment guidelines are also set forth in each Advisor's Investment Guideline Summary or Investment Management Agreement. As necessary, the Consultant will recommend changes to the strategic targets, ranges, performance benchmarks, and any additional guidelines and the CEO must approve those changes before they become effective. The CEO will notify the BOT of Investment Guideline changes in writing.

Every new product of an Advisor must be assigned to one of the above asset classes as agreed upon between the Advisor and OHA Staff and/or the Consultant, with notification of the CEO. In addition, each investment may have a custom benchmark different from that of the asset class as agreed upon with the Consultant. The secondary benchmark is the Consumer Price Index (CPI) plus 5.0% annually for the Fund as a whole. The Consultant will also recommend, in consultation with each Advisor, peer manager and peer institution benchmarks and these will be approved by the CEO. Besides reporting portfolio performance versus these portfolio benchmarks, the Advisors shall report investment results on individual funds or portfolios versus their custom benchmarks.

The BOT recognizes that the actual asset allocation of the Fund may vary between or even outside of the minimum and maximum in the short term depending on market conditions and/or tactical asset allocation shifts. Asset classes not contemplated above or elsewhere in this Policy may be added to the Fund upon approval in writing by the BOT. The Advisors will only be responsible for meeting the investment objectives applicable to the portion of the Fund entrusted to such Advisors.

5.3 Rebalancing Policy. The primary purposes of rebalancing are to (1) ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation; and (2) improve the performance of the Fund. The CEO will ensure that any agreement entered into with an Investment Advisor sets forth a rebalancing policy satisfactory to the BOT.

Section 6. Cash Holdings

It is the policy of the Fund that the Advisors fully invest the assets of the Fund under their control except to accommodate large cash flows. Unhedged cash and equivalents may be held in the Fund for defensive purposes at the Advisor's discretion during abnormal market conditions. The equity portion of the Advisor's portfolio should strive to maintain less than 5% of the portfolio in cash equivalents, unless the cash is hedged to achieve the appropriate asset class exposure. The fixed income portion of the Advisor's portfolio may maintain higher cash balances (e.g., as barbell strategies necessitate this exposure to cash).

Cash equivalents maximize liquidity and safety of principal. Maturities should be short enough that cash equivalents can be liquidated with a limited loss of principal. The following types of cash equivalents are eligible for investment:

- a) Money market mutual funds (2a7) which invest solely in U.S. Treasury and government agency securities;
- b) Deposits which are 100% federally insured or collateralized with U.S. government or agency securities with a market value of at least 100% of the face amount of the certificate;
- c) U.S. Treasury bills and short-term U.S. government agency securities;
- d) Overnight repurchase agreements collateralized with U.S. government or agency securities with a market value of at least 102% of the face amount; and
- e) Commercial paper of the highest two grades as rated by a nationally recognized rating agency.

Section 7. Pooled/Commingled Investments/Mutual Funds

Commingled investment vehicles where there is a pooling of securities owned by multiple clients for diversification, risk reduction, or cost benefits, include mutual funds, trust funds, private placements, and limited

partnerships, and are explicitly permissible. Although private placements and limited partnerships are exempt from both federal and state securities registration, they are considered appropriate vehicles for the Fund.

Section 8. Permissible Investments

8.1 Asset Class Definitions, Objectives, Permissible Instruments, Strategies, & Requirements. Investments in each asset class listed in Section 5, except for those investments excluded from the Advisors' responsibility, must be well diversified as defined below and in the Investment Guideline Summary or Investment Management Agreement of each Advisor. Advisors, as Fiduciaries, must exercise prudence in all matters and invest solely for the benefit of the Fund. For each asset class, the Advisors will retain Managers who invest in separate accounts or in commingled vehicles. An Advisor may select itself, an affiliated Manager, or an external Manager. Advisors may also retain Managers to provide "active overlay" strategies that use securities, currencies and derivative instruments, including but not limited to forwards, options, futures contracts, options, currency forwards, futures contracts and swaps (e.g. interest rate, credit default and total return) to replicate an index or combination of indexes. These overlay strategies will seek to (a) manage Fund exposure to various asset classes, (b) manage overall Fund risk, and (c) under certain conditions, enhance total return with tightly controlled leverage constraints.

Each Advisor must demonstrate that it has the capability to manage the risks involved in each asset class. Key to controlling risks is the ability to conduct robust ongoing due diligence on the Managers it selects and the ability to measure, manage and report portfolio risks, including issuer concentration, market, credit, duration, liquidity, leverage, currency and other major risks. The Consultant, with the assistance of OHA staff and the Advisors, must document the investment restrictions and risk controls for the portfolio of each Advisor in the Investment Guideline Summaries. The Advisors are not allowed to leverage the Fund's assets at the portfolio level without prior written approval of the BOT, although individual managers or commingled vehicles in certain asset classes and strategies may employ leverage under controlled conditions. Risk hedging in each asset class is explicitly permitted, including currency risks relative to the benchmark index and temporarily hedging the exposure in an illiquid asset class with a similar liquid asset class.

a) **Traditional Global Equity - Common & Preferred Stocks and Un-levered Equity Derivatives.** The primary role of traditional global equity is to seek to provide total return in excess of inflation, consistent with the appropriate benchmark index. Traditional equity may be actively managed in diversified portfolios of long only positions and/or long and short positions netting to approximately 100% long, be passively managed, utilize active overlay strategies, or be managed in any combination of active, passive and overlay strategies. The goal of an actively managed stock portfolio will be to achieve a net return after fees in excess of its benchmark index with comparable risk. Securities should be publicly owned and traded actively enough to insure liquidity without significantly adverse effects on price due to rapid sale. The Advisor should diversify the portfolio by geography—domestic and international, both developed and emerging markets, by investment style—value and growth, by manager, by approach—quantitative versus fundamental, by sector and industry, and capitalization—small, mid and large. An Advisor may select itself or an affiliated Manager in this asset class.

b) **Traditional Global Fixed Income – Cash Equivalents, Bonds, Loans and Un-levered Fixed Income Derivatives.** The primary role of Global Fixed Income is to seek to: 1) generate income while diversifying the investment assets, 2) provide a safe, stable return, and 3) provide a deflationary hedge. The fixed income asset class may include, but is not limited to the following components:

- a) Cash equivalents;
- b) US core credit including investment grade corporate, asset-backed, municipals and mortgage securities;
- c) High-yield securities and liquid loans; and
- d) Foreign government securities, investment grade foreign corporate debt denominated in US dollars or foreign currencies from both emerging markets and developed countries.

Advisors should ensure that managers are carefully managing portfolio duration, convexity, yield curve structure, sector exposure, issuer concentration, credit quality, non-U.S. securities, and currency risk to achieve a balanced and

reasonable risk budget relative to the benchmark index for the fixed income portfolio. An Advisor may select itself or an affiliated Manager in this asset class.

c) Global Real Assets – Real Estate Investment Trusts (REITs) and Treasury Inflation Protected Securities (TIPS).

The primary role of global real estate is to seek to provide total return in excess of inflation, consistent with an appropriate real estate benchmark index. The Managers selected by the Advisors must have demonstrated a favorable record in managing real estate portfolios. The public real estate asset portfolio of the Fund may be comprised of commingled pools and/or a portfolio of real estate investment trusts (REITs), which are well diversified by property type and geographic location. Advisors shall invest in instruments which comprise a portfolio well diversified by the four main property types, including office, retail, industrial, and multifamily residential, as well as by geographic region, and tenancy/leasing structure. If a real estate investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle will serve as the operative policy. The Advisors are responsible for ensuring that the selected vehicle or portfolio has adequate risk controls in place and that the Manager is investing according to the operative policy. The Advisors may also invest in TIPS as a diversifier, or if they believe that they provide a better value than REITs, as an inflation hedge. An Advisor may select itself or an affiliated Manager in this asset class.

d) Low Volatility Marketable Alternatives – Funds of Hedge Funds, Individual Hedge Funds, Commodity Funds, and Mutual and Exchange Traded Funds employing alternative strategies.

The primary role of this asset class is to seek to provide a consistently positive return source above the risk free rate that has low volatility and low correlation to the other asset classes, and the secondary role is to provide an inflation hedge through a commodity allocation. This asset class consists of a diversified portfolio of hedge fund strategies deemed appropriate by the Advisor for this role, including but not limited to macro, commodity trading advisors, relative value, opportunistic, global tactical asset allocation, distressed, and opportunistic. The Alternatives Advisor may utilize funds of hedge funds, a portfolio of individual hedge funds, mutual funds or market neutral overlay strategies designed to achieve a consistently positive return above the risk free rate. The Alternatives Advisor may select itself or an affiliate as the fund-of-funds Manager or as one or more of the hedge fund Managers. The Alternatives Advisor is responsible for ensuring that the selected vehicle has adequate risk controls in place. The Alternatives Advisor will seek to ensure that Managers invest according to the offering memorandum or partnership agreement. The Alternatives Advisor may select Managers that utilize reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their individual hedge funds. The liquidity requirements for individual hedge funds or hedge fund-of-funds will be defined in the Advisor's Investment Guideline Summary. Advisors should seek to avoid direct or indirect investments in funds with redemption gates or side pockets, as well as funds which lack reasonable transparency consistent with the investment strategy. Advisors should also avoid any funds with excessive fees in relation to market practice and/or expected returns, or terms which do not align the interests of the Manager with the client, as well as those that have the majority of assets in illiquid investments.

The primary role of the commodities allocation is to seek to provide a consistently positive return above inflation with a low or negative correlation to the other asset classes. Commodities provide an inflation hedge and should consist of a diversified portfolio of energy, metal, agricultural and other commodities, including but not limited to oil, natural gas, grains, metals, and livestock. The Alternatives Advisor may utilize separate accounts or commingled funds using a single Manager or a multi-manager approach. The Alternatives Advisor should utilize strategies that have at least monthly liquidity under normal conditions and further liquidity guidelines will be specified in the Advisor's Investment Guideline Summary. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one of the Managers. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor will seek to ensure that Managers utilizing funds invest according to the offering memorandum or partnership agreement.

e) Non-Marketable Equity Alternatives – Private Equity Funds, Funds of Private Equity Funds, Equity Hedge Funds, and Cash Equivalents & Overlay Strategies.

The primary role of Non-Marketable Equity Alternatives is to seek to provide enhanced total return to traditional equity through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but employ strategies which go beyond the long only equity portfolio. Equity Alternatives include, but are not limited to, investments in private equity, venture capital, portable alpha, and long-biased equity hedge funds. The Alternatives Advisor may utilize hedge funds that correlate to the equity markets or

overlay strategies such as portable alpha to hedge an underexposure to the targeted level of Non-Marketable Equity Alternatives, and hold cash temporarily to meet capital calls. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class. The CEO may approve funds of private equity funds, which consist of funds making primary and/or secondary investments in underlying private equity funds as well as some direct investments. These funds are managed for returns with low correlation to returns in the traditional equity markets, and with very little liquidity. Assets invested in these private funds are generally illiquid for five to ten or more years. The CEO needs to invest the Fund's assets in a consistent long-term approach so as to limit the vintage year risk where there is a wide range of performance depending on the year the fund is launched. The Non-Marketable Alternatives Providers will seek to ensure that general partners invest according to the offering memorandum or partnership agreement. The Providers are responsible for ensuring that the selected vehicle has adequate risk controls in place and invests within the stated style and the scope of its offering memorandum or partnership agreement. Due to the long-term nature of a private equity investment, the measurement period for complete evaluation will be over a ten-year period. A ten-year return is intended to cover at least one complete market cycle, and is consistent with the average term of private equity fund-of-funds investments. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

f) Non-Marketable Credit Alternatives — Mezzanine Debt Funds, Specialty Loan Funds, Distressed Debt Funds, and Credit Hedge Funds. The primary role of Non-Marketable Credit Alternatives is to seek to provide enhanced total return to traditional credit through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but provide access to fixed income strategies with higher return potential. Credit alternatives include, but are not limited to mezzanine debt, bank loans, distressed debt, special situations, portable alpha, and hedge funds utilizing credit strategies. These strategies should have returns with moderate correlation to traditional fixed income returns and low correlation to the other asset classes. The Non-Marketable Alternatives Providers are responsible for ensuring that their selected vehicles have adequate risk controls in place and that their selected vehicles conform to the offering memorandum or partnership agreement. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class using credit hedge funds, overlay strategies, or traditional credit strategies. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

g) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLP's) and unique investments that do not fit into another Asset Class. The primary role of Non-Marketable Real Assets & Opportunistic Alternative investments is to seek to provide an inflation hedge, and the secondary role is to provide enhanced total return above Traditional Real Assets by committing capital for ten years or more to private market real asset strategies. Real assets include, but are not limited to real estate, TIPS, commodities, and natural resources. The OHA Staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class. The Alternatives Advisor may hedge target exposure using such marketable assets as MLP's, CTA's, REITs, TIPS, overlay strategies, or mutual and exchange-traded funds utilizing real asset strategies. The Alternatives Advisor may select itself or an affiliated Manager to hedge underexposure in this asset class.

h) Hawaii Direct Investments. The primary role of Hawaii Direct Investments is to seek a total return of five percent in excess of inflation from real property that provides office space to OHA in Hawaii. This asset class includes the legacy investment in Russell Investments Private Real Estate Fund. All direct real estate investments must be made within the context of the Direct Investment Policy Statement.

Section 9. Prohibited Investments

The following investments are prohibited. Should a prohibited transaction occur, the Advisor must report it immediately after discovery to the Consultant and OHA staff, who will report it at the next BOT meeting.

9.1 Self-Dealing Transactions. Managers cannot purchase or hold any security of the Advisor who selected them, unless permitted by law.

9.2 Financial Institution Deposits including CDs. Direct deposits may not exceed the Federal Deposit Insurance Corporation insurance limit unless they are 100% collateralized by eligible U.S. government securities or fully covered by a surety bond.

9.3 Letter Stock. Letter stock and other unregistered equity securities are prohibited except in the alternative asset classes.

Section 10. Derivatives Policy

This Derivatives Policy applies to all investments with the exception of those permitted in funds in the alternative asset classes. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in. Structured securities, futures, forwards, total return swaps, interest rate swaps, credit default swaps, options and other derivatives are permitted only if they are used in a defensive hedging manner (e.g. to hedge a currency, equitize cash, or to create an overlay strategy or structured fixed income portfolio). Advisors will be required to report on a periodic basis (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

Section 11. Voting of Proxies

The BOT has delegated the authority to Advisors and Managers to vote proxies. For separately managed accounts (not pooled vehicles), the BOT reserves its right to exercise its proxy rights when it so chooses and to vote the proxies of invested companies as it deems appropriate. The proxy voting review process and guidelines are set forth in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 12. Trades, Exchanges & Valuation

12.1 Selling or Exchanging Securities. Investment Managers may sell or exchange securities in the course of daily management of specific funds. The goal of all such trades is to maximize portfolio performance while maintaining an appropriate risk profile.

12.2 Marking to Market. To account for market fluctuations and volatility, the Custodian or its agent (independent pricing agent) will mark to market all securities at least monthly. When market values are not available, the Custodian will follow the prevailing best practices regarding fair valuation. If a significant market event takes place during the month that impacts the value of the portfolio, the Custodian or its agent will determine the impact on the portfolio.

Section 13. Procedures for Selecting and Reviewing Investment Advisors

13.1 Review Process. Fund investments will be managed by professional Advisors and Managers except to the extent the BOT specifically delegates investment authority for other strategies for which the Fund's Advisors do not have specific expertise under the Manager-of-Managers' approach or for OHA's Enhanced Liquidity Account. When the BOT elects to retain a new Investment Advisor(s), it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102(b)(2)(F) specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:

- a) The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
- b) The initial list will consist of either eight to ten Advisors, but may be fewer depending on the investment approach.
- c) OHA procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
- d) The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
- e) OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
- f) The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year, and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.
- g) OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
- h) Final selection will be approved by the BOT.
- i) Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
- j) OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.

13.2 Selection Criteria for Advisors. Criteria will be established for each Advisor search undertaken by the BOT and will be tailored to the BOT's needs. These criteria are applicable to discretionary Manager-of-Managers and may not necessarily be applicable for the Enhanced Liquidity Account Manager. In general, eligible Advisors will possess attributes including, but not limited to, the following:

- a) For Manager-of-Manager searches, the firm must exhibit capabilities to offer Manager-of-Manager programs across a variety of asset classes and are capable of utilizing qualified Hawaii-based Managers;
- b) For specific asset class searches, the firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the BOT;
- c) The firm must have a minimum five-year history with managing institutional assets, demonstrate continuity of key personnel; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms;
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- e) The firm must have an asset base sufficient to accommodate the Fund's portfolio: Manager of Managers should have at least \$20 billion of discretionary institutional assets under management; the Fund's portfolio should represent no more than 5% of the firm's total asset base for any Advisor;
- f) The firm must demonstrate adherence to the investment style sought by the BOT, and adherence to the firm's stated investment discipline;
- g) The firm should promote good governance in its proxy voting policy and adhere to best practice standards regarding transparency, manager fee structure, leverage, and liquidity in the alternative asset classes;

- h) The firm's fees should be competitive with industry standards for each product category and overall;
- i) The firm must comply with the "Duties of the Investment Advisors" outlined in this Statement and should conform to GIPS (Global Investment Performance Standards) for performance reporting;
- j) The firm must be able to offer investment education programs to the BOT and OHA staff at least once a year; and
- k) The firm must be able to provide analytics tools and/or reports necessary for OHA staff and Consultant to monitor and analyze asset allocation, risk, and manager performance.

13.3 Criteria for Advisor Review and Monitoring. The BOT reserves the right to terminate an Investment Advisor at any time with reasonable notice as defined in the contract between the BOT and the Investment Advisor. Grounds for termination may include, but are not limited to:

- a) Failure to comply with the guidelines agreed upon for the management of the Fund's assets; including holding restricted securities and conducting prohibited transactions;
- b) Failure to achieve performance objectives specified in this Statement or the Advisor's contractual guidelines;
- c) Significant deviation from the Advisor's stated investment philosophy/style and/or process.
- d) Loss of key personnel or significant ownership changes that create instability in the organization;
- e) Evidence of illegal or unethical behavior by the Investment Advisor;
- f) Lack of willingness to cooperate with reasonable requests by the BOT, Investment Consultant or OHA staff for information, meetings or other material;
- g) Loss of confidence by the BOT; and
- h) A change in the Fund's asset allocation program which necessitates a shift of assets to another process or style.

The presence of any one, or a combination of these, factors will be carefully reviewed by the BOT, but will not necessarily result in an automatic termination.

13.4 Performance Monitoring. The OHA staff and Consultant shall monitor monthly statements and receive quarterly performance reports from the Advisors. The Advisors shall monitor, at least monthly, the investment results of each Manager under contract to determine whether or not that Manager is performing up to the standard required by the benchmark of performance specified in the Manager's contract.

13.5 Advisors Total Return Comparison. The BOT expects that each Advisor's total portfolio performance over a market cycle will meet or exceed the benchmark index established for that Advisor.

13.6 Total Portfolio Returns. The BOT expects that the Fund's combined investment results over a market cycle will be in the top 50% of a nationally recognized universe of foundations and endowments with similar sized portfolios.

13.7 Asset Class Returns. Specific asset class investment results shall be measured against benchmarks as detailed in the Advisor's Investment Guideline Summary.

13.8 Advisor Alerts. Advisors are expected to keep the BOT, OHA staff and Consultant informed of any material changes in their respective firms (i.e. change in personnel, ownership, policy, etc.).

13.9 Termination. If at any time the standard required is not being met by an Advisor, the BOT will determine what action will be taken toward the Investment Advisor. The decision to terminate an Investment Advisor shall be by majority vote of the BOT present at the meeting subject to the contractual agreement.

Section 14. Liquidity Policy

The Redemption liquidity of the total Trust Fund will be maintained with a minimum 65% of the Fund's assets able to be liquidated at market value under normal conditions on at least a quarterly basis (advance notification and some

restrictions may apply). Investments with liquidity less than quarterly require the approval of the CEO. At least 50% of the total Trust Fund's assets must be liquid on at least a monthly basis at market value without restriction or advance notice longer than five business days under normal conditions. The Liquidity requirements for each Advisor and the assets under their management will be specified in their Investment Guideline Summaries and/or Investment Management Agreements.

Section 15. Errors & Omissions

The Advisor is to correct any material violation of the provisions of this Statement within a reasonable time period upon discovery. The Advisor will reimburse the Fund for a realized loss resulting from a material violation as agreed in the contract between the BOT and the Advisor.

Section 16. Adding New Asset Classes

The Investment Consultant with the assistance of OHA staff will work with the Advisors to assign each investment (e.g. fund) to an asset class portfolio, a custom benchmark index, and a peer manager universe. If the Advisor proposes an investment that does not fit into one of the approved asset classes listed in Section 5, the Advisor will prepare a written recommendation to the OHA staff / Consultant justifying the investment. The recommendation must include a description, of the new asset class, rationale for including the new investment, historical returns and risk statistics, liquidity, analysis of impact on the risk/return of the Fund, the benchmark index and manager peer universe. OHA staff and the consultant will provide a recommendation to the BOT. Adding a new asset class will require the approval of the CEO and the BOT.

Section 17. Interpretation

This Statement will be incorporated as an addendum in the agreements between the OHA BOT and each Advisor. In the event of any conflict or inconsistency between the terms of the agreement and this Statement, other than the Section 4.4 Duties of the Investment Advisors and anything designated as a Fundamental Investment Policy, the terms of the agreement with the Advisor shall govern.

Section 18. Hawai'i Direct Investment Policy (HDIP)

The CEO has the delegated power to allocate up to \$25 million, but not to exceed 10% of the market value of the Fund at the time of investment, on a cost basis for Hawai'i Direct Investments, including real estate and equity positions in companies based in Hawaii or with significant operations in Hawaii. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding BOT-approved lending programs for Native Hawaiians. This allocation may not be used for any other purpose until the acquisition of OHA's first corporate headquarter real estate property is complete. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT. The combined cost of all direct investments, less any return of capital to the Fund from these direct investments, cannot exceed the \$25 million allocation.

18.2 Delegation of Authority. All final acquisition, development, and/or disposition decisions of Hawai'i direct investments must be approved by the BOT. The BOT delegates to the CEO the authority to:

- a) Administer the HDIP and approve and implement procedures to carry it out;
- b) Delegate duties to OHA staff as necessary to fulfill and implement this policy;

- c) Deny opportunities that do not satisfy current policy, guidelines, and/or criteria approved by the BOT;
- d) Execute contract and agreements;
- e) Conduct investment due diligence, negotiations, and on-going performance monitoring;
- f) Structure real estate financing terms for approval by the BOT;
- g) As necessary, oversee and manage the operational functions associated with each investment, including selecting and terminating service providers, negotiating leases and setting fee schedules (including market-based lease terms for OHA occupied space), obtaining and approving permits, licensing, and leasing, approving tenant improvements, sub-leases, evictions, use and service agreements, and making all other operational decisions associated with the investment; and
- h) Determine when to segregate assets to fund acquisitions and to place those assets with OHA staff to invest in the Enhanced Liquidity Account (ELA) until acquisitions are closed. These funds do not count toward the spending limit on annual transfers to the ELA

The BOT reserves the right to approve all other decisions not listed above.

18.3 Permissible Investment. For OHA's headquarter corporate real estate acquisition, OHA is to invest in real estate located on the island of O'ahu. OHA may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or vice versa, during the course of the holding period of the investment. Realized gains generated from real estate dispositions should credit the cost of the investment allocated to the direct investment program.

All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.

18.4 Leverage. OHA may finance the acquisition of corporate real estate with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be counted toward the \$25 million allocation.

18.5 Market Valuation. Market valuation of corporate real estate is determined by biennial appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Section 19. Enhanced Liquidity Account Investments

The BOT has authorized the use of an Enhanced Liquidity Account (ELA) utilizing primarily short-term and intermediate-term U.S. government and agency securities, TIPS, MLP's, liquid alternative risk premia strategies, and passive beta strategies to manage OHA's short-term (less than 18 months) cash flow. The ELA may be managed internally by OHA staff or externally by a registered investment advisor. The primary objectives of the ELA are to expedite the ability to meet fiscal obligations and efficiently manage short-term cash needs; a secondary objective is to provide a highly liquid, low volatility, low or anti-correlating asset to the Fund. As such, OHA may hold up to 10% of the net assets of the Fund in the ELA. The custody of short-term investment assets shall remain with OHA's Fund Custodian.

19.1 Permissible Investments. Assets held within the ELA must have no less than monthly liquidity under normal conditions. Passive index mutual funds, passive exchange-traded funds, passive institutional commingled funds, liquid alternative risk premia strategies, short-term U.S. government and agency securities, cash, and cash equivalents are permitted. A list of allowable investment vehicles for each asset class must be reviewed by the CFO and Consultant, approved by the CEO, and presented to the BOT for review. OHA staff or its external Manager may only select from this Approved List of investments vehicles in the ELA.

19.2 Asset Allocation and Rebalancing. The investments should be highly liquid with low volatility. Under normal conditions, the ELA's assets should be targeted no more than 2.0 percentage points (absolute) away from the

strategic target allocation set forth in the ELA Manager's Investment Guideline Summary or Investment Management Agreement. OHA staff and the Consultant will devise a targeting and rebalancing process with a maximum tolerance approved by the CEO. If managed internally, OHA staff will execute the process; otherwise the external Manager will execute the process. Decisions to target the asset allocation outside of the maximum 2.0% tolerance shall be reviewed by the Investment Advisory Committee and/or CFO, approved by the CEO, and reported to the BOT prior to implementation.

19.3 Internal Controls. Internal operational controls and procedures relating to short-term investments shall be outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

19.4 Advisor and Manager Selection. The BOT will approve OHA staff under the supervision of the CFO and CEO as the Advisor and an external Manager to manage the ELA. The external Manager may not have full investment discretion; therefore, provisions relating to discretionary Advisors in this Statement may not necessarily apply to the ELA Manager. The duties of the ELA Manager shall be established based on the Investment Management Agreement between the Manager and the BOT. BOT presentations by four finalists are not necessary for ELA Manager selection.

19.5 ELA Policy Benchmark & Investment Guidelines. The Policy performance benchmark for the ELA shall be the combination of market indexes and the risk free rate as set forth in the Manager's Investment Guideline Summary or Investment Management Agreement, which will also establish investment guidelines for managing the account.

Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund ("NHTF") Investment Risk Management Policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the NHTF investment portfolio. The OHA Board of Trustees ("BOT") recognizes that the undertaking of risks is generally unavoidable in investment management. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures. Risk control measures include continuous monitoring and timely reporting by OHA staff to ensure the effectiveness of OHA's investment risk management system. This Policy is not intended to provide an exhaustive list of risks or provide a comprehensive list of process and procedures to identify and mitigate risks. Rather, this policy provides generally accepted approaches to risk management that can be implemented through investment guidelines and operational policies and procedures.

Risk Management

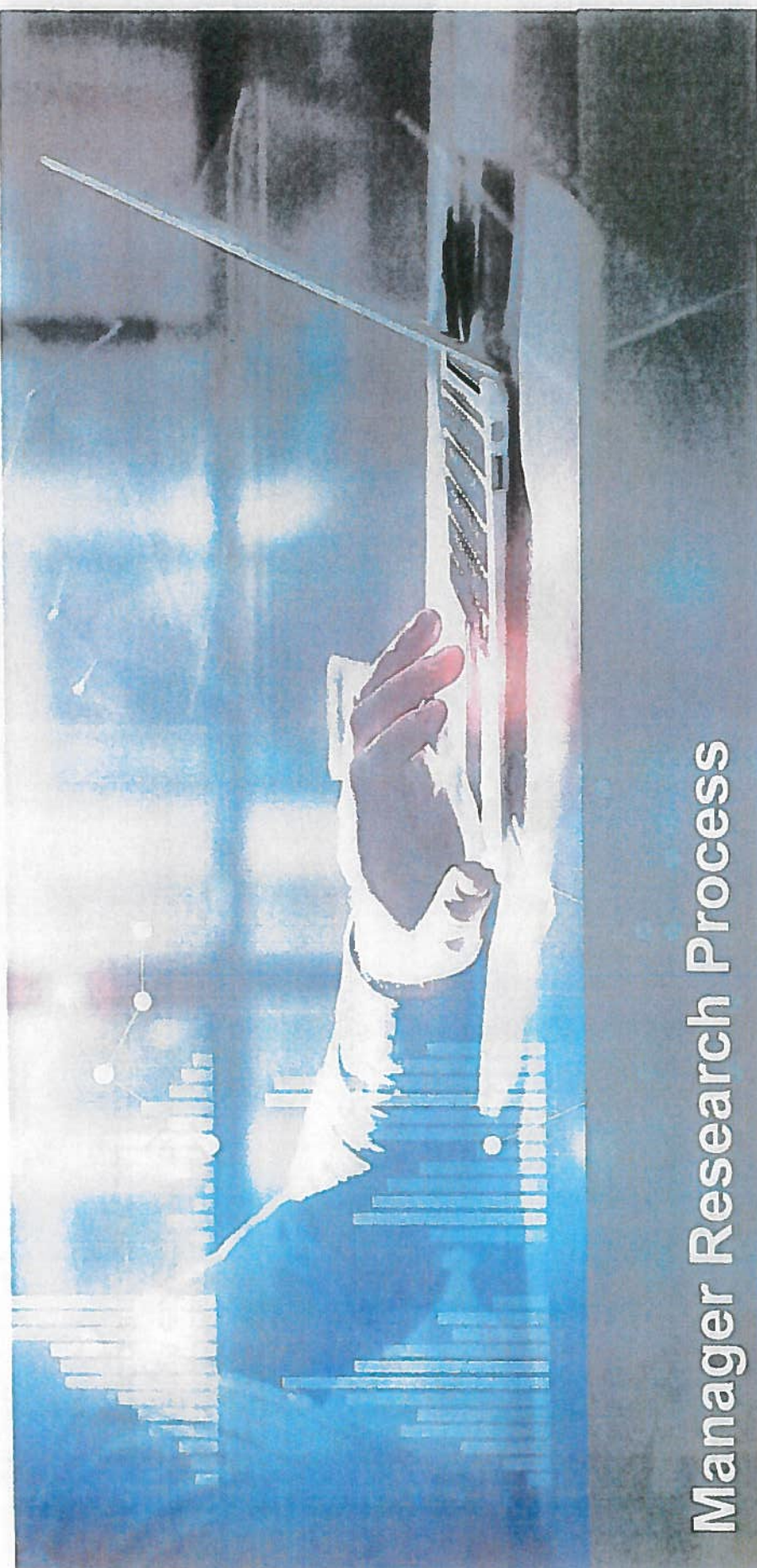
Key risk factors may stem from internal or external sources. The assessment of risk may be both qualitative and quantitative. The OHA staff and Consultant shall conduct an annual qualitative risk assessment identifying key risk factors, sources of risk, risk mitigants, and remediation plan, if necessary, to manage these risks. OHA staff shall also provide quantitative risk reporting to the BOT using commonly accepted quantitative risk reporting measures on a quarterly basis. Risk management measures may include the following:

- 1) Establish internal policies and procedures to minimize operational and legal risks;
- 2) Establish investment guidelines for eligible investments, diversification, rebalancing, liquidity, leverage, and use of derivatives;
- 3) Annual reporting of portfolio volatility (measured using standard deviation of returns) and expected volatility and return provided by the Investment Advisors;
- 4) Annual reporting of tracking error for OHA's liquid assets;
- 5) Annual reporting of leverage, currency risk, concentration risk, and liquidity risk;
- 6) Annual external financial audit by a reputable independent audit firm; and

- 7) Periodic review of the Investment Policy Statement and Risk Management Policy as necessary to assess the relevance and effectiveness of these policies.

Implementation

It is the responsibility of OHA's Chief Executive Officer to ensure that risk management policies and procedures are in place to identify, monitor, and manage investment risk. It is the OHA staff's responsibility to implement internal procedures and continuously monitor the investment portfolio and Advisor activities to ensure policy and guideline compliance. OHA staff shall rely on most recent data available provided by the Custodian and Advisors to analyze risk statistics and provide risk reporting. A risk management review shall be provided to the BOT by the Investment Consultant on an annual basis, or more frequently as needed.



Manager Research Process

July 24, 2019

John Marco
Senior Vice President

✧ Segal Marco Advisors

In-Depth Research = Success in Your Portfolio

Segal Marco's three-part research team is what sets us apart:

Risk Management

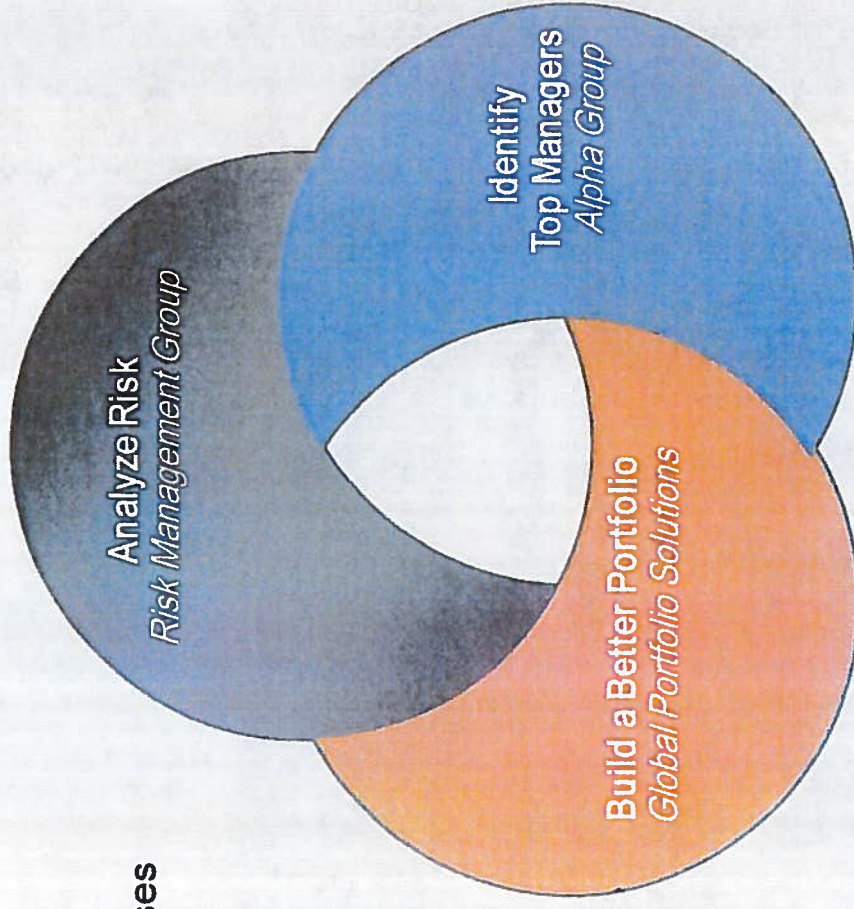
- Define strategic asset classes
- Formulate views on strategic asset classes
- Anticipate macro investment themes
- Formulate capital markets assumptions
- Formulate objective-driven investing
- Develop annual research agenda

Alpha Research

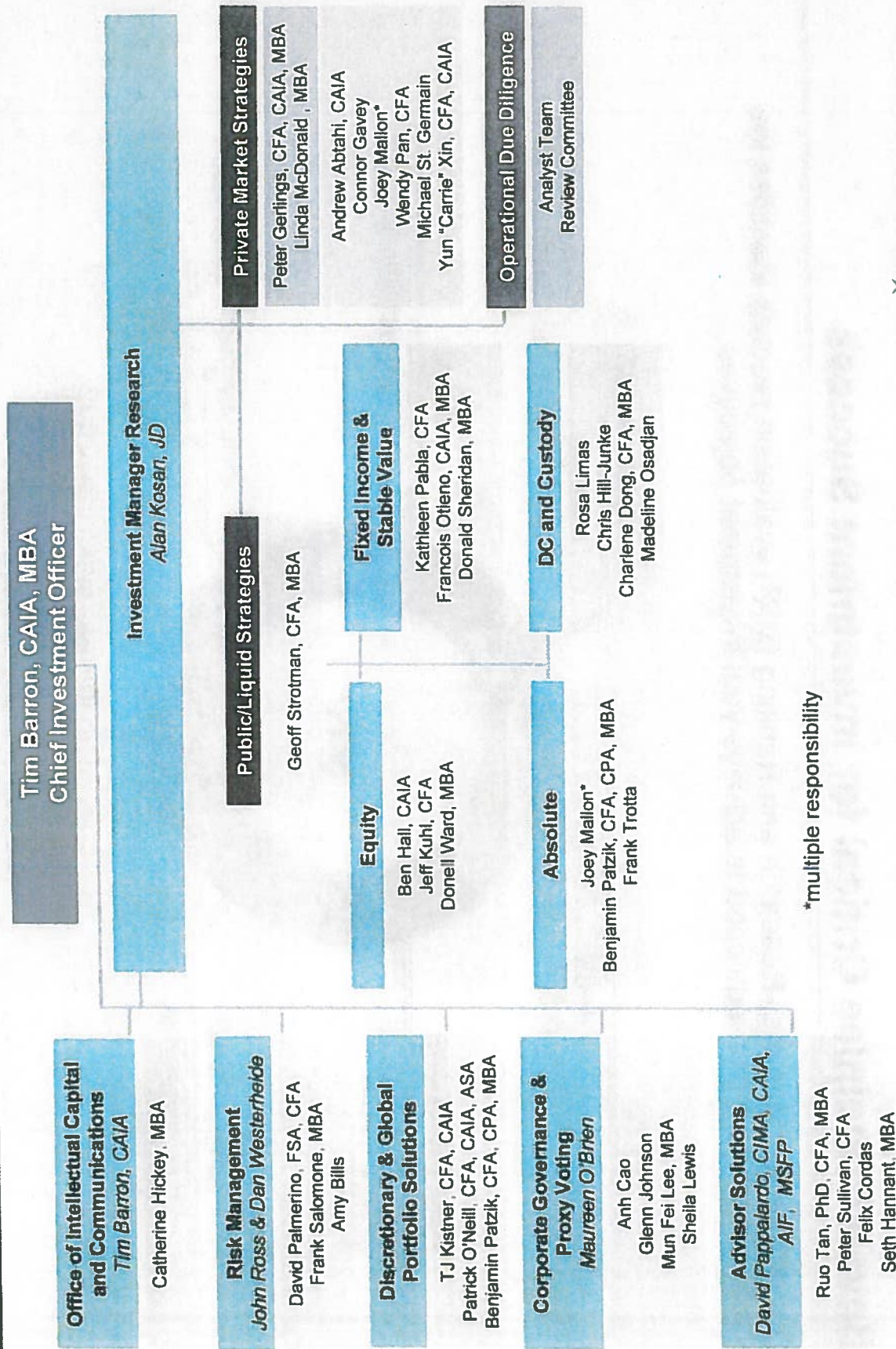
- Define investment strategy coverage
- Generate/document due diligence
- Source/monitor best-in-class investment strategies
- Seek new alpha sources
- Develop annual research agenda

Global Portfolio Solutions

- Portfolio structure
- Synthesize top-down views with bottom-up research to generate optimal portfolios for clients
- Through education, communicate optimal strategies to clients
- Develop annual research agenda

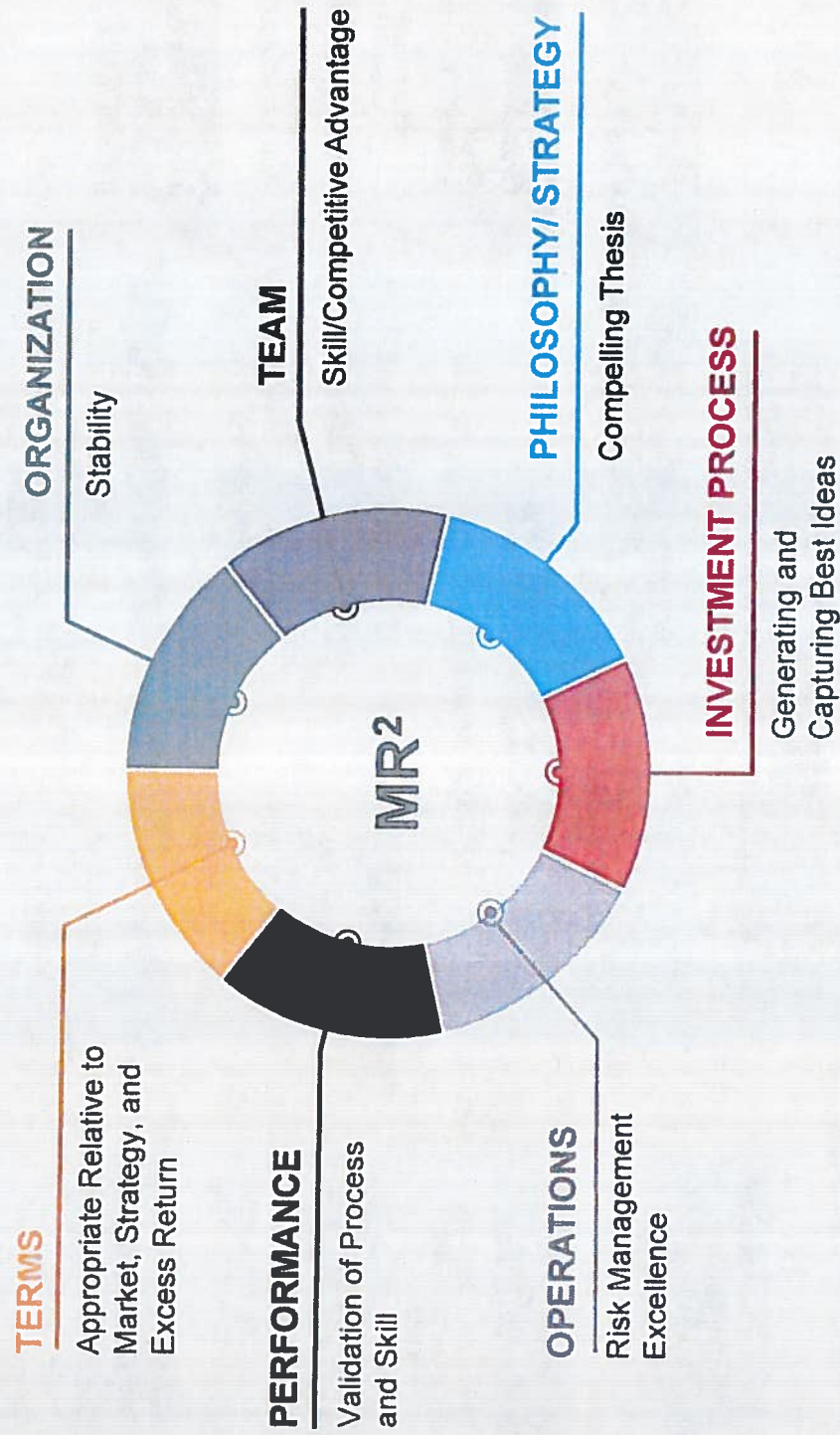


Specialized Research Capabilities



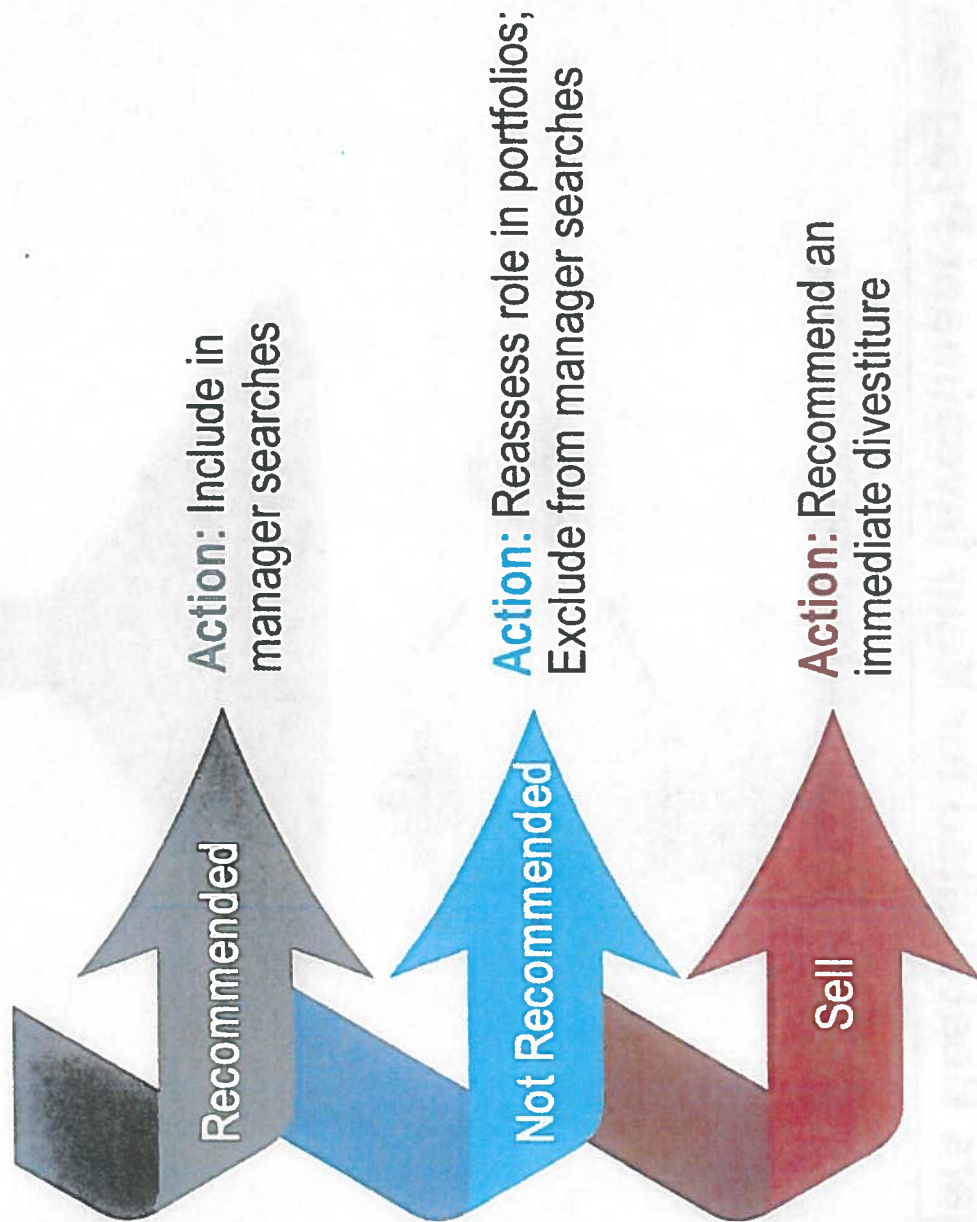
Seven Principles Critical for Investment Success

Our proprietary Manager Research and Ranking (MR²) evaluation process identifies the top-tier managers best-equipped to achieve your investment objectives.



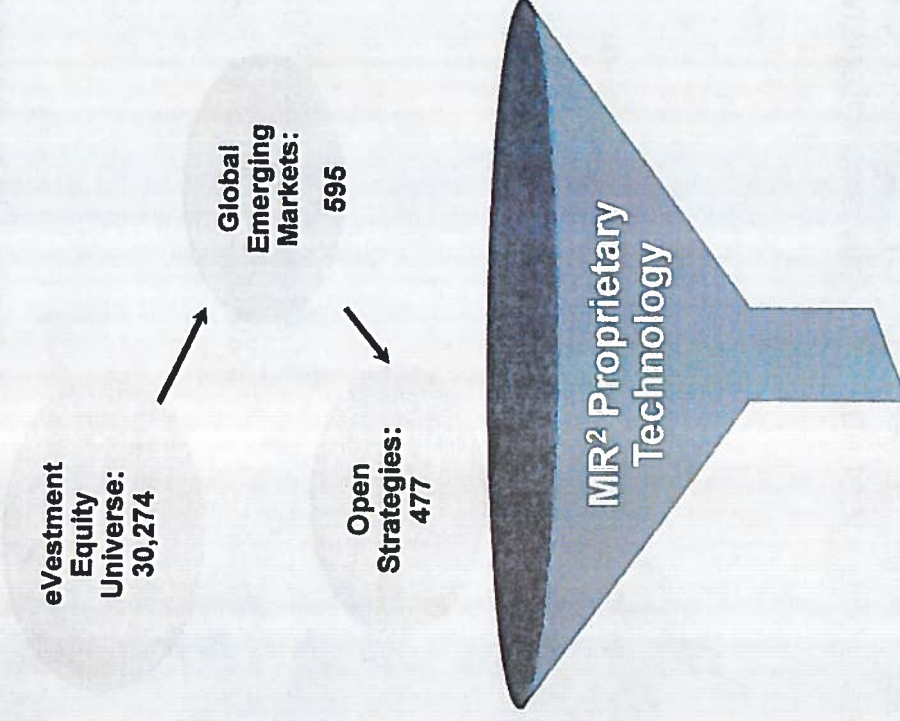
Manager Due Diligence Enhances Your Investment Lineup

Actionable ratings for managers are the result of our quantitative and qualitative due diligence process that includes 1,300 meetings annually and intensive monitoring.



Find Managers Best Suited for Your Investment Program

Example: Emerging Market Equity Universe



**Our recommended manager
best suited for your plan**

Manager Research & Coverage

- Original and fundamental research of managers, their organizations and investment processes
- Quantitative and qualitative due diligence
- Focused on risk, attribution and style

Manager Universe and Rankings

Style	Segal Marco Database ¹	Products Broadly Covered ⁵	Recommended Products
U.S. Equity	3,606 ²	1,578	179
International/Global Equity	3,002 ²	725	122
U.S. Fixed Income	2,167	659	146
International/Global Fixed Income	1,039 ²	104	56
Hedge Funds	6,038 ²	150	84
Private Equity	5,526 ³	400	193
Hard Assets	6,115 ⁴	500	220
Totals	27,493	4,116	1,000

¹ Individual active products in database. In addition, Segal Marco has access to over 23,000 mutual fund and institutional products via Morningstar Direct & Lipper.
² eVestment Alliance data
³ Venture Economics and Segal Marco data
⁴ Includes eVestment Alliance, Preqin and Segal Marco data
⁵ Enhanced research familiarity

Introduction Our Advantage

<div>\$500+B Assets Under Advisement</div>	<div>\$6.5B Full Discretion</div>	<div>\$5.0B Partial Discretion / Alternative</div>	<div>100% Institutional Assets</div>	<div>Over 50 Years Delivering Results</div>	<div>100% Employee Owned / Free of Conflicts</div>			
<div>An Industry Leader</div>			<div>A Trusted Partner</div>					
<div><div>> Unmatched expertise in both investment <u>and</u> actuarial consulting</div><div>> Industry leading global research platform</div><div>> One of the largest privately held investment consulting firms in North America with a diversified client base including Public, Union, Corporate, Endowments, Foundations and Health Care entities</div><div>> 100% employee ownership means our sole motivation is the success of our clients</div></div>			<div><div>> Our discretionary portfolios have consistently outperformed the median Defined Benefit plan in the InvestorForce universe</div><div>> The scalability of our discretionary platform allows us to drive fee savings for our clients, boosting total returns</div><div>> Our deep and experienced research team provides us access to top-tier and capacity constrained managers and opportunities</div><div>> We specialize in creating customized solutions that are tailored to a client's specific liabilities and objectives</div></div>			<div><div>> We were ranked the No. 1 Large U.S. Investment Consultant in the 2018 Greenwich Quality Awards</div><div>> We ranked No.1 in a number of categories including advising on long-term asset allocation, knowledge of investment managers, and credibility with the Board/Investment Committee</div><div>> Free of conflicts of interest as we do not manage any assets internally</div></div>		

*Includes Master Manager program assets, which are not classified as either "Full Discretion" nor "Partial Discretion. Assets as of 3/31/19.

Portfolio Management

PORTFOLIO MANAGEMENT COMMITTEE

All investment and asset allocation decisions are made by a central governing committee comprised of a cross-section of the most senior investment professionals at the firm.

TIM BARRON, CAIA (CHAIR) Chief Investment Officer	GEOFF STROTSMAN, CFA SVP / Head of Traditional Manager Research	AMY FOREBAUGH SVP / Head of Investment Operations	MICHAEL JOYCE, ESQ. SVP / Senior Consultant	PETER GERLINGS, CFA, CAIA SVP / Head of Private Equity	LINDA McDONALD SVP / Head of Hard Assets	T.J. KISTNER, CFA, CAIA VP / Head of Discretionary Portfolio Management & Solutions
---	---	---	---	--	--	---

PORTFOLIO MANAGERS AND PARTICIPATING MEMBERS

BENJI PATZIK, CFA, CPA VP / Head of Portfolio Strategy & Solutions	DONALD SHERIDAN Director Fixed Income	BENJAMIN HALL, CAIA Director, Equity	PATRICK McDOWELL, CPA, CAIA VP / Investment Operations	PATRICK O'NEILL, CFA, CAIA, ASA, MAAA Director, Global Portfolio Solutions	CATHERINE HICKEY VP / Global Portfolio Solutions
--	---	--	--	--	--

FIRM-WIDE SUPPORTING RESOURCES

Alpha Manager Research	Risk Management/Beta	Investment Operations	Legal/Compliance	Custody Solutions	Client Services	Performance	Information Technology
------------------------	----------------------	-----------------------	------------------	-------------------	-----------------	-------------	------------------------

Full-time Seasoned Investment Team Research – A Global Approach



- The **Global Investment Research Alliance** allows us to leverage our global partners to share strategic investment ideas and have access to best in class managers outside the U.S.

LCP (Lane, Clark & Peacock)

Established 1962
£75B AUA, 300 clients
80 investment staff
1,200 strategies monitored
130 approved products
350 meetings p.a.

Segal Marco Advisors

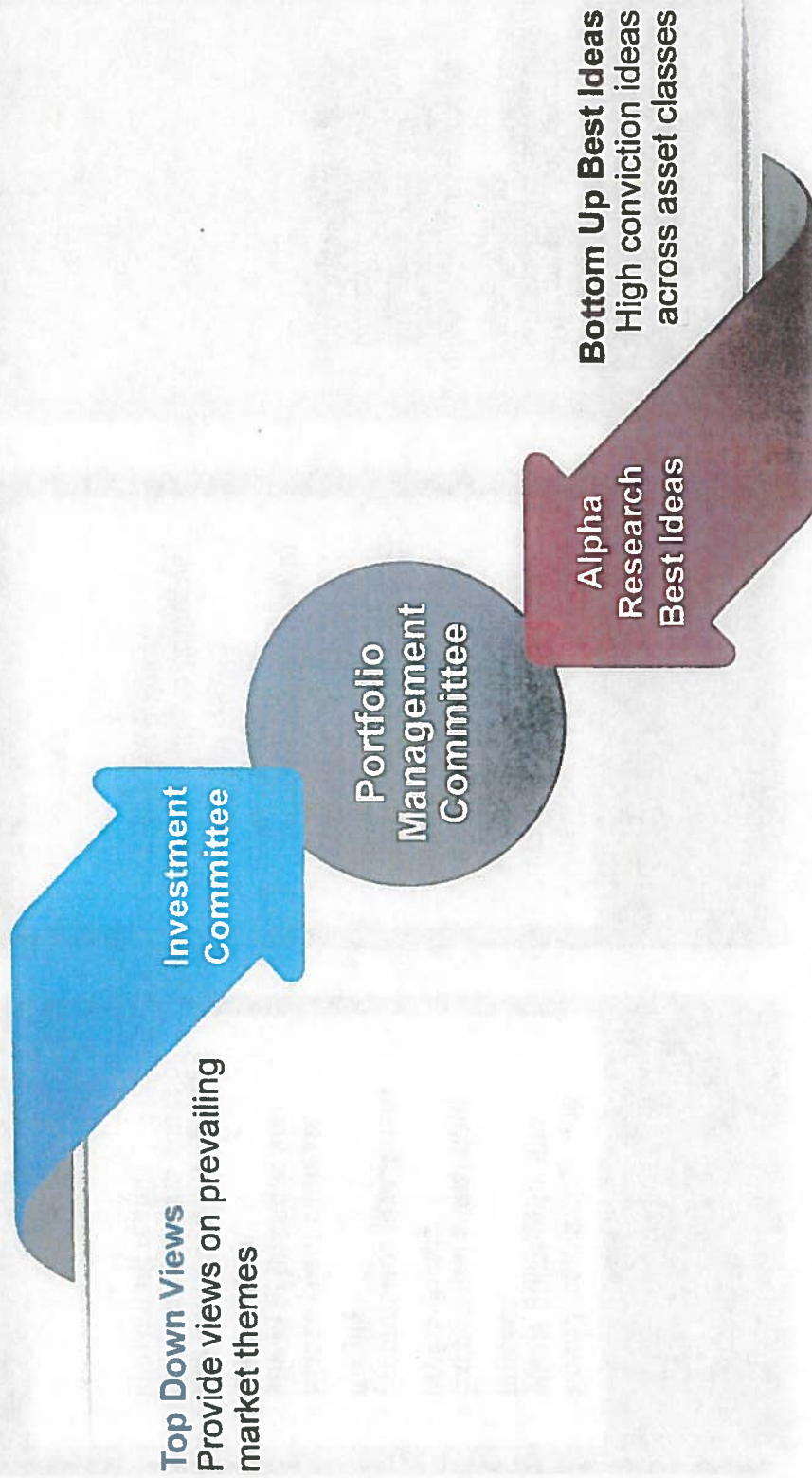
Established 1969
\$500+B AUA, 600+ clients
139 staff
6,000 strategies monitored
1,400 approved products
1,500 meetings p.a.

Frontier Advisors

Established 1994
\$200B AUA, 16 clients
54 staff
1,500 strategies monitored
610 approved products
1,100 meetings p.a.

Segal Marco Advisors has a global research platform

How Ideas Get Into Portfolios



Global Portfolio Solutions implements best ideas across high conviction themes within a risk, liquidity, and asset allocation framework

Manager Due Diligence Enhances Your Investment Lineup

- With MR², managers are ranked using a proprietary "7 Principle, 34 Factor" process
- Products are assigned actionable rankings: **Recommended, Not Recommended and Sell**

RECOMMENDED

Action: Include in manager searches

- Sound, convincing, and stable philosophy and process
- Exceptional investment professionals
- Emphasizes investment results
- Places client interests ahead of business and asset growth
- Full conviction in strategy's ability to generate superior investment results

NOT RECOMMENDED

Action: Develop an exit strategy; Exclude from manager searches

- Unstable and/or unconvincing philosophy and process
- Investment professionals have questionable investment acumen and/or limited investment experience
- Low conviction in ability to generate superior investment results
- Ineligible due to timing vs. an adverse opinion

SELL

Action: Recommend an immediate divestiture


- Philosophy and process considered unstable and/or unconvincing
- Ineffective investment professionals, high investment professional turnover and/or severe organizational distress


OFFICE OF HAWAIIAN AFFAIRS


Action Item
Committee on Resource Management
September 4, 2019


RM #19-16


Action Item: **Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy**

Prepared by:  8/28/19
Sylvia M. Hussey, Ed.D. Date
Ka Pouhana Kūikawā, Interim Chief Executive Officer

Reviewed by:  8/28/19
Gloria Li Date
Ka Pou Kihī Kanaloa Wai, Kūikawā, Interim Chief Financial Officer

Reviewed by:  8/28/19
Lisa Watkins-Victorino, Ph.D. Date
Ka Pou Nui Kūikawā, Interim Chief Operating Officer

Reviewed by:  8/28/19
Sylvia M. Hussey, Ed.D. Date
Ka Pouhana Kūikawā, Interim Chief Executive Officer

Reviewed by:  8/29/19
Ke Kua, Trustee Dan Ahuna Date
Luna Ho'omalū o ke Kōmike RM
Chair of the Committee on Resource Management

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

I. Proposed Action

Administration recommends the Board of Trustees (BOT): 1) Approve the new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A; and 2) Eliminate the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

II. Issue

Whether or not a new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A should be approved; and/or 2) Should the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B be eliminated.

III. Background and Context

Fiscal Reserve Withdrawal Guidelines. The Fiscal Reserve Withdrawal Guidelines (FRWG) are embedded in the Native Hawaiian Trust Fund Spending Policy. The Office of Hawaiian Affairs two criteria for an effective Fiscal Reserve are the following: (1) the fund collects and dispense appropriate amounts of money at appropriate times; and (2) it is simple to operate.

The purpose of the FRWG is to describe the proposed operation of OHA's fiscal reserve as established by OHA's Spending Policy. These guidelines are not policy, rather it clarifies existing policy that exists and states, "...Any funds available but not spent in previous fiscal years (Fiscal Reserve) held within the Native Hawaiian Trust Fund.

The objective of the OHA's fiscal reserve fund is designed to provide money in certain situations. Money can be authorized under any of the 3 (three) permissible purposes: budget stabilization, unpredicted one-time payments, and capital acquisitions.

The maximum designation is limited to no more than \$3,000,000 annually. Special circumstances use requires a Board of Trustees (BOT) supermajority plus 2 votes (8 affirmative votes). Deposit calculations (into the Fiscal Reserve) "shall be subject to audited financial statements for the respective fiscal year¹. Estimated year-end budget surpluses based upon unaudited records are not permissible." Operations of the fiscal reserve fund is subject to two (2)



OFFICE OF HAWAIIAN AFFAIRS

**NATIVE HAWAIIAN TRUST FUND
SPENDING POLICY, AS AMENDED**

Adopted by the Board of Trustees, September 15, 2004
Amended and adopted by the Board of Trustees on July 6, 2006
Amended and adopted by the Board of Trustees on May 21, 2009
Reviewed with no modifications by the Board of Trustees on April 18, 2012
Amended and adopted by the Board of Trustees on February 27, 2014

¹ Latest audited financial statements for the OHA is as of and for the fiscal year ended June 30, 2018. In addition, fiscal year ended June 30, 2019 audited financial statements are not anticipated to be issued until February 2020 as audit field work is not scheduled until October/November 2019.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

restrictions: the fund's balance cannot be negative after accounting for all designations; and there is no upper threshold or cap.

State Auditor, Report 18-03, February 2018. In February 2018, the State Auditor issued a report of an audit of the OHA based on the objectives at right.

The following findings

Objectives of the Audit

1. Evaluate OHA policies and actions regarding use of its Fiscal Reserve, Grants, CEO Sponsorships, and Trustee Allowances.
2. Review and report on the status of OHA's implementation of our 2013 audit recommendations.
3. Make recommendations as appropriate

Fiscal Reserve

FUNDS THAT WERE BUDGETED but remain unspent at the end of the fiscal year stay in the Native Hawaiian Trust Fund and are designated as Fiscal Reserve. The amount designated as Fiscal Reserve carries over to the following fiscal year.

When the Fiscal Reserve was first established in 2000, it was referred to as a "rainy day fund." In 2009, OHA unofficially identified it as a source of funding for Kōka initiatives and other funding requests. Whenever the use of Fiscal Reserve funds is authorized, money is drawn from the Native Hawaiian Trust Fund. At least six trustee votes are needed to authorize the use of the Fiscal Reserve, and the board may authorize up to \$3 million in expenditures using the Fiscal Reserve each fiscal year.

Audit of the Office of Hawaiian Affairs

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 18-03
February 2018



were raised in Report 18-03 related to the Fiscal Reserve:

- OHA continues to **lack a clear policy** guiding the use of its Fiscal Reserve.
- The one-time payment provision **allows for almost any Fiscal Reserve request to be approved.**
- Nine out of the 10 action items for Fiscal Reserve funding we tested **lacked required information.**
- Trustees voted on action items based on **factors outside of Fiscal Reserve guidelines.**
- The Fiscal Reserve has **been spent down rapidly.**

As a result of Report 18-03 findings and recommendations, the Board approved a moratorium.

Moratorium. On February 21, 2018 and February 28, 2018, via Action Item #18-03 (Attachments C and D, respectively) the Resource Management Committee and subsequently the BOT approved a moratorium on the use of Fiscal Reserve funds until specific policy changes were approved by the Board of Trustees (BOT). As also noted in the Action Item #18-03,

"On March 29, 2017, the Board of Trustees approved the RM Committee's recommendation to create the FSP Working and Implementation Advisory Committee ("FSP Advisory Committee"). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA's

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

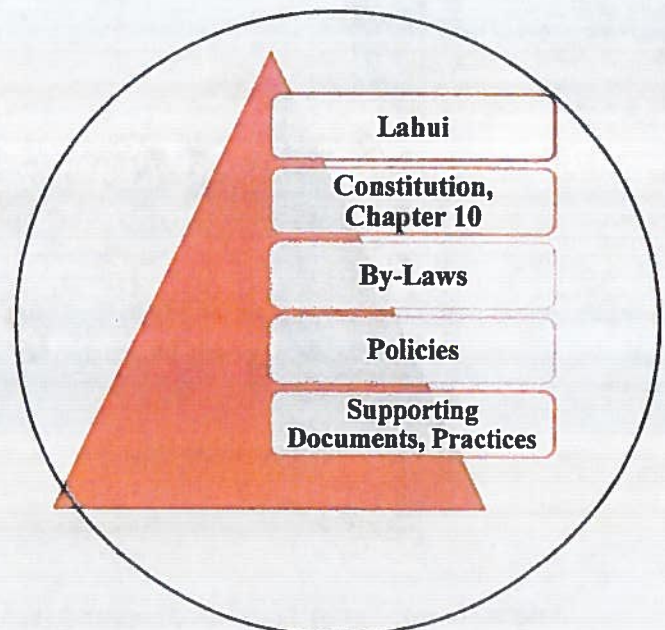
Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines."

IV. Policy Review and Analysis²

Board Governance Framework. In January 2019, the Board approved the formation of a permitted interaction group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. In April 2019, the Board approved the PIG's recommendation to approve the five elements of OHA's Board Governance Framework: 1) Identity; 2) Values and Mana; 3) Statutory Basis; 4) Policies; and 5) Supporting Documents and Practices (Operations).

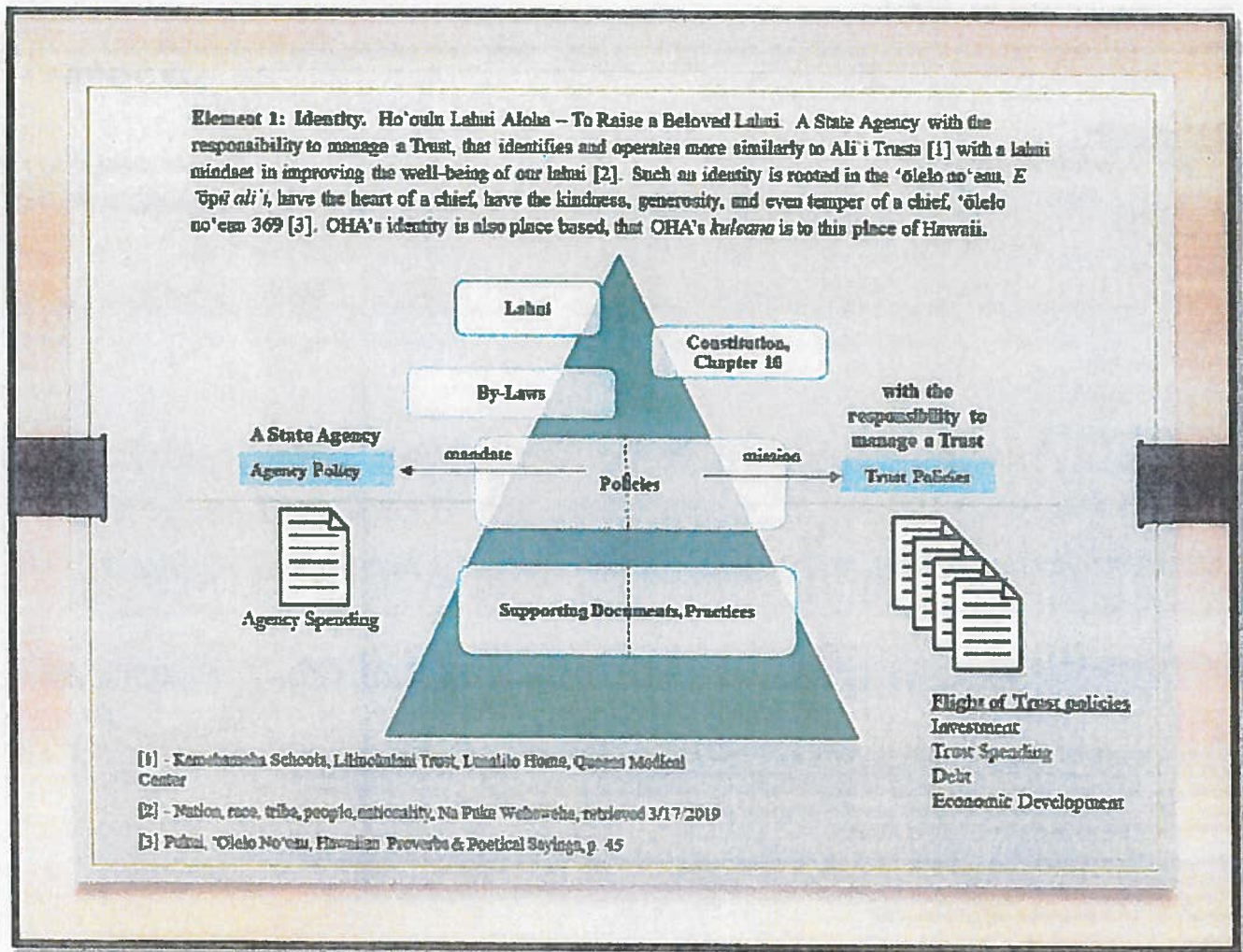
Policy Actions. In May 2019, via Action Item #19-07, the Board took action regarding Economic Development, Debt Management, Spending and Investment and Real Estate

Policies, noting particularly the following: Acknowledge the **Spending Policy** language and the existing Native Hawaiian Trust Fund (NHTF) Spending Policy, as Amended, noting Administration will return with a consolidated policy document for Board action; and Acknowledge the **Investment and Real Estate Policy** language and the existing NHTF Investment and Real Estate Vision, Mission, and Strategy policies, noting Administration will return with consolidated policy document(s) for Board action.



RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

Identity is expanded below and illustrates the dual nature of identity and the related impact to policies.



Policy Alignment. The new Fiscal Stabilization Policy is aligned to the existing Native Hawaiian Trust Fund, Spending and Investment policies; and the withdrawal parameters from the existing guidelines have been reviewed and mapped to the new policy.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

V. Existing Status of the Fiscal Reserve

As of the end of the fiscal year ending June 30, 2018, the balance of the fiscal reserve was approximately \$5.7MM.³

ATTACHMENT 3

Office of Hawaiian Affairs
Fiscal Reserve Rollforward
Actuals from FY11 to FY 18, Projected to FY 19

Moratorium in Effect (see note 2)

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Projected
FISCAL RESERVE ROLLFORWARD	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Fiscal Reserve Balance, beginning of year	15,131,390	13,265,235	11,236,763	8,257,459	5,909,701	4,845,596	2,099,142	4,243,980	5,745,956
Increases to reserve									
Current year lapse to fiscal reserve									
BOT approved budget (less GAF)	31,621,601	32,578,746	33,624,166	33,296,173	32,476,815	32,670,272	33,116,621	32,365,384	36,064,771
Expended / Encumbered (less GAF)	(32,837,437)	(32,576,115)	(33,623,470)	(33,196,824)	(31,109,261)	(32,646,299)	(32,019,207)	(31,071,626)	(33,960,396)
Current year lapse	8,684	2,630	627	9,321	1,367,554	29,016	1,097,414	1,293,758	2,104,377
Prior year FO cancellation	13,489,766	682,898		582,921	268,251	215,800	1,027,034	32,218	1,000,000
Less: board designation made for use of fiscal reserve	(3,000,000)	(3,000,000)	(3,000,000)	(2,870,000)	(3,000,000)	(3,000,000)			
Add back lapse of fiscal reserve									
Fiscal Reserve Balance, end of year	13,545,335	11,256,763	8,207,459	5,909,701	4,845,596	2,099,142	4,243,980	5,745,956	8,950,129

Notes

1) Per section IV of OHA's Native Hawaiian Trust Fund Spending Policy section entitled, "Policy/Procedure", Fiscal Reserve is defined as "Any funds available but not spent in previous fiscal year." This includes, but not limited to current year lapses, prior year FO cancellation with remaining funds, and prior year designated fiscal reserve lapses. The maximum designations allowable to be made in any fiscal year are limited to no more than \$3,000,000 annually. Under special circumstances that will require the use of funds in excess of the categories noted above, the \$3,000,000 limit may be waived by the BOT with a vote of the super majority plus 2 (8 affirmative votes).

2) BOT Approved Action Item BOT# 18-01, February 27, 2018, Moratorium on use of Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships. BOT approved to impose a moratorium on the use of Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships and the immediate return of the unused balance of the TSAAF to OHA.

VI. Reasons for Administration's Recommendation for a new Fiscal Stabilization Policy⁴

SPIRE completed an analysis and suggested consideration of a different approach to the Fiscal Reserve Guidelines ("Guidelines"). This approach suggests OHA consider the creation of a Fiscal Stabilization Fund of discrete size and limited uses to address OHA's historical needs for budget stabilization and respond to concerns by the State Auditor and other that the Guidelines require (1) more structure, (2) more rigor in the process of requesting and approving draws, and (3) more clarity about whether spending under the Guidelines is included in the maximum withdrawal limit in the OHA Spending Policy. The approach also considers this, and any other options, as interim steps toward a more comprehensive policy document that should consider how other relevant policies interact, respond and impact any new policies. It

³ Also refer to the FB20-21 Biennium Budget Book, Attachment 3

⁴ Based on May 2019 Report and related deliverables

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

recognizes that, while written as a stand-alone policy, it, and any other replacement policy options should be reviewed for further amendments to track the evaluations of OHA's spending, withdrawal, debt and investment policies.

The option would replace the current Guidelines and Fiscal Reserve Fund with a new fund and fund policies. As a temporary measure, the fund could address many of OHA's annual needs for budget stabilization and emergencies, while OHA considers permanent responses to the State Auditor's concerns. We believe that OHA needs to analyze its current policies, especially those related to investment and withdrawals, so they are not contradictory, and work toward agreed-upon objectives. As recommended in the past, that effort needs to be based upon internal OHA discussions regarding organizational objectives and priorities.

Therefore, we need to emphasize that the adoption of the option is a temporary measure to address the concerns of the State Auditor while OHA (the BOT and Administration) makes the numerous, necessary decisions to shape and reconcile OHA's objectives and policies. These include:

- 1) Identifying OHA policies that are based on conflicting objectives and reconcile how they must be revised to align with each other under a uniform structure and logic.
- 2) Identifying the core and non-core functions of OHA and whether different funding and withdrawal rules should apply to each.
- 3) Identifying whether OHA needs a reserve (rainy day) fund, and what kind of reserve fund is needed.

Relevant to the last issue, it is important to re-emphasize that this option is not for a reserve (rainy day) fund. A true reserve fund is meant to address economic volatility and disaster recovery and must be based on a complete assessment of OHA's future needs, investment outlook, and other factors that could affect the level of the reserve fund needed. This assessment of reserve fund levels, structures, and withdrawal policies is complex, as shown in the studies by the Pew Charitable Trusts. A reserve assessment is consistent with the State Auditor's recommendations that OHA should (1) clarify and clearly define the purpose of the five percent spending limit, and determine whether it is necessary to establish a withdrawal rate limit to ensure the health and sustainability of the Native Hawaiian Trust Fund and (2) work with the Administration, including OHA's Investment Management staff, to determine and obtain the financial information necessary for the board to assess the short- and long-term impacts to the Native Hawaiian Trust Fund when considering the use of the Fiscal Reserve.⁵

IV. Certification of Funding Availability

N/A – no funding required for this policy establishment action item.

⁵ Report 18-03, page.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

V. Recommended Action(s)

Administration recommends the Board of Trustees (BOT): 1) Approve the new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A; and 2) Eliminate the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

VI. Alternatives

- A. Take no action, no new policy and Fiscal Reserve Withdrawal Guidelines exist as is (see Attachment D).
- B. Take alternate action (e.g., create new policy, modify existing Fiscal Reserve Withdrawal Guidelines, amend Native Hawaiian Trust Fund Spending Policy).

VII. Time Frame

This action shall be retroactively applied to be effective at the beginning of the fiscal biennium or July 1, 2019.

VIII. Attachment(s)

- A. Draft Fiscal Stabilization Policy
- B. Native Hawaiian Trust Fund (NHTF) Spending Policy including Fiscal Reserve Withdrawal Guidelines
- C. Action Item #18-03 February 27, 2018 –Board of Trustees approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees
- D. Action Item #18-03 February 21, 2018 –Resource Management Committee (“RM”) recommendation to approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees
- E. State Auditor Report 18-03 Report Summary

OFFICE OF HAWAIIAN AFFAIRS
FISCAL STABILIZATION POLICY

SECTION I - PURPOSE AND INTENT

Purpose and intent. Historically, OHA has required funds to address unexpected shortfalls in available funding that had a significant effect on budget, as well as emergencies. OHA currently uses “OHA’s Native Hawaiian Trust Fund Spending Policy’s Fiscal Reserve Management Guidelines” (the Guidelines) to address funding needs, but the guidelines have been viewed as overly broad and unclear. This policy supersedes the guidelines and establishes a Fiscal Stabilization Fund (FSF) and the rules for its governance and maintenance, to enable OHA to have funds available for budget stabilization and emergencies, but under stricter fiscal limitations. Definitions, concepts, criteria and other elements found in the Guidelines have been mapped to the Fiscal Stabilization Policy (FSP) contained herein.

SECTION II – DEFINITIONS

Definitions. In this policy, if not inconsistent with the context:

1. **“Action Item”** refers to a draft of proposed policy or description or other action by the Board. An action item must comply with the form and content requirements set by the Board or the OHA organization.
2. **“Annual Ceded Land or Public Land Trust Revenues”** shall be the \$15.1 million annual revenues received from the State of Hawaii as of fiscal year 2006-2007, or including any adjustments to annual ceded lands revenues in the future by the State of Hawaii.
3. **“Appropriation”** refers to funds allocated for the OHA organization, set aside by formal Board action for specific use or through normal and customary government funding mechanism. An appropriation allows money to be spent; and is not an expenditure record.
4. **“Authorized Fund Uses”** means the uses described in section IV of this policy.
5. **“Beneficiary”** means as defined in HRS section 10-2.
6. **“Board” or “BOT”** means the OHA Board of Trustees, as described in Article XII, section 5 of the State Constitution and HRS chapters 10 and 13D.
7. **“Budget cycle”** means the two-year, biennium term of budget activity.
8. **“Budget process”** includes the process of developing and approving an operating budget for the fiscal biennium, as described in the BOT Executive Policy Manual section 3050, Fiscal; subsections 3.5.C and 3.5.D.
9. **“Budget Stabilization”** refers to setting aside funds for times of unexpected revenue shortfall, budget deficit, or emergency.
10. **“Chief Executive Officer” or “CEO”** means the administrator of the Office of Hawaiian Affairs, appointed by the Board pursuant to HRS section 10-10.
11. **“Chief Financial Officer” or “CFO”** means the person appointed by the administrator to be the chief financial officer of OHA or an individual that carries out the function.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

ATTACHMENT A

12. **“Contingency”** refers to an event or condition (such as an emergency) that may but is not certain to occur.
13. **“Emergency”** refers to a serious, unexpected, and often dangerous condition requiring immediate attention. Emergencies include threats to public health, welfare, or safety from a major natural disaster, infrastructure emergencies involving OHA’s real properties or legal fees and costs incurred by OHA for pending claims or litigation.
14. **“Fiscal Biennium Total Operating Budget”** means the formal document that reflects the authorized expenditures of OHA for the two fiscal years that constitute the applicable fiscal biennium.
15. **“Fiscal Reserve Fund”** means the fund prior to the establishment of the “Fiscal Stabilization Fund” under the Guidelines.
16. **“Fiscal Stabilization Fund”** means the fund established by this policy.
17. **“General Fund Appropriations from the State”** refers to appropriations determined by the State of Hawaii Legislature during each biennium and are spent for a specific purposes.
18. **“Native Hawaiian Trust Fund”** is defined as all Public Land Trust revenue emanating from 5(f) funds that is subject to OHA’s Native Hawaiian Trust Fund investment policy.
19. **“NHTF Financial Assets Portfolio”** means the Native Hawaiian Trust Fund plus any other financial asset subject to OHA’s Native Hawaiian Trust Fund investment policy.
20. **“Non-recurring”** refers to costs, charges, or expenses that occur one time only and are not likely to happen again.
21. **“Originator”** includes a person who first thinks of something and causes it to happen.
22. **“Policy”** means this Fiscal Stabilization Fund Policy.
23. **“Quarterly Withdrawal Limitation”** means the maximum quarterly withdrawals from the fund, as defined in section V(a) of this policy.
24. **“Reserve”** means something stored or kept available for future use or need, money or its equivalent kept on hand or set apart usually to meet liabilities.
25. **“RM Committee”** means the Resource Management Committee of the Board.
26. **“Shortfall”** refers to a deficit of something required or expected, such as revenues or budgeted funds.
27. **“Trustee”** means the members of the BOT, as described in Article XII, section 5 of the State Constitution and HRS chapters 10 and 13D.
28. **“Variance”** means the financial or quantitative difference between a budgeted amount and purpose for the actual amount and purpose.
29. **“Unexpected”** means not expected or unforeseen.

SECTION III – ESTABLISHMENT

A. Establishment.

1. The Fiscal Stabilization Fund (FSF) is established by an initial, one-time appropriation of \$1,500,000¹ into a separate fund account² outside the Native Hawaiian Trust Fund (NHTF) upon adoption of this policy. This appropriation shall be counted toward maximum withdrawal limitation in the BOT Spending Policy.
2. Deposits and withdrawals into the FSF shall follow the requirements of this policy. Upon adoption of this policy, “OHA’s Native Hawaiian Trust Fund Spending Policy’s Fiscal Reserve Management Guidelines” shall terminate.
3. At the discretion of the BOT, additional deposits of up to \$3,000,000 may be made in each subsequent fiscal year from funds that were budgeted from the NHTF Financial Assets Portfolio that were unspent at the end of previous fiscal years. The audited financial statements and audited processes (i.e., lapsing of prior encumbered purchase orders) for each respective fiscal year shall be used as the sole basis to determine the eligible deposits into the FSF. Annual deposits shall be counted toward the maximum withdrawal limitations in the BOT Spending Policy.
4. The monies in the FSF may be carried over from year to year, provided that the total amount in the FSF shall not exceed \$10,000,000. Funds above and beyond the \$10,000,000 cap shall be redeposited into the NHTF.
5. Withdrawals from the FSF shall not be included in the maximum withdrawal limitations in the BOT Spending Policy for the fiscal year in which the withdrawal is made.
6. Temporarily idle moneys in the FSF may be invested as directed by the BOT, and the interest earned may be either transferred permanently into the NHTF or may remain in the FSF, at the discretion of the BOT. If the interest remains in the FSF, it may serve to increase the fund balance, but in no event shall the balance of the FSF be allowed to exceed the \$10,000,000.

B. Reserves.

1. Once established, reserves for contingencies may be designated in the Fiscal Stabilization Fund to acknowledge and recognize the responsibilities of the OHA.
2. Such reserves for contingencies may include but not be limited to estimates for legal or other settlements, repatriation, budget stabilization needs and emergencies such as natural disasters.

¹ The amount of the initial deposit will be dependent on the current size of the fiscal reserve fund.

² Such fund should be a part of the OHA’s overall cash management policy

SECTION IV – AUTHORIZED FUND USES

Authorized fund uses. Funds from the Fiscal Stabilization Fund may be withdrawn and used as authorized by the BOT through an Action Item for the following purposes only:

1. **Budget stabilization.** The Fiscal Stabilization Fund may be used to address unexpected shortfalls in available funding that directly translate into a significant budget decrease. Shortfalls can be considered any decrease in Annual Public Land Trust Revenues or General Fund Appropriations from the State, change in State assessments such as fringe rate, retirement or a significant financial market downturn.
2. **Emergencies.** The Fiscal Stabilization Fund may be used to address emergency expenditures directly incurred by the OHA or experienced by the OHA's beneficiaries. To qualify as an authorized fund use, the expenditures (1) must directly result from an emergency; (2) must address events or situations that are non-recurring; (3) must not have been contemplated in the budget process; and (4) cannot wait to be included in the next budget cycle. Emergencies include threats to public health, welfare, or safety from a major natural disaster, infrastructure emergencies involving OHA's real properties or legal fees and costs incurred by OHA for pending cases.
3. **Reserves.** The Fiscal Stabilization Fund may be used to activate previously designated reserves.
4. **Contingencies.** The Fiscal Stabilization Fund may be used to address contingencies either previously reserved or subsequently identified.

SECTION V – MAXIMUM WITHDRAWALS

Limitations on the maximum FSF size and related withdrawals are identified below.

Maximum withdrawals. The maximum withdrawals from this fund are limited as follows:

1. The maximum withdrawals in any given fiscal year, for any combination of authorized uses in section IV, are limited to no more than \$3,000,000 annually, and no more than \$750,000 per quarter, regardless of the total balance of the fund. The funds that are withdrawn must be used during the current fiscal year, and do not carry over to subsequent fiscal years.

Spending Guidelines

Minimum Balance	None
Maximum Designations (Annual)	\$3,000,000
Maximum Designations (Quarterly)	\$750,000

2. The fund balance cannot be negative after accounting for all authorized spending.
 - a. Funds are subject to quarterly withdrawal limitations;
 - b. The \$3,000,000 limitation is based on the fiscal year in which the designation is made,

regardless of the year of funding specified in the designation. For example, if a \$2,000,000 designation is made in budget year one, to be funded in budget year two, the \$2,000,000 will count towards the limit in budget year one, and only an additional \$1,000,000 can be designated in budget year one. In budget year two, the maximum designation of \$3,000,000 is still available.

SECTION VI – REQUEST PROCEDURE

Request Procedure. Funding requests for the use of Fiscal Stabilization Fund must be submitted as an action item. To be considered, the action item must comply with Board requirements for action items, and include the following, at a minimum:

- 1 **Originator.** Identification of the originator of the initial request. If the originator is not a member of the BOT, the action item shall state that it is being made “By Request,” and include the identity of the originator, for example, “CEO” or “beneficiary.”
- 2 **Explanation.** Clear explanation of the reasons the request qualifies as an authorized fund use. The explanation must address all requirements of sections IV and V, including:
 - a. The reasons the request cannot be accommodated with other available means of financing, or why it cannot be budgeted in the next Fiscal Biennium Total Operating Budget.
 - b. An explanation of the urgency of the request and its impact on OHA or its beneficiaries if the request is denied or the decision is delayed.
 - c. Certification by the CFO that the funds are available for the request, and that maximum withdrawal restrictions will not be violated if the request is granted.
- 3 **Supporting documentation.** All supporting documentation that justifies the funding request.

SECTION VIII – DELEGATION OF RESPONSIBILITY

Delegation of Responsibility.

1. The CEO shall be responsible for the initiation of the Action Item(s) requesting funding.
2. The CFO shall be responsible for reviewing the Action Item(s), the release of funds and any documentation in relation to disbursements. All documentation must be stored in accordance with OHA’s record retention policy.
3. Any Action Item that does not comply with the requirements of this policy shall not be considered by the Board. Any non-compliant action item approved by the Board shall be considered void.

SECTION IX – VOTING REQUIREMENTS

Voting requirements. The following defines the voting requirements for Board approval of funding requests.

- (a) The Board of Trustees with six (6) affirmative votes may authorize expenditures from the Fiscal Stabilization Fund, up to the maximum designation allowable under section V, Maximum withdrawals.
- (b) The Board of Trustees with eight (8) affirmative votes may approve in excess of the \$3,000,000 withdrawal limit, provided that the amount withdrawn shall not result in the Fiscal Stabilization Fund balance falling below zero.

SECTION X – REVIEW

Review. This Policy will be reviewed as recommended by the Chair of the RM Committee, but no less than every two (2) years. Any modification to this Policy shall require six (6) votes and two (2) readings at the Board of Trustees level with external review, consultation and advice being completed prior to any modifications.



OFFICE OF HAWAIIAN AFFAIRS

NATIVE HAWAIIAN TRUST FUND SPENDING POLICY, AS AMENDED

Adopted by the Board of Trustees, September 15, 2004

Amended and adopted by the Board of Trustees on July 6, 2006

Amended and adopted by the Board of Trustees on May 21, 2009

Reviewed with no modifications by the Board of Trustees on April 18, 2012

Amended and adopted by the Board of Trustees on February 27, 2014

**OFFICE OF HAWAIIAN AFFAIRS
NATIVE HAWAIIAN TRUST FUND SPENDING POLICY**

I. PURPOSE. The purpose of this policy is to ensure the continued viability of the Office of Hawaiian Affairs (OHA) Native Hawaiian Trust Funds (NHTF) by providing specific guidelines to balance the objectives of maintaining principal and producing large, stable and predictable spending. Decisions affecting management of the NHTF focus upon four conflicting objectives:

- A. Maximize long-term total return;
- B. Maximize annual spending from the Trust;
- C. Preserve the real value (purchasing power) of the Trust's principal and of its spending distributions over the long term;
- D. Maximize the stability and predictability of spending distributions. In other words, minimize the spending shortfall risk.

II. OBJECTIVE. The following spending policy reflects the objective of distributing as much total return as is consistent with the overall defined investment objectives while protecting the value of the principal.

III. DEFINITIONS. To further clarify the spending policy, the following definitions are used:

A. **Native Hawaiian Trust Fund** defined as all Public Land Trust revenue emanating from 5(f) funds that is subject to OHA's Native Hawaiian Trust Fund investment policy.

B. **Spending Rate** is the percentage (%) applied to the average market value to determine the spend amount.

C. **Annual Spending Withdrawals** defined as the maximum amount authorized to be budgeted from the Native Hawaiian Trust Fund in one fiscal year.

D. **Moving Average Rule** – to spend a fixed percentage of the average Native Hawaiian Trust Fund's average market value (e.g., spend 5.0% of the average market value of the previous 20 quarters).

E. Annual Ceded Land Revenues – shall be the \$15.1 million (fifteen million one hundred thousand dollars) annual revenues received from the state of Hawai'i as of fiscal year 2006-2007, or including any adjustments to annual ceded lands revenues in the future by the state of Hawai'i.

F. State of Hawai'i General Fund appropriations are determined by the Legislature during each Biennium and are spent for a specific purpose.

G. To Spend is the result of multiplying the moving average rule (Moving Average) by the spending rate.

H. Spent is when actual disbursement or encumbrances of funds is made. Trustees should never appropriate funds beyond the Spending Policy calculated amount.

I. Average Market Value – shall be computed quarterly based upon the monthly statements received from OHA's Custodian of Record, the average shall be computed from the most recent 20 quarter period ending as of March 31st, fifteen months prior to the start of the budget on July 1. If real estate is included in the Native Hawaiian Trust Fund then the real property market value shall be included to compute the average market value.

J. Public Land Trust Revenue – emanating from 5(f) funds that the State of Hawai'i remits to the Office of Hawaiian Affairs.

K. Real Property Market Value – shall be based upon the latest real estate appraisal. Such an appraisal should be conducted every five (5) years or upon the sale of any respective real estate property, whichever comes first.

L. Investment – an acquisition for future income or benefit.

M. 5(f) Funds – refers to Section 5(f) of the State of Hawai'i Admissions Act.

N. Total return is defined as the sum of earned interest and dividends and realized and unrealized gains or losses, less all investment management costs (*e.g. investment consultant, custodian, money manager fees*).

O. Native Hawaiian Self-Governance Spending Withdrawal defined as a maximum cumulative authorization not to exceed \$3,000,000 to be budgeted from the

Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs.

IV. POLICY/PROCEDURE. Consistent with the overall investment goals of the Native Hawaiian Trust Fund, the following spending rates and rules for distribution are set forward.

A. The formula for determining **annual spending withdrawals** and the mechanics of its implementation shall adopt the **Moving Average Rule**, whereby;

1. OHA will **spend** a fixed percentage of no more than five percent (5%) of the Native Hawaiian Trust Fund's **average market value**,

plus

2. **Ceded Land Revenues** received by OHA

plus

3. **State of Hawai'i General Funds** received by OHA

plus

4. Any funds available but not spent in previous fiscal years (Fiscal Reserve), held within the Native Hawaiian Trust Fund.

B. Regardless of the performance of the Native Hawaiian Trust Fund, OHA's spending policy will apply. The 5% spending rate shall be applied to investment portfolio and real property assets intended to be income or benefit producing.

C. Funds available from sources other than those defined in Section IV.A. of this policy are not limited by this annual spending withdrawal formula.

V. SPECIAL SPENDING WITHDRAWAL. Public Law 103-150 recognizes that the "...indigenous Hawaiian people never directly relinquished their claims to their inherent sovereignty as a people or over their national lands..." and urges the President of the United States to "...support reconciliation efforts between the United States and the Native Hawaiian people." Act 195 was signed into law on July 6, 2011 and recognized the Native Hawaiian people as the only indigenous, aboriginal, maoli people of Hawai'i. Act 195 encourages OHA to "...continue to support the self-determination process by Native Hawaiians in the formation of their chosen governmental entity" and notes that the State has designated OHA "...as a trust vehicle

to act on behalf of Native Hawaiians until a Native Hawaiian governing entity could be reestablished...". Balancing the opportunity for the formation of a governmental entity that would empower Native Hawaiians to exercise their un-relinquished inherent sovereignty with the objectives of maintaining principal and producing large, stable and predictable spending, a special cumulative spending withdrawal of no more than \$3,000,000 can be authorized to be budgeted from the Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs and will be known as a **Native Hawaiian Self-Governance Spending Withdrawal**. Authorizations of funds pursuant to Section V. will require a separate Action Item appropriation request pursuant to Section 1.4.b of OHA's Board of Trustees Executive Policy Manual. This Section V. specifically disallows transfer of funds or appropriations of any kind to the Native Hawaiian Roll Commission, as established by Act 195.

VI. REVIEW

A. The Spending Policy will be reviewed at least every two years or as recommended by the Chair of the ARM Committee.

B. Modifications to the Spending Policy must meet requirements as provided by the then current By-Laws. Any modification or exceptions to OHA's Spending Policy shall require six (6) votes and two (2) readings at the Board of Trustees level and require external due diligence to be conducted.

VII. EFFECTIVE DATE. "The effective date of this policy is February 27, 2014 and this policy shall be deemed to pre-exist funds disbursed to OHA by the State pursuant to Act 178, SLH 2006."

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES

Colette Y. Machado

Colette Y. Machado, Chairperson

First Reading	2/20/2014
Second Reading	2/27/2014

OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S FISCAL RESERVE WITHDRAWAL GUIDELINES

I. INTRODUCTION. The Office of Hawaiian Affairs two criteria for an effective Fiscal Reserve are the following: (1) the fund collects and dispenses appropriate amounts of money at appropriate times; and (2) it is simple to operate. Of the various alternatives studied by Administration, the fiscal reserve fund proposed here comes closest to satisfying these criteria. The purpose of this section is to describe the proposed operation of OHA's fiscal reserve as established by OHA's Spending Policy, which was initially adopted on October 31, 2000 and subsequently amended in September 2004, July 2006, and May 2009, respectively. These guidelines are not policy, rather it clarifies existing policy that exists on page 3, section IV of OHA's Native Hawaiian Trust Fund Spending Policy section entitled, "Policy/Procedure" and states "*plus*" A.3 "*Any funds available but not spent in previous fiscal years, held within the Native Hawaiian Trust Fund.*"

II. OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S – FISCAL RESERVE. Following is a description of the fiscal reserve fund:

A. Objective. OHA's fiscal reserve fund is designed to provide money in certain situations.

B. Authorized uses. Money can be authorized under any of the 3 (three) permissible purposes as follows:

- 1. Budget Stabilization** – To address shortfalls in funding that directly translate into a significant spending decrease for a budget year. The shortfall can be the result of a downturn in the economy that negatively impacts the value of the NHTF investments, or can be the result of a reduction in general funding or ceded land revenue payments received from the state. Costs of programs can be funded through the fiscal reserve if it is determined that not providing the funding will have a severe negative impact on OHA's beneficiaries. The amount that can be utilized under this category in any given fiscal year, cannot exceed the previous year's spending limit subject to the limitations set forth in (E.) below. In other words, the budget stabilization can be used so that the fiscal reserve will supplement the current year budget to be at least equal to the prior year budget up to the limit set forth in (E.) below.
- 2. Unpredicted One-time Payments** – to address events or opportunities that are non-recurring in nature, have not been contemplated in the

budget process, and cannot wait to be included in the next budget cycle. This category would also include any expenditures needed to address legal issues as well as to remedy an emergency condition (which means a situation that creates a threat to public health, welfare, or safety that may arise by reason of major natural disaster, epidemic, riot, fire, or other reason.) The maximum designation amount under this category is subject to the limitations set forth in item (E.) below.

3. **Capital Acquisitions** – Major purchases of non-investment land or other capital assets that either have not been contemplated during the time of budget preparation, or cannot be addressed within the confines of the budget, and cannot wait to be included in the next budget cycle. The maximum withdrawal amount under this category is subject to the limitations set forth in item (E.) below.

C. Maximum Designations. The maximum designations allowable to be made in any given fiscal year, using any combination of items B.1. through B.3. above, are limited to no more than \$3,000,000 annually. The \$3,000,000 limitation is based on the fiscal year in which the designation is made, regardless of the year of funding specified in the designation. For example, if a \$2m designation is made in budget year 1, to be funded in budget year 2, the \$2m will count towards the limit in budget year 1, and only an additional \$1m can be designated in budget year 1. In budget year 2, the full \$3m of designations is still available.

D. Special Circumstances – There may be special circumstances that will require the use of funds in excess of the categories noted above. For example, the imminence of the passage of a federal recognition bill may trigger events for which OHA will be required to spend monies not otherwise available. In these special circumstances, the criteria set forth above can be waived by the BOT with a vote of the super majority plus 2 (8 affirmative votes). Since the "fiscal reserve" is a part of OHA's Native Hawaiian Trust Fund and not an account established separately, if and when the fiscal reserve is utilized, the funds identified will merely serve as an additional means of financing.

E. Deposit Calculations. The source of data required to calculate the amount to be "restricted" as an OHA NHTF Spending Policy Fiscal Reserve shall be subject to audited financial statements for the respective fiscal year. Estimated year-end budget surpluses based upon unaudited records are not permissible.

F. Restrictions. The operation of the fiscal reserve fund is subject to two (2) restrictions:

1. no more than the current balance of the fiscal reserve in any year will be designated from the fund (e.g., the fund's balance cannot be negative after accounting for all designations; and
2. the total amount of money earmarked as a fiscal reserve does not have an upper threshold (*cap*) imposed upon it.

G. Operation

A. Pursuant to the OHA Spending Policy, Administration is tasked with calculating the spending policy limitation for the upcoming fiscal year utilizing a 20-quarter rolling average of the Native Hawaiian Trust Fund's market value, ending as of March 31st, fifteen months prior to the start of the budget on July 1. The respective 20-quarter rolling average along with a Board of Trustees determined spending rate (up to 5%) eventually determines the upper threshold for the development of a biennium budget, which is revisited during the supplemental year to correct any upward or downward adjustments in accordance to the actual spending policy formula. Note: during the development of a biennium budget, only the first fiscal year can utilize actual figures with the second year requiring Administration to "estimate" the market value of the upcoming four quarters based upon financial analysis techniques.

B. Only upon the close of OHA's fiscal year end financial records and the successful completion of a financial audit engagement can fiscal year "expenditure" figures be utilized, less any investment related expenses, and then deducted from OHA's calculated spending policy ceiling. As a part of OHA's adjusting fiscal year end journal entry, the difference is to be accumulated to any existing fund reserve account. Note: the funds are maintained within the Native Hawaiian Trust Fund, without the benefit of interest income and/or capital gains accrual, and are merely recognized as "reserved" funds within OHA's financial statements.

III. PROCEDURE. The procedure to be followed when requesting money via these guidelines for Board consideration shall be in the form of an Action Item and must include, at a minimum, the following information:

1. Identify the originator of the request;
2. Cite specific "Authorized Use" being requested as:
 - a. **B.1. Budget Stabilization,**
 - b. **B.2. Unpredicted One-time Payments, or**

c. B.3. Capital Acquisitions

3. Cite D. Special Circumstances if applicable.
4. Explain why the request cannot be accommodated with funds from the current Core Operating Budget.
5. State the urgency of the request and its impact on OHA if the request is denied or the decision is delayed.
6. Attach a letter or proposal detailing the request in sufficient detail to reasonably draw a conclusion of merit.

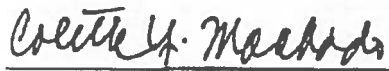
IV. VOTING REQUIREMENTS.

A. The Board of Trustees with six (6) affirmative votes may authorize expenditures from the fiscal reserve up to the maximum designation allowable under Budget Stabilization, Unpredicted One-time Payments, and Capital Acquisitions categories as set forth in Section II. B.1., B.2. and B.3., respectively, above.

B. The Board of Trustees with eight (8) affirmative votes may authorize expenditures from the fiscal reserves above the maximum designation allowable under the Special Circumstances category as set forth in Section II.D. above.

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES



Colette Y. Machado, Chairperson

First Reading	2/20/2014
Second Reading	2/27/2014

Office of Hawaiian Affairs
560 N. Nimitz Hwy, Suite 200
Honolulu, HI 96817
Roll Call Vote Sheet

ATTACHMENT C

BOARD OF TRUSTEES MEETING	DATE: February 27, 2018																																																																													
AGENDA ITEM: V. New Business B. Committee on Resource Management 1. RM 18-03: Moratorium on Fiscal Reserve Spending																																																																														
MOTION: Move to approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.																																																																														
AMENDMENT:																																																																														
MEANS OF FINANCING:																																																																														
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 10%;"></th> <th style="width: 10%;">1</th> <th style="width: 10%;">2</th> <th style="width: 10%;">'AE (YES)</th> <th style="width: 10%;">A'OLE (NO)</th> <th style="width: 10%;">KANALUA/ ABSTAIN</th> <th style="width: 10%;">EXCUSED/ ABSENT</th> </tr> <tr> <td>TRUSTEE LEINA'ALA AHU ISA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE DAN AHUNA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE ROWENA AKANA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE KELI'I AKINA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE PETER APO</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE CARMEN HULU LINDSEY</td> <td style="text-align: center;">x</td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE ROBERT LINDSEY</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TRUSTEE JOHN WAIHEE</td> <td></td> <td style="text-align: center;">x</td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>CHAIRPERSON COLETTE MACHADO</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TOTAL VOTE COUNT</td> <td></td> <td></td> <td style="text-align: center;">9</td> <td></td> <td></td> <td></td> </tr> </table>		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT	TRUSTEE LEINA'ALA AHU ISA			X				TRUSTEE DAN AHUNA			X				TRUSTEE ROWENA AKANA			X				TRUSTEE KELI'I AKINA			X				TRUSTEE PETER APO			X				TRUSTEE CARMEN HULU LINDSEY	x		X				TRUSTEE ROBERT LINDSEY			X				TRUSTEE JOHN WAIHEE		x	X				CHAIRPERSON COLETTE MACHADO			X				TOTAL VOTE COUNT			9			
	1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT																																																																								
TRUSTEE LEINA'ALA AHU ISA			X																																																																											
TRUSTEE DAN AHUNA			X																																																																											
TRUSTEE ROWENA AKANA			X																																																																											
TRUSTEE KELI'I AKINA			X																																																																											
TRUSTEE PETER APO			X																																																																											
TRUSTEE CARMEN HULU LINDSEY	x		X																																																																											
TRUSTEE ROBERT LINDSEY			X																																																																											
TRUSTEE JOHN WAIHEE		x	X																																																																											
CHAIRPERSON COLETTE MACHADO			X																																																																											
TOTAL VOTE COUNT			9																																																																											

MOTION: [x] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

DISCUSSION:

**COMMITTEE ON RESOURCE MANAGEMENT
(RM)**

Committee Report

February 27, 2018

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Committee on Resource Management, having met on February 21, 2018 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

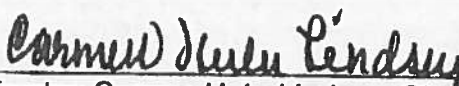
To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Relevant attachments are included for your information and reference. Attachment(s):


- 1) Action Item RM #18-03
- 2) RM Roll Call Vote Sheet(1)

Respectfully submitted:

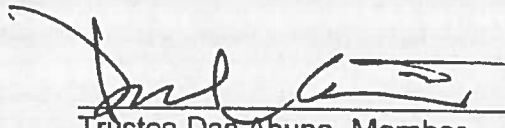
ATTACHMENT C


Trustee Carmen Hulu Lindsey, Chair

excused
Trustee Peter Apo, Member

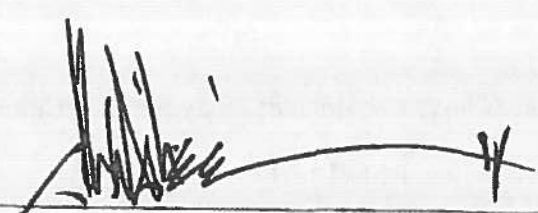

Trustee Leina'ala Ahu Isa, Member

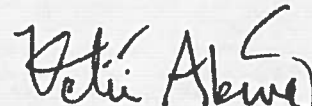
excused
Trustee Robert Lindsey, Member


Trustee Dan Ahuna, Member

excused
Trustee Colette Machado, Member

excused
Trustee Rowena Akana, Member


Trustee John Waihe'e, IV., Member


Trustee Keli'i Akina, Member

OFFICE OF HAWAIIAN AFFAIRS

Action Item

Committee on Resource Management

February 21, 2018

RM# 18-03

Action Item Issue: Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Prepared by: Max Mukai 2/16/2018
Max Mukai
Ke Kua Kāko'o, Trustee Aide Date

Reviewed by: Kamama'o pono M. Crabbe, Ph.D. 2/16/18
Kamama'o pono M. Crabbe, Ph.D.
Ka Pouhana, Chief Executive Officer Date

Reviewed by: Colette Y. Machado 02/16/18
Colette Y. Machado
Ke Kauhuhu, Chair of Board of Trustees Date

Reviewed by: Carmen Hulu Lindsey 2/16/2018
Hulu Lindsey
Ho'omalū Komike RM, RM Chairperson Date

I. Action:

Approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

II. Issue:

Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

III. Background:

On March 29, 2017, the Board of Trustees approved the RM Committee's recommendation to create the FSP Working and Implementation Advisory Committee ("FSP Advisory Committee"). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA's Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and Fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust Fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines.

IV. Alternative Actions:

- A. Recommend approval of the moratorium, and transmit the recommendation to the Board of Trustees for consideration.
- B. Decline approval of the moratorium and take no other action.
- C. Take no action.

V. Recommended Action:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

VI. Timeframe:

The moratorium will take effect immediately upon approval by the Board of Trustees.

VII. Funding Source:

No funding required.

VIII. Attachment:

None.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817
Roll Call Vote Sheet

Committee on Resource Management	DATE: February 21, 2018 Motion: Vote:																																																																												
AGENDA ITEM: III. New Business B. RM 18-03: Moratorium on Fiscal Reserve Spending																																																																													
MOTION: To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.																																																																													
AMENDMENT:																																																																													
MEANS OF FINANCING:																																																																													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">TRUSTEE</th> <th style="width: 10%;">1</th> <th style="width: 10%;">2</th> <th style="width: 10%;">'AE (YES)</th> <th style="width: 10%;">A'OLE (NO)</th> <th style="width: 10%;">KANALUA (ABSTAIN)</th> <th style="width: 10%;">EXCUSED</th> </tr> </thead> <tbody> <tr> <td>LEI AHU ISA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>DAN AHUNA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>ROWENA AKANA</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>KELI'I AKINA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>PETER APO</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>ROBERT LINDSEY</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>COLETTE MACHADO</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>JOHN WAIHE'E</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>CHAIR HULU LINDSEY</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>TOTAL VOTE COUNT</td> <td></td> <td></td> <td style="text-align: center;">5</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED	LEI AHU ISA			X				DAN AHUNA			X				ROWENA AKANA						X	KELI'I AKINA			X				PETER APO						X	ROBERT LINDSEY						X	COLETTE MACHADO						X	JOHN WAIHE'E			X				CHAIR HULU LINDSEY			X				TOTAL VOTE COUNT			5			
TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED																																																																							
LEI AHU ISA			X																																																																										
DAN AHUNA			X																																																																										
ROWENA AKANA						X																																																																							
KELI'I AKINA			X																																																																										
PETER APO						X																																																																							
ROBERT LINDSEY						X																																																																							
COLETTE MACHADO						X																																																																							
JOHN WAIHE'E			X																																																																										
CHAIR HULU LINDSEY			X																																																																										
TOTAL VOTE COUNT			5																																																																										

MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

**COMMITTEE ON RESOURCE MANAGEMENT
(RM)**

Committee Report

February 27, 2018

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Committee on Resource Management, having met on February 21, 2018 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

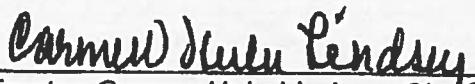
To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Relevant attachments are included for your information and reference. Attachment(s):


- 1) Action Item RM #18-03
- 2) RM Roll Call Vote Sheet(1)

Respectfully submitted:

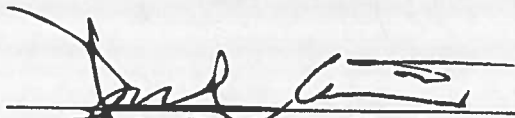
ATTACHMENT D


Trustee Carmen Hulu Lindsey, Chair

excused
Trustee Peter Apo, Member

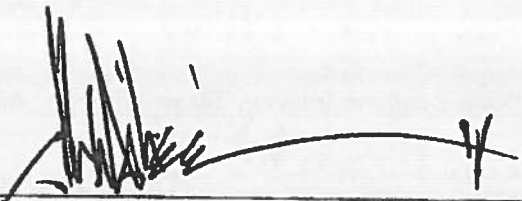

Trustee Leina'ala Ahu Isa, Member

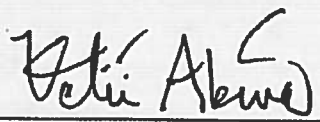
excused
Trustee Robert Lindsey, Member


Trustee Dan Ahuna, Member

excused
Trustee Colette Machado, Member

excused
Trustee Rowena Akana, Member


Trustee John Waihe'e, IV., Member


Trustee Keli'i Akina, Member

OFFICE OF HAWAIIAN AFFAIRS

Action Item

Committee on Resource Management

February 21, 2018

RM# 18-03

Action Item Issue: Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Prepared by: Max Mukai 2/16/2018
Max Mukai Date
Ke Kua Kāko'o, Trustee Aide

Reviewed by: Kamama'o M. Crabbe 2/16/18
Kamama'o M. Crabbe, Ph.D. Date
Ka Pūhaha, Chief Executive Officer

Reviewed by: Colette Y. Machado 02/16/18
Colette Y. Machado Date
Ke Kauhuhu, Chair of Board of Trustees

Reviewed by: Hulu Lindsey 2/16/2018
Hulu Lindsey Date
Ho'omalu Komike RM, RM Chairperson

I. Action:

Approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

II. Issue:

Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

III. Background:

On March 29, 2017, the Board of Trustees approved the RM Committee's recommendation to create the FSP Working and Implementation Advisory Committee ("FSP Advisory Committee"). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA's Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and Fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust Fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines.

IV. Alternative Actions:

- A. Recommend approval of the moratorium, and transmit the recommendation to the Board of Trustees for consideration.
- B. Decline approval of the moratorium and take no other action.
- C. Take no action.

V. Recommended Action:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

VI. Timeframe:

The moratorium will take effect immediately upon approval by the Board of Trustees.

VII. Funding Source:

No funding required.

VIII. Attachment:

None.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817
Roll Call Vote Sheet

Committee on Resource Management	DATE: February 21, 2018 Motion: Vote:					
AGENDA ITEM: III. New Business B. RM 18-03: Moratorium on Fiscal Reserve Spending						
MOTION: To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.						
AMENDMENT:						
MEANS OF FINANCING:						
TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEI AHU ISA			X			
DAN AHUNA			X			
ROWENA AKANA						X
KELI'I AKINA			X			
PETER APO						X
ROBERT LINDSEY						X
COLETTE MACHADO						X
JOHN WAIHE'E			X			
CHAIR HULU LINDSEY			X			
TOTAL VOTE COUNT			5			

MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

Auditor's Summary

Audit of the Office of Hawaiian Affairs

Report No. 18-03



PHOTO: OHA

IN REPORT NO. 18-03, *Audit of the Office of Hawaiian Affairs*, we found that the Office of Hawaiian Affairs (OHA) has created alternate funding processes that allow the agency to regularly direct money towards a multitude of programs, projects, and individuals. At first glance, these funding opportunities appear to be guided by policies, procedures, and guidelines designed to ensure that funds are distributed fairly and equitably. In reality, however, these expenditures and other forms of discretionary spending do not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Some are approved by the OHA Administration without Board of Trustee vote or even knowledge.

What we found

In FY2015 and FY2016, OHA spent nearly double as much on discretionary disbursements (\$14 million) as it did on planned, budgeted, and properly publicized, vetted, and monitored grants (\$7.7 million). To fund these unplanned expenditures, OHA realigned its budget (by \$8 million) and drew from its Fiscal Reserve (\$6 million). We found that OHA has spent with little restraint, using Native Hawaiian Trust Fund moneys to pay for such things as the retirement benefits for a former trustee (\$56,300), political donations, an international conservation convention (\$500,000), as well as a beneficiary's rent (\$1,000), another beneficiary's funeral-related clothing expenses (\$1,000), and a trustee's personal legal expenses (\$1,500).

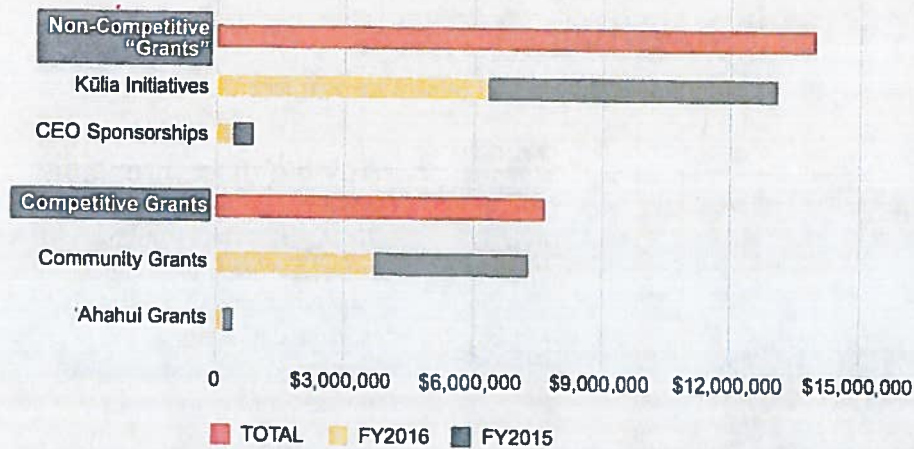
Why did these problems occur?

OHA's vague rules guiding its discretionary spending are broadly interpreted, arbitrarily enforced, and at times, disregarded. For instance, we found several occasions in which OHA's chief executive officer (CEO) ignored "do not fund" recommendations from Administration personnel and funded Sponsorships, contrary to written guidelines. We also found significant irregularities in and abuse of OHA's Trustee Allowance process, which was originally established to cover incidental expenses for trustees to develop and maintain ongoing communication with beneficiaries and the general public, but has evolved to allow a broad range of expenditures. When we asked trustees, the CEO, and other officers about questionable expenditures, the consistent justification provided was that the money helps a Native Hawaiian or Hawaiian beneficiary, thus fulfilling OHA's mission to improve the conditions and well-being of Native Hawaiians and Hawaiians.

Why do these problems matter?

The Fiscal Reserve, the source for much of OHA's discretionary spending, has been spent down rapidly in recent years. From FY2011 to FY2016, the Fiscal Reserve balance fell from \$15.1 million to a little more

Spending on non-competitive versus competitive awards



Source: Information provided by OHA's Transitional Assistance Program.

Fiscal Reserve

FUNDS THAT WERE BUDGETED but remain unspent at the end of the fiscal year stay in the Native Hawaiian Trust Fund and are designated as Fiscal Reserve.

than \$2 million, as the board spent the maximum \$3 million allowed under OHA policy each year. However, not only do OHA's spending irregularities pose risks — both great and small — to the Native Hawaiian Trust Fund, they appear to violate the OHA trustees' solemn fiduciary obligation to their beneficiaries that they will administer the trust fairly, equitably, and without self-interest. In other words, this form of behind-the-scenes giving is inherently inequitable to OHA's many other beneficiaries who may be in need of financial assistance, but are unaware of who and how to ask for help.

We acknowledge that trustees have broad discretion in determining whether a particular expenditure better the conditions of Native Hawaiians and Hawaiians, but their desire to provide assistance to a few should be tempered by their fiduciary duties to all of the beneficiaries, both present and future. Doing so would not only benefit Native Hawaiians and Hawaiians in the long term, it would help ensure that they are treated more equitably in the short term.

"If an organization is denied funding by the administration of OHA, they can come to a trustee to seek funding for their project. There's something that can be self-defeating in having these two competing processes."

— OHA trustee

Examples of Questionable Spending



Las Vegas Rodeo

On June 26, 2014, Trustee H circulated a memo to fellow board members, soliciting donations for the recipient to attend a Las Vegas rodeo competition. Trustee H donated \$1,000. Two others, Trustee A and Trustee G, responded with donations of \$500 and \$400 respectively.



Trustee to Trustee's Spouse

Trustee A donated \$1,000 to Trustee B for Trustee B's son's medical expenses. According to OHA's controller, it is possible that Trustee B was not aware that the funds were from OHA.



Spousal Support

Trustee B donated OHA funds to this community leadership program. Trustee B's spouse had been a participant in the program just three months before, from September 2013 – June 2014.



Fund DNC

Political contributions to the Democratic National Committee and the League of Women Voters made by Trustee C were allowed because they pre-dated OHA's March 4, 2014, policy statement.

FY 2020-2021 Biennium Budget – Realignment #1



E ho‘oikaika ana i nā Kānaka i mana ka lāhui.

Resource Management Committee Workshop, WE, 9/4/2019

1-Resetting Context

- Affirming Identity
- Connecting Strategic, Tactical and Operational Work
- Connecting Strategic and Policy Work
- Core Operating Budget/Actual/Projected Comparisons FY 18 and FY 19
- Non-Core Operating Budget/Actual/Projected Comparisons FY 18 and FY 19
- Review Key Messages from June 2019

2-Rear View Mirror

3-Realignment #1

- DRAFT FB 20-21 Operating, Including Human Resources
- DRAFT FB 20-21 Project Budgets
- DRAFT FB 20-21 Capital Projects

4-Fiscal Reserve, Fiscal Stabilization

- Native Hawaiian Spending Policy Fiscal Reserve Withdrawal Guidelines
- Fiscal Reserve Withdrawal Guidelines
- Action Item RM #19-16 New Fiscal Stabilization Policy

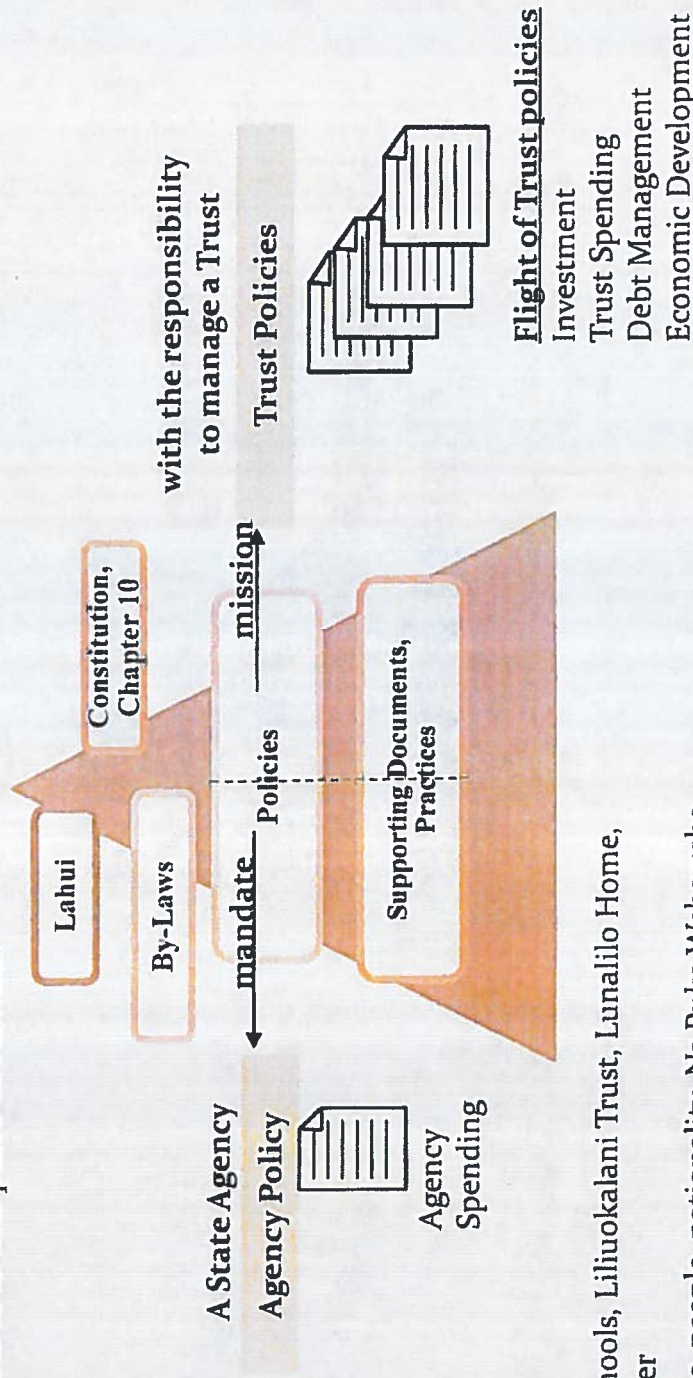
5-Next Steps

1-Resetting Context

- Affirming Identity
- Connecting Strategic, Tactical and Operational Work
- Connecting Strategic and Policy Work

Element 1: Identity. Ho'oulu Lahui Aloha – To Raise a Beloved Lahui. A State Agency with the responsibility to manage a Trust, that identifies and operates more similarly to Ali'i Trusts [1] with a lahui mindset in improving the well-being of our lahui [2]. Such an identity is rooted in the 'ōlelo no'ēau, *E 'ōpū ali'i*, have the heart of a chief, have the kindness, generosity, and even temper of a chief, 'ōlelo no'ēau 369 [3]. OHA's identity is also place based, that OHA's *kuleana* is to this place of Hawaii.

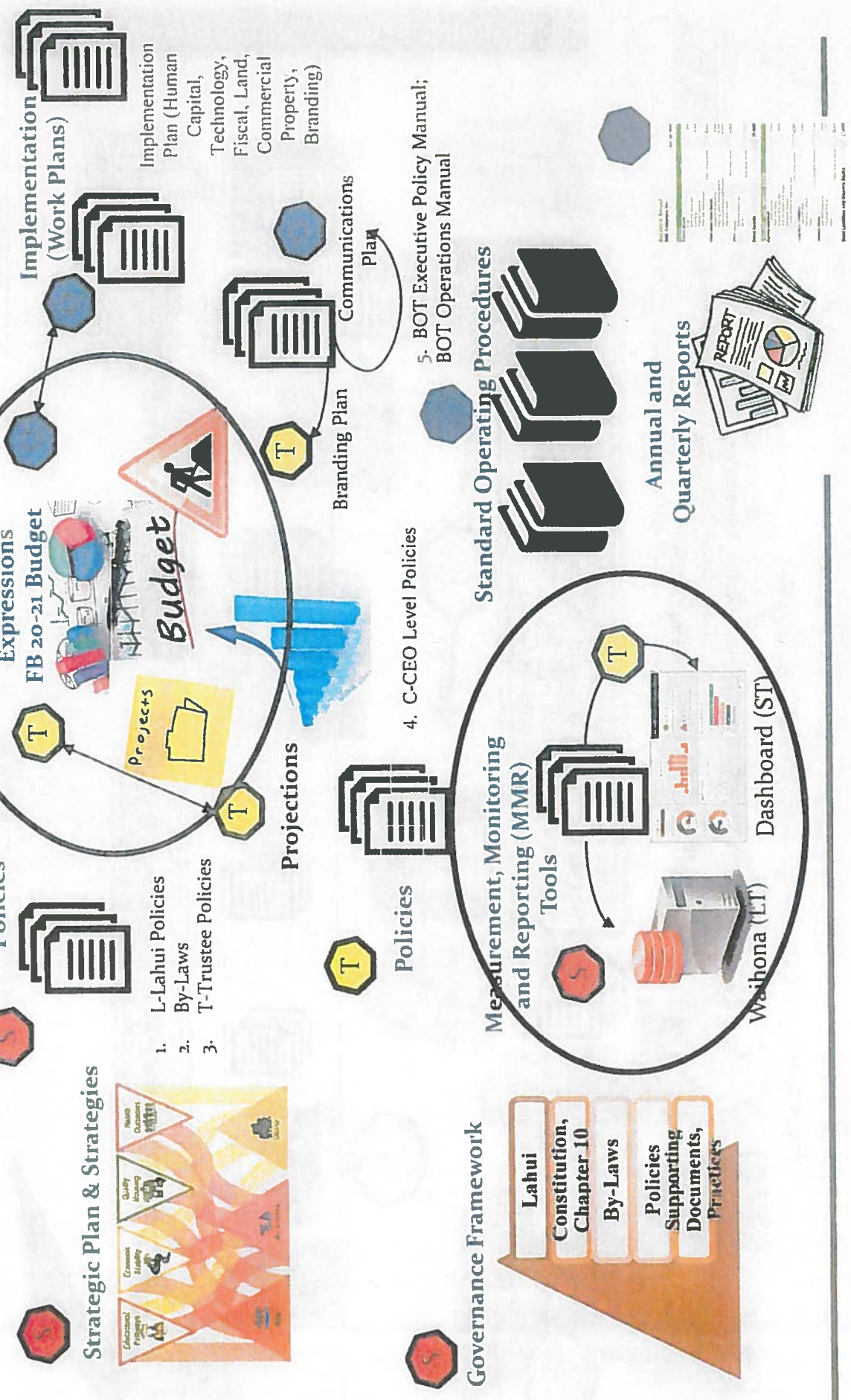
Takeaway: Dual identity impacts policies

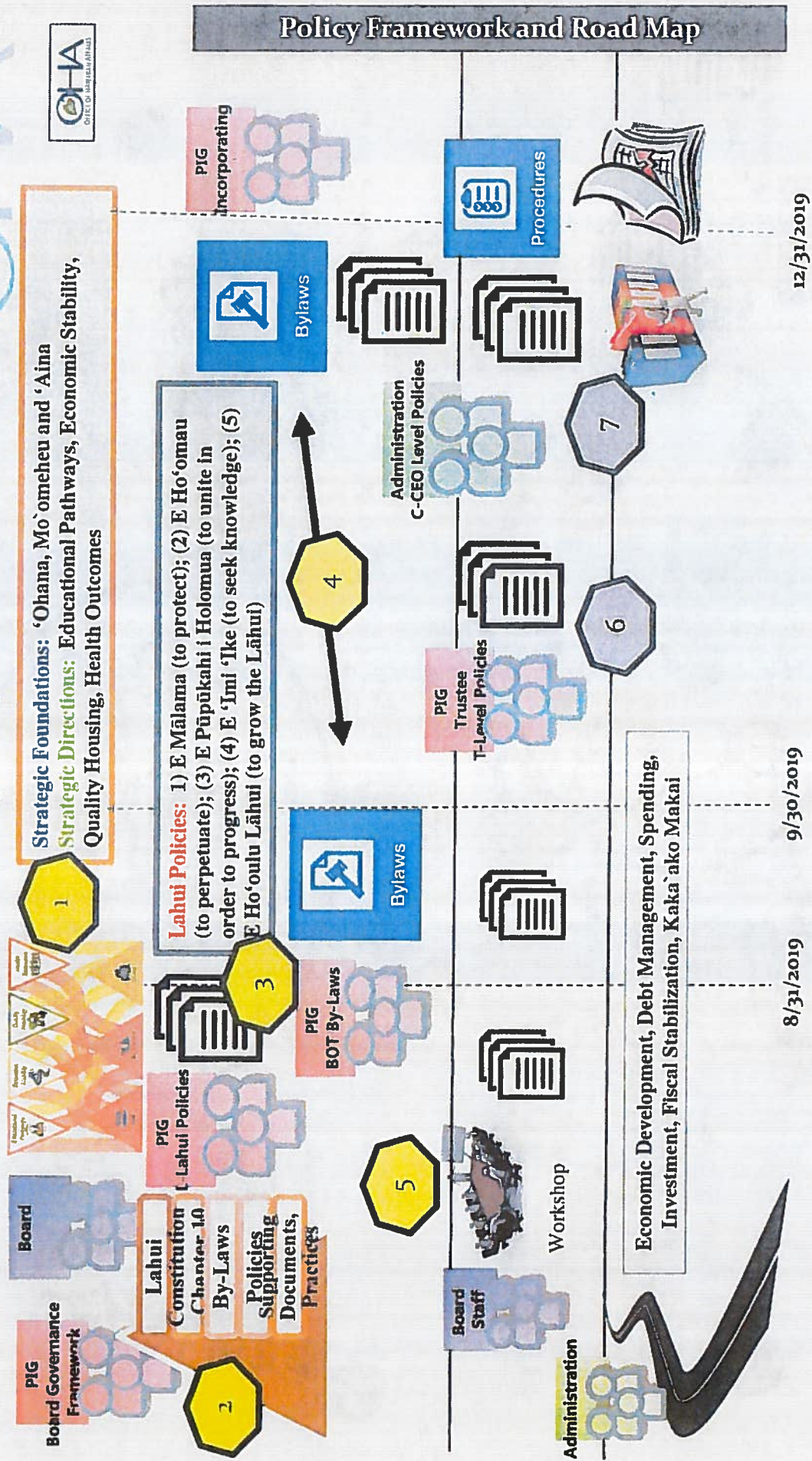


[1] - Kamehameha Schools, Liliuokalani Trust, Lunalilo Home, Queens Medical Center

[2] - Nation, race, tribe, people, nationality, Na Puke Wehewehe, retrieved 3/17/2019

[3] Pukui, 'Olelo No'ēau, Hawaiian Proverbs & Poetical Sayings, p. 45





2-Rear View Mirror

- **Core Operating Budget/Actual/Projected Comparisons FY 18 and FY 19**
- **Non-Core Operating Budget/Actual/Projected Comparisons FY 18 and FY 19**
- **Review Key Messages from June 2019**

REAR VIEW MIRROR PERSPECTIVE

Core Operating Budget/Actual/Projected Comparisons

- Core Operating Budget/Actual Comparison – FY 18
- Core Operating Budget/Projected Comparison – FY 19

Non-Core Operating Budget/Actual/Projected Comparisons

- Commercial Property Budget/Action/Projected Comparison – FY 18, FY 19
 - Kaka`ako Makai Budget/Actual Comparison – FY 18; Kaka`ako Makai Budget/Projected Comparison – FY 19
 - Na Lama Kukui Budget/Actual Comparison – FY 18; Na Lama Kukui Budget/Projected Comparison – FY 19

Core Operating Budget/Actual Comparison – FY 18

CORE OPERATING BUDGET	Approved FY 18	Actual FY 18	Difference	% Spent
Personnel	\$14,739,767	\$13,974,942	\$764,825	95%
Grants	7,323,251	7,150,262	172,989	98%
Contracts	6,474,089	6,054,756	419,333	94%
Overhead	2,646,663	2,415,620	231,043	91%
Program	1,472,218	1,101,072	371,146	75%
Equipment	1,889,876	1,806,895	82,981	96%
Debt Service	630,961	630,952	9	100%
Travel	426,447	344,677	81,771	81%
Total Core Operating Budget:	\$35,603,273	\$33,479,175	\$2,124,097	94%

Core Operating Budget/Projected Comparison - FY 19

CORE OPERATING BUDGET	Approved FY 19	Projected FY 19	Difference	% Spent
Personnel	\$15,382,787	\$14,245,529	\$1,137,258	93%
Grants	8,792,199	8,792,199	0	100%
Contracts	5,402,735	5,402,735	0	100%
Overhead	3,023,853	2,722,882	300,971	90%
Program	1,642,249	1,089,481	552,768	66%
Equipment	793,854	725,288	68,566	91%
Debt Service	566,937	566,937	0	100%
Travel	410,158	315,548	94,610	77%
Total Core Operating Budget:	\$36,014,772	\$33,860,598	\$2,154,173	94%

Kaka`ako Makai Budget/Actual Comparison - FY 18

Kaka'ako Makai Budget	Approved FY 18	Actual FY 18	Difference	% Spent
Personnel	\$272,563	\$217,864	\$54,699	80%
Program	70,214	4,325	65,889	6%
Contracts	617,250	565,861	51,389	92%
Travel	9,920	431	9,489	4%
Equipment	1,164,868	122,963	1,041,905	11%
Overhead	243,310	189,155	54,155	78%
Total:	\$2,378,125	\$1,100,599	\$1,277,526	46%

Kaka'ako Makai Budget/Projected Comparison – FY 19

Kaka'ako Makai Budget	Approved FY 19	Projected FY 19	Difference	% Spent
Personnel	\$278,035	\$231,826	\$46,209	83%
Program	119,269	10,411	108,858	9%
Contracts	527,181	467,498	59,683	89%
Travel	11,170	2,793	8,377	25%
Equipment	647,864	253,123	394,741	39%
Overhead	738,768	562,939	175,829	76%
Total	\$2,322,287	\$1,528,590	\$793,697	66%

Na Lama Kukui Budget/Actual Comparison – FY 18

Na Lama Kukui Budget	Approved FY 18	Actual FY 18	Difference	% Spent
Program	437,417	295,063	142,354	67%
Contracts	398,628	391,325	7,303	98%
Equipment	952,724	657,823	294,901	69%
Overhead	1,134,352	607,217	527,135	54%
Sub-total:	2,923,121	1,951,428	971,693	67%
Debt Service	2,548,912	2,548,035	877	100%
Total:	\$5,472,033	\$4,499,463	\$972,570	82%

Na Lama Kukui Budget/Projected Comparison - FY 19

Na Lama Kukui Budget	Approved FY 19	Projected FY 19	Difference	% Spent
Program	304,566	303,485	1,081	100%
Contracts	529,222	503,145	26,077	95%
Equipment	939,724	846,868	92,856	90%
Overhead	791,115	784,620	6,495	99%
Sub-total:	2,564,627	2,438,118	126,509	95%
Debt Service	2,517,926	2,517,924	2	100%
Total:	\$5,082,553	\$4,956,042	\$126,511	98%

KEY MESSAGES

Spending

- Organization does not spend or encumber what is budgeted;
- Unspent, unencumbered and cancelled POs=lapsed \$ (2018 + \$1.5MM);
- No current active policy mechanism to access unspent, unencumbered, lapsed funds (i.e., fiscal reserve, fiscal stabilization).

Policies

- No current policy mechanism or policy prohibition to access non-core cash (e.g., Kaka`ako Makai, Na Lama Kukui);
- Kaka`ako Makai 10% gross (grants), 30% net(legacy land) contribution policy provision sunsets @ 6/30/2019; proposed extension 6/30/2021, 20% gross (grants), 50% net (legacy land) – 2nd reading on 9/5/2019;
- Moratorium on Fiscal Reserve = inability to “withdraw” pending policy review and update;
- Key policies in flight (e.g., economic development, debt management, spending, investment, fiscal stabilization).

3- Realignment #1

- **DRAFT FB 20-21 Operating,
Including Human Resources**
 - **DRAFT FB 20-21 Project
Budgets**
 - **DRAFT FB 20-21 Capital
Projects**
-

OFFICE OF HAWAIIAN AFFAIRS
FY20 BUDGET REALIGNMENT #1

ATTACHMENT #1

FY 2020 APPROVED BUDGET	FTE	Core	Fiscal Reserve	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2020 Total Operating Budget
				Kaka'ako Makai	Nā Lapa Kūkui	Palahea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	
Personnel & Fringe	179.0	\$ 16,905,440	\$ -	\$ 278,161	\$ -	\$ -	\$ -	\$ 764,248	\$ -	\$ 17,947,849
Program		1,351,878	-	81,475	368,276	3,000	9,550	109,017	-	1,923,196
Contracts		4,296,719	-	610,000	535,015	75,000	70,000	4,014,215	-	9,600,949
Grants		9,660,921	-	-	-	25,000	10,000	-	-	9,695,921
Travel		511,087	-	-	-	4,680	8,160	37,045	-	560,972
Equipment		995,570	-	939,500	1,311,958	43,500	158,100	3,750	367,862	3,820,240
Overhead		2,964,382	-	644,810	1,087,183	9,200	800	72,979	-	4,779,354
Debt Service		580,048	-	-	2,550,979	-	-	-	-	3,131,027
Totals:		\$ 37,266,045	\$ -	\$ 2,553,946	\$ 5,853,411	\$ 160,380	\$ 256,610	\$ 5,001,254	\$ 367,862	\$ 51,459,508

FY 2020 PROPOSED REALIGNMENT #1	FTE	Core	Fiscal Reserve	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2021 Total Operating Budget
				Kaka'ako Makai	Nā Lapa Kūkui	Palahea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	
Personnel & Fringe	179.0	\$ 16,933,809	\$ -	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 764,248	\$ -	\$ 18,061,322
Program		1,484,603	-	81,475	368,276	2,700	4,550	109,017	-	2,050,621
Contracts		5,988,759	-	810,000	560,560	80,000	73,500	4,014,215	-	11,527,034
Grants		9,660,921	-	-	-	25,000	10,000	0	-	9,695,921
Travel		571,667	-	-	-	4,680	8,160	37,045	-	621,552
Equipment		1,068,820	-	439,500	1,305,178	39,000	159,600	3,750	454,862	3,470,710
Overhead		3,046,958	-	644,810	1,087,183	9,000	800	72,979	-	4,861,730
Debt Service		580,047	-	-	1,550,979	-	-	0	-	3,131,026
Totals:		\$ 39,335,584	\$ -	\$ 2,261,175	\$ 5,950,051	\$ 160,380	\$ 256,610	\$ 5,001,254	\$ 454,862	\$ 53,419,916

Difference: \$ 2,069,539 \$ - \$ (292,771) \$ 96,640 \$ - \$ - \$ 87,000 \$ 1,960,408

**FY20 CORE Budget Realignment #1 Total
OVERVIEW (OPERATING, PROJECT, CAPITAL)**

Row Labels	<u>Sum of</u> <u>BUDGET</u>		<u>Sum of FY20</u> <u>REALIGN #1</u>	<u>Sum of Net</u> <u>Adjust</u>		<u>Sum of FY20</u> <u>Operating</u>		<u>Sum of FY20</u> <u>Project</u>		<u>Sum of FY20</u> <u>Capital</u>	
	<u>AS IS</u>		<u>TOTAL</u>								
CONTRACTS	4,296,719		5,988,759	1,692,040		4,427,759		860,000		701,000	
DEBT SERVICE	580,047		580,047	0		580,047		0		0	
EQUIPMENT	995,570		1,068,820	73,250		962,620		51,200		55,000	
GRANTS	9,660,921		9,660,921	0		9,660,921		0		0	
OVERHEAD	2,964,382		3,046,958	82,576		2,978,958		68,000		0	
PROGRAM	1,351,878		1,484,603	132,725		1,224,503		222,600		37,500	
TRAVEL	511,087		571,667	60,580		559,867		11,800		0	
PERSONNEL	16,905,440		16,933,809	28,369		16,933,809		0		0	
Grand Total	37,266,043		39,335,583	2,069,540		37,328,483		1,213,600		793,500	

FY20 PROJECT-BASED COSTS
Project (Multiple Items)

Row Labels	Sum of BUDGET AS IS	Sum of FY20 REALIGN #1 TOTAL	Sum of Net Adjust
CONTRACTS	410,200	860,000	449,800
EQUIPMENT	23,200	51,200	28,000
OVERHEAD	30,000	68,000	38,000
PROGRAM	133,500	222,600	89,100
TRAVEL	0	11,800	11,800
Grand Total	596,900	1,213,600	616,700

**FY20 CORE Budget Realignment #1 Total
OVERVIEW (OPERATING, PROJECT, CAPITAL)**

FY20 CAPITAL PROJECT COSTS
Capital (Multiple Items)

Row Labels	Sum of BUDGET AS IS	Sum of FY20 REALIGN #1 TOTAL	Sum of Net Adjust
CONTRACTS	418,000	701,000	283,000
EQUIPMENT	53,500	55,000	1,500
PROGRAM	5,500	37,500	32,000
Grand Total	477,000	793,500	316,500

FY20 OPERATING COSTS

Project Capital	(blank) (blank)	Sum of BUDGET AS IS	Sum of FY20 REALIGN #1 TOTAL	Sum of Net Adjust
CONTRACTS		3,468,519	4,427,759	959,240
DEBT SERVICE		580,047	580,047	0
EQUIPMENT		918,870	962,620	43,750
GRANTS		9,660,921	9,660,921	0
OVERHEAD		2,934,382	2,978,958	44,576
PERSONNEL		16,905,440	16,933,809	28,369
PROGRAM		1,212,878	1,224,503	11,625
TRAVEL		511,087	559,867	48,780
Grand Total		36,192,143	37,328,483	1,136,340

**FY20 NONCORE Budget Realignment #1 Total
OVERVIEW (OPERATING, PROJECT, CAPITAL)**

Row Labels	Sum of BUDGET AS IS	Sum of FY20 REALIGN	
		#1 TOTAL	Sum of Net Adjust
3800 (GRANTS - LLC)	367,862	454,862	87,000
8210 (KAKAAKO MAKAI)	2,553,946	2,261,175	(292,771)
8220 (NA LAMA KUKUI)	5,853,411	5,950,051	96,640
8310 (PALAUEA CULTURE PRESERVE)	160,380	160,380	0
8320 (WAO KELE O PUNA)	256,610	256,610	0
Grand Total	9,192,209	9,083,078	(109,131)

FY20 NONCORE Budget Realignment #1
FY20 Budget Adjustment Requests - KAKA'AKO MAKAI

Requested 8210 (KAKA'AKO MAKAI)

Row Labels	Sum of BUDGET AS IS	Sum of FY20	
		REALIGN #1	Sum of Net
		TOTAL	Adjust
CONTRACTS	610,000	810,000	200,000
EQUIPMENT	939,500	439,500	(500,000)
OVERHEAD	644,810	644,810	0
PERSONNEL	278,161	285,390	7,229
PROGRAM	81,475	81,475	0
TRAVEL	0	0	0
Grand Total	2,553,946	2,261,175	(292,771)

FY20 NONCORE Budget Realignment #1
FY20 Budget Adjustment Requests - NA LAMA KUKUI

Requested 8220 (NA LAMA KUKUI)

Row Labels	Sum of BUDGET AS IS	Sum of FY20 REALIGN #1 TOTAL	Sum of Net Adjust
CONTRACTS	535,015	560,560	25,545
DEBT SERVICE	2,550,979	2,550,979	0
EQUIPMENT	1,311,958	1,305,178	(6,780)
OVERHEAD	1,087,183	1,087,183	0
PERSONNEL	0	77,875	77,875
PROGRAM	368,276	368,276	0
Grand Total	5,853,411	5,950,051	96,640

Core Personnel Budget	FTE				Biennium Budget Request	
	Corp	Federal/ Commercial	Frozen	Total	FY 20	FY 21
Salaries & Fringe:						
Board of Trustee Offices	29	0	0	29	\$2,848,572	\$2,905,543
Executive Offices	34	0	-7	27	3,596,778	3,664,153
Financial Assets	29	5	-1	33	2,872,967	2,833,639
Community Engagement	30	0	0	30	2,658,836	2,712,011
Research	16	0	-2	14	1,493,052	1,522,913
Advocacy	23	0	-1	22	2,440,221	2,489,026
Land Assets	8	5	0	13	695,013	708,911
Student Helper Program					104,050	104,050
Sub-total Salaries & Fringe:	169	10	-11	168	\$16,709,490	\$16,940,247
Reserves						
Vacation Payouts					\$150,000	\$150,000
Overtime					10,000	10,000
Workers' Compensation					5,950	5,950
Continuing Education Program					30,000	30,000
				Sub-total Reserves:	\$195,950	\$195,950
				Total Core Personnel Budget:	\$16,905,440	\$17,136,197

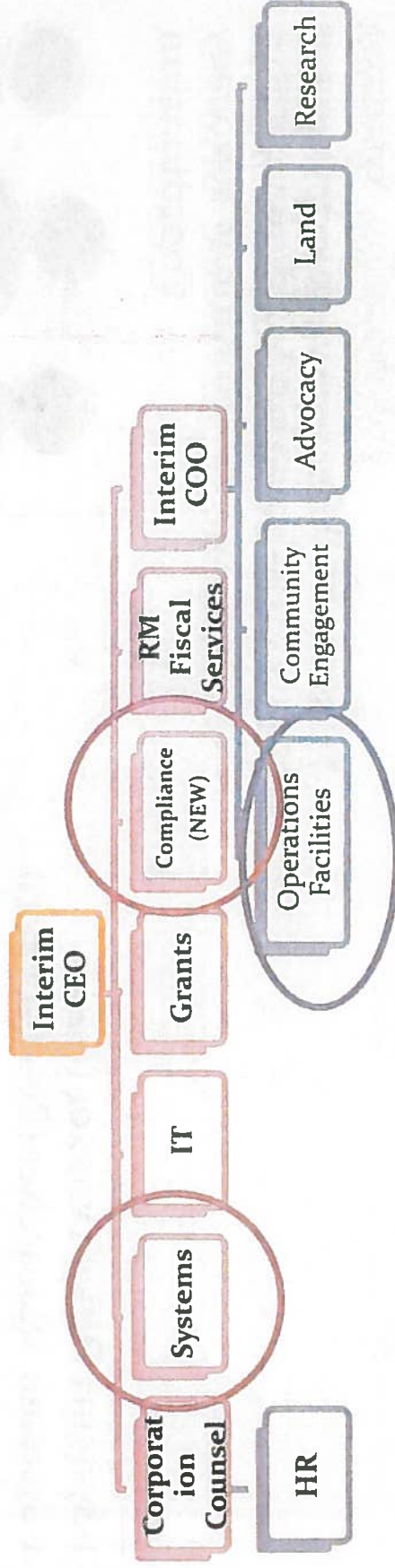
THE OFFICE OF HAWAIIAN AFFAIRS
Empowering Hawaiians, Strengthening Hawai'i



Core Personnel Budget	FTE			BOT Approved Budget		Reassignment #1		Adjustments	
	Core	Fringe	Total	FY 20	FY 21	FY 20	FY 21	FY 20	FY 21
Salaries & Fringe:									
Board of Trustee Offices	29	0	29	\$2,818,572	\$2,805,513	\$	\$2,959,995.08	\$	\$1,451,71
Executive Offices	34	7	41	3,596,778	3,664,153		5,463,110	981,589	1,798,957
Financial Affairs	29	1	30	2,872,967	2,833,639	10	1,945,335	927,672	633,015
Community Engagement	30	0	30	2,658,836	2,712,011	7	2,550,409	108,427	68,476
Research	16	2	18	1,493,052	1,572,913	2	1,551,454	4,037	28,540
Advocacy	23	1	24	2,440,231	2,489,026	14	2,411,943	28,278	46,945
Land Affairs	8	0	8	693,013	708,911	22	806,684	111,670	113,906
Student Helper Program				104,050	104,050	7	104,050	0	0
Sub-total Salaries & Fringe:	169	-11	158	\$16,709,490	\$16,940,247	0	\$16,737,859	\$28,369	\$1,341,010
Reserves									
Vacation Payouts				\$150,000	\$150,000		\$150,000	\$0	\$0
Overtime				10,000	10,000		10,000	0	0
Workers' Compensation				5,950	5,950		5,950	0	0
Continuing Education Program				30,000	30,000		30,000	0	0
Sub-total Reserves:				\$195,950	\$195,950		\$195,950	\$0	\$0
Total Core Personnel Budget:				\$16,905,440	\$17,136,197		\$18,477,207	\$28,369	\$1,341,010

- 7-New positions
- 3-Grant positions
- 1-Compliance Officer
- 1-Systems Office Director
- 1-Performance Management Specialist
- 1-Operations/Facilities Manager

High Level Organization



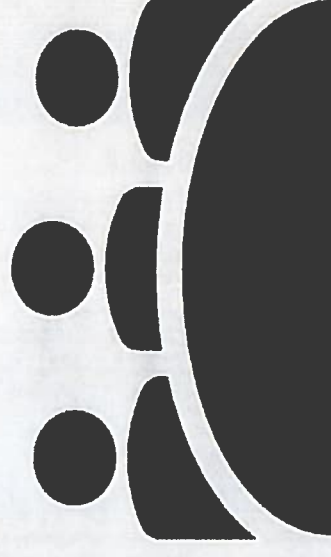
--Compliance Officer (formerly internal auditor)

--OHA organizationally focus on improving internal controls to ensure that we have the proper environment and framework to promote efficiency, prevent or mitigate fraud or other illegal acts. Once internal controls are improved, the Compliance Officer/function ensures compliance with mission and legal requirements.

Systems Office

- Support Board Work** (Permitted Interaction Group Project Management, Due Diligence, Special Projects)
- **Strategic Plan Implementation Measurement, Monitoring, Reporting**
 - Institutional Research ('Ohana Report)
 - Institutional Evaluation (Program, Collaboration, Systems)
 - Systems Collaboration Due Diligence
 - Systems Collaboration Implementation
 - National and International Advocacy Coordination

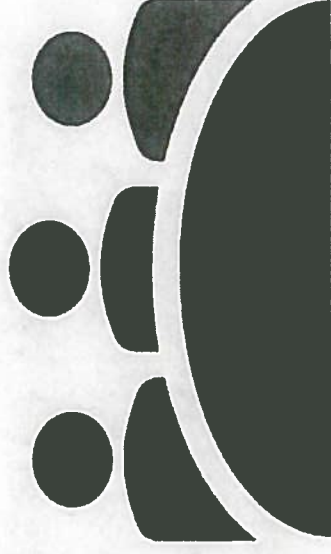
- 1-Systems Office Director (New)
- 1-Systemic Researcher (Re-described)
- 1-Advocacy Counsel (Existing, Transfer)
- 1-Performance Improvement Specialist (Unfreeze)
- 2-Program Improvement Function (Existing, Transfer)



**Operations/Facilities
Office**

Intake & Referral
NLK Parking
Facilities Management (Statewide)
Security (Statewide)
Fleet Management
Supplies Management
Courier Services
Mailroom
Logistics

- 1-Operations/Facilities Manager (New)
- 1-Facilities Coordinator (Existing)
- 2-Intake & Referral (Existing)



4-Fiscal Reserve, Fiscal Stabilization

- **Native Hawaiian Spending Policy Fiscal Reserve Withdrawal Guidelines**
- **Fiscal Reserve Withdrawal Guidelines**
- **Action Item RM #19-16 New Fiscal Stabilization Policy**



OFFICE OF HAWAIIAN AFFAIRS

NATIVE HAWAIIAN TRUST FUND
SPENDING POLICY, AS AMENDED

Adopted by the Board of Trustees, September 15, 2004
Amended and adopted by the Board of Trustees on July 4, 2006
Amended and adopted by the Board of Trustees on May 21, 2009
Reviewed with no modification by the Board of Trustees on April 14, 2012
Amended and adopted by the Board of Trustees on February 27, 2014

Moratorium – 2/2018 on the use of Fiscal Reserve funds until specific policy changes are approved

Action
Item
#18-03

NHTF Spending Policy – 2/2014

--Ensure the continued viability of the OHA NHTF by providing specific guidelines to balance the objectives of maintaining principal and producing, large, stable and predictable spending; Reflects the objective of distributing as much total return as is consistent with the overall defined investment objectives while protecting the value of the principal

Fiscal Reserve Withdrawal Guidelines

Uses: Budget Stabilization;
Unpredicted One-Time
Payments; Capital
Acquisition

Maximum Designations;
Special Circumstances;
Deposit Calculations;
Operation; Restrictions

Moratorium - 2/2018 on the use of Fiscal Reserve funds until specific policy changes are approved

Action Item #18-03

NHTF Spending Policy - 2/2014

— Ensure the continued viability of the OHA NHTF by providing specific guidelines to balance the objectives of maintaining principal and producing large, stable and predictable spending; Reflects the objective of distributing as much total return as is consistent with the overall defined investment objectives while protecting the value of the principal.

Fiscal Reserve Withdrawal Guidelines

Uses: Budget Stabilization;
Unpredicted One-Time
Payments; Capital
Acquisition

Maximum Designations;
Special Circumstances;
Deposit Calculations;
Operation; Restrictions

Example complementary policies: spending, investment, withdrawal, fiscal stabilization, economic development, debt management.

OFFICE OF HAWAIIAN AFFAIRS	
Action Item Committee on Resource Management September 4, 2019	
Action Item:	RM #19-16 Action Regarding a Fiscal Stabilization Policy Including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy
Prepared by:	<i>[Signature]</i> 8/28/19 Date Sylvia M. Hussey, Ed.D. Ka Puhana Kūikawā, Interim Chief Executive Officer
Reviewed by:	<i>[Signature]</i> 8/28/19 Date Gloria Li Ka Pou Kūi Kānaloa Wai, Kūikawā, Interim Chief Financial Officer
Reviewed by:	<i>[Signature]</i> 8/28/19 Date Lisa Watkins-Victorino, Ph.D. Ka Pou Nui Kūikawā, Interim Chief Operating Officer
Reviewed by:	<i>[Signature]</i> 8/28/19 Date Sylvia M. Hussey, Ed.D. Ka Puhana Kūikawā, Interim Chief Executive Officer
Reviewed by:	<i>[Signature]</i> 8/28/19 Date Ke Kua, Trustee Dan Ahuna Luna Ho 'omalu o ke Kōmike RM Chair of the Committee on Resource Management

THE OFFICE OF HAWAIIAN AFFAIRS

Empowering Hawaiians, Strengthening Hawai'i



Unaudited, Unencumbered Analysis
Of a Fiscal Reserve
Updated: 6/30/2019

Description

- A Amount of Unexp. Unencumbered as of 6/30/2019
- B FY 20-21 Realignments +/- Adjustments
- C Balance of Unexp. Unencumbered as of 6/30/2019 before 2019 modified additions
- D Proposed Board Designation
 - 1. Disaster Recovery
 - 2. Act J7/HD172, Zero Audit
 - 3. Reinsurance (beyond current fiscal year)
 - 4. Liquidity Contingency
 - 5. Foreign Rate Increase from 0.03% to 6.015%
- E Unencumbered Balance
- F Balance of Unexp. Unencumbered as of 6/30/2019 before 2019 modified additions
- G Additions of Unexp. Unencumbered as of 6/30/2019, projected and subject to audit, February 2020 to be finalized
 - 1. Current year unexp. unencumbered
 - 2. Prior year purchase order PO cancellations
 - 3. Projected 2019 add.
- H Projected Unexp. Unencumbered Balance as of 6/30/2019

Note: For policy, Fiscal Reserve User:
(1) - Budget Cancellation
(2) - Unexpended One-Time Use
(3) - Capital Acquisition

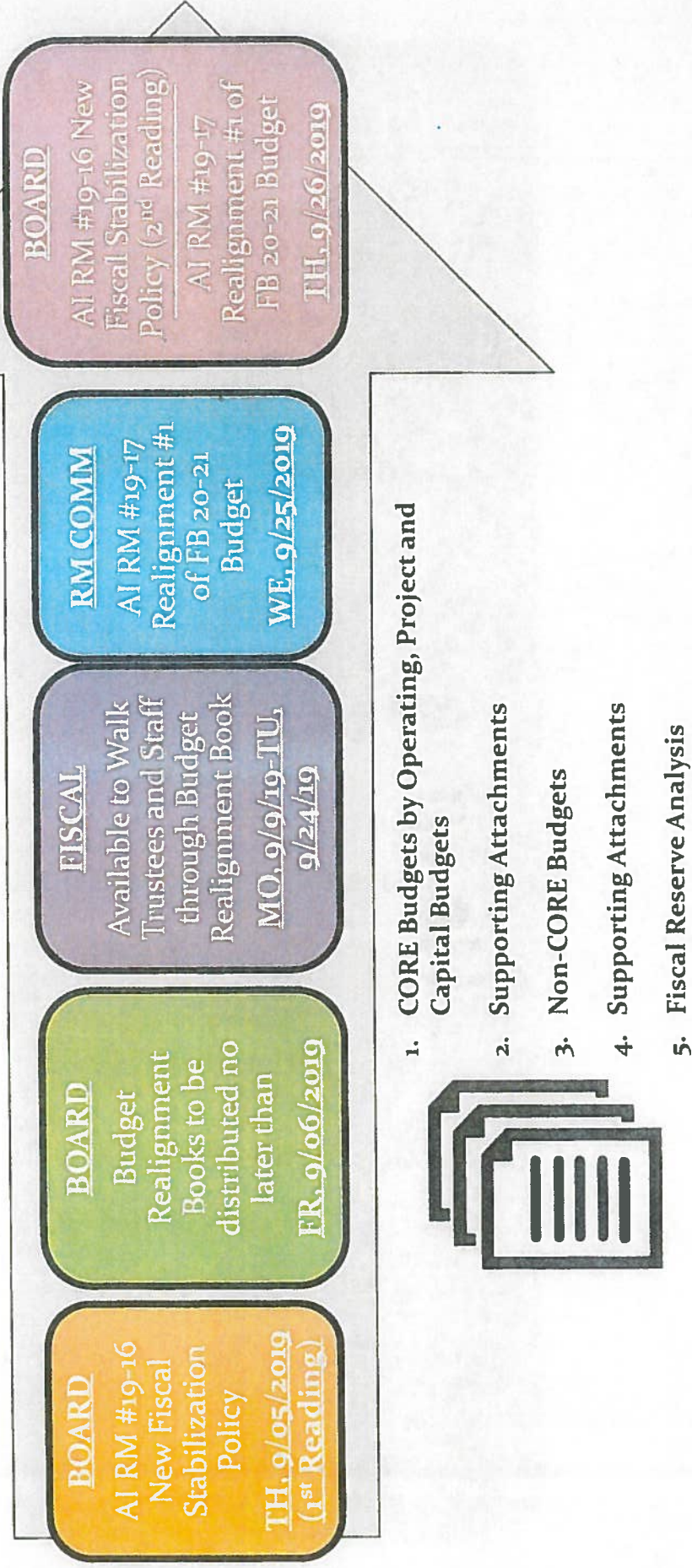
Fiscal Reserve Withdrawal Guidelines in NHIT Spending Policy

Option 1 Fiscal Reserve	Option 1 Fiscal Reserve	Option 2 Fiscal Reserve	Option 2 Fiscal Reserve
1. 2,124,173	1. 2,124,173	1. 2,124,173	1. 2,124,173
2. 4,653,713	2. 4,653,713	2. 4,653,713	2. 4,653,713
3. 4,072,241	3. 4,072,241	3. 4,072,241	3. 4,072,241
4. 200,000 (2)	4. 200,000 (2)	4. 200,000 (2)	4. 200,000 (2)
5. 200,000 (2)	5. 200,000 (2)	5. 200,000 (2)	5. 200,000 (2)
6. 100,000 (2)	6. 100,000 (2)	6. 100,000 (2)	6. 100,000 (2)
7. 120,000 (2)	7. 120,000 (2)	7. 120,000 (2)	7. 120,000 (2)
8. 225,000 (1)	8. 225,000 (1)	8. 225,000 (1)	8. 225,000 (1)
9. 1,447,000	9. 1,447,000	9. 1,447,000	9. 1,447,000
10. 2,662,241	10. 2,662,241	10. 2,662,241	10. 2,662,241
11. 1,897,241	11. 1,897,241	11. 1,897,241	11. 1,897,241
12. 2,124,173	12. 2,124,173	12. 2,124,173	12. 2,124,173
13. 2,084,600	13. 2,084,600	13. 2,084,600	13. 2,084,600
14. 4,231,773	14. 4,231,773	14. 4,231,773	14. 4,231,773
15. 8,346,016	15. 8,346,016	15. 8,346,016	15. 8,346,016

Fiscal Cancellation Policy Action(s)	THREAT
1. Approve Fiscal Cancellation Policy Subject to Administrative Review with Implementation and Transition Procedures	
2. Hold Fiscal Cancellation Policy to Terms Prescribed Insurance Group 1: Insurance Level Policy with	
3. Other	
Insurance Level and C-CEO Level Policy Action(s)	ADMINISTRATION
1. Transfer Proceed with Prescribed Insurance Group (PIC) Insurance Level Policies	
2. Administration Proceed with C-Level Policies in accordance of Insurance 1: Level Policies Delegated to Administration	
Cash Transfer from Kahala Mahe Procedures	ADMINISTRATION
A review of fiscal related policies does not indicate any prohibition of transferring cash from Kahala Mahe to NHIT.	
1. Transfer excess cash needed for realignment from Kahala Mahe to Nuiwa Hawaiian Trust Fund for Use When Needed (e.g., transfer 2.5M from BCH to NHIT)	
2. Create and implement Cash Management Policy as part of the CEO C-Level Operational Policies with	

5-Next Steps

NEXT STEPS



He Ninau? Pau a me Mahalo

Unspent, Unencumbered Analysis
 Nka Fiscal Reserve
 Updated: 9/3/2019

Fiscal Reserve Withdrawal Guidelines in NHTF Spending Policy			
Description	Option 1		Option 2
	Lift Moratorium	Policy Action(s)	Maintain Moratorium
A Amount of Unspent, Unencumbered as of 6/30/2018	\$ 5,745,956	1. Lift moratorium.	\$ 5,745,956
B FB 20-21 Realignment #1 Adjustment	\$ (1,638,713)	2. Approve use.	\$ -
C Balance of Unspent, Unencumbered as of 6/30/2019 before 2019 audited additions	\$ 4,107,243		\$ 5,745,956
D Proposed Board Designations		3. Designate reserves.	
1. Disaster Recovery	\$ 500,000 [2]		\$ 500,000 [2]
2. Act 37/HB172 State Audit	\$ 500,000 [2]		\$ 500,000 [2]
3. Repatriation (beyond current fiscal biennium project)	\$ 100,000 [2]		\$ 100,000 [2]
4. Litigation Contingency	\$ 120,000 [2]		\$ 120,000 [2]
5. Fringe Rate Increase from 63.08% to 65.08%	\$ 225,000 [1]		\$ 225,000 [1]
Sub-total Board Designations	\$ 1,445,000		\$ 1,445,000
E Undesignated Balance	\$ 2,662,243		\$ 4,300,956
C Balance of Unspent, Unencumbered as of 6/30/2019 before 2019 audited additions	\$ 4,107,243	4. Reinstate moratorium.	\$ 5,745,956
E Addition of Unspent, Unencumbered as of 6/30/2019, projected and subject to audit, February 2020 to be finalized			
1. Current year unspent, unencumbered	\$ 2,154,173		\$ 2,154,173
2. Prior year purchase order PO cancellations	\$ 2,084,600		\$ 2,084,600
Projected 2019 adds	\$ 4,238,773		\$ 4,238,773
F Projected Unspent, Unencumbered Balance as of 6/30/2019	\$ 8,346,016		\$ 9,984,729



CLA (CliftonLarsonAllen LLP)
CLAconnect.com

**Office of Hawaiian Affairs
Contract & Disbursement Review and Recommendations
Status Report #4**

Date: August 6, 2019

To: Dan Ahuna, Trustee and Chair of the Resource Management Committee
Robert K. Lindsey, Jr., Trustee and Vice-Chair of the Resource Management Committee

From: Ernie Cooper, Principal, CliftonLarsonAllen LLP
Jenny Dominguez, Signing Director, CliftonLarsonAllen LLP

RE: OHA Contract & Disbursement Review and Recommendations: June 1, 2019 to July 31, 2019

A. Background

On Tuesday, September 4, 2018, the Office of Hawaiian Affairs (OHA), a body corporate under the Constitution of the State of Hawaii, engaged the services of CliftonLarsonAllen (CLA) to conduct a contract and disbursement review as described in OHA's contract number 3284. The purpose of this review is to identify and quantify potential areas of waste, abuse, and fraud in the procurement of professional services as well as other disbursements of funds for fiscal years (FY) FY2012, FY2013, FY2014, FY2015, and FY2016 for OHA and its LLCs.

B. Status of Document Request

1. **OHA:** As reported in Status Report #3 (dated June 4, 2019) OHA had provided all documents on the request list submitted by CLA or had provided an explanation for why a particular item was not available. The CLA request list included financial and organization documents and information requested on September 14, 2018, October 12, 2018, and November 16, 2018. This document request list does NOT include documentation related to the sample contracts and disbursements selected for testing. See section titled "**Sample Selection and Testing**" for further information regarding the OHA documents pertaining to the sample section.
2. **LLCs:** The original document request list sent to the LLCs by CLA (sent on September 14, 2018 and updated on September 18, 2018) included 54 items. There are 9 items still outstanding from this list (as listed below). These items were considered not essential for selecting the sample for testing; however, the documents will be required before CLA can complete the testing of the contracts and disbursements selected for the LLCs. CLA is following up with legal counsel to the LLCs to determine the status of these items.

- a. Hi'ilei Aloha LLC:
 - i. Organization charts¹
 - ii. Quarterly reports to OHA from Hi'ilei Aloha LLC (9/30/2011, 12/31/2011, and 12/31/2015 only)²
- b. Hi'ipoi LLC:³
 - i. Organization charts
 - ii. Policies, procedures, and SOPs pertaining to purchasing, procurement, contracts, credit cards, and vendor disbursements
 - iii. Policies, procedures, and SOPs pertaining to the budgeting process and budget approval
 - iv. Policies, procedures, and SOPs pertaining to the preparation of the quarterly report to the OHA Board of Trustees
- c. Ho'okele Pono LLC:
 - i. Organization charts¹
 - ii. Quarterly report to OHA (9/30/2011, 12/31/2011, and 12/31/2015 only)²
 - iii. Policies, procedures, and SOPs pertaining to purchasing, procurement, contracts, credit cards, and vendor disbursements.¹

See section titled "Sample Selection and Testing" for further information regarding the status of LLC documents to be gathered and provided to CLA.

C. Trustee & OHA Employee Interviews

During the week of July 22, 2019, CLA was in Honolulu and conducted in-person interviews of all 9 current OHA trustees. The purpose of the interviews was to allow the trustees the opportunity to meet with CLA and share with CLA any thoughts or concerns they had regarding OHA or the LLCs relative to the scope of work of this engagement.

During this week, CLA also met with three OHA staff members who were assigned contract managers for contracts selected by CLA for testing. The purpose of these meetings was for CLA to ask questions regarding the respective contracts based on CLA's review of the documents provided by OHA.

D. Sample Selection and Testing

1. **OHA Sample Selection & Testing:** On May 10, 2019, CLA sent to OHA its sample selection for contracts and disbursements. According to the approved scope of work, CLA is to test 80 contracts and 50 disbursements for OHA. The sample selection sent to OHA consisted of 75 contracts and 45 disbursements. CLA reserved 5 contracts and 5 disbursements to select after the visit to OHA in June 2019 for the initial round of testing and after the trustee interviews that occurred the week of July 22, 2019.

¹ ES&A identified these documents as confidential.

² The quarterly reports to OHA were originally downloaded from the secure file share portal that CLA was given access to by ES&A; however, these quarterly reports were missing. CLA requested the missing quarters from the LLCs; however, the LLCs indicated that the missing quarterly reports could be obtained from OHA. CLA then requested the missing quarterly reports from OHA, and OHA indicated that it could not locate these specific quarterly reports.

³ ES&A identified these documents as confidential, indicated that they may not exist, and, to the extent that they do exist, will "take some time to retrieve."

CLA was at OHA's office in Honolulu from June 3, 2019 through June 14, 2019 to review the supporting documentation for the selected contracts and disbursements. CLA was informed that OHA would provide the supporting documentation in an electronic format (scanned PDF), and the supporting documentation for the initial 75 contracts and 45 disbursements was provided to CLA via CLA's secure file transfer portal (Leapfile) beginning on Monday, June 3, 2019. OHA completed its submission of the supporting documents on Monday, June 10, 2019. CLA began reviewing the electronic documents provided while at OHA during these two weeks. During this time, CLA had informal meetings with Phyllis Ono-Evangelista and Gloria Lee to ask clarifying questions regarding the procurement and disbursement processes based on the supporting documents provided. CLA also had informal meetings with Misti Pali-Oriol to ask questions relating to the grant process.⁴

As CLA reviewed the supporting documentation provided for the contracts and disbursements selected, CLA identified questions and additional documents needed. For example, one of the criteria CLA is to evaluate, based on the scope of work, is whether "deliverables were met by the contractor." As such, if the contractor deliverables outlined in the contract were not provided with the original set of supporting documents, CLA identified the deliverables as additional documents needed (or missing documents). CLA prepared an Excel schedule to identify, by contract and disbursement, the questions and additional documents needed. As CLA progresses through the review of supporting documents, CLA is adding questions and additional documents needed to this Excel schedule and is sending it to Ms. Ono-Evangelista, who is coordinating internally at OHA to provide a response to the questions and gather the requested additional documents to send to CLA.

CLA is continuing its review of the supporting documents provided by OHA for the initial 75 contracts and 45 disbursements selected for testing. CLA will have this review completed by August 23, 2019, and all questions and additional documents needed will be communicated to Ms. Ono-Evangelista via the established protocol by this date.

On Friday, August 2, 2019, CLA selected the remaining sample of 5 contracts and 5 disbursements for OHA and emailed this list to Ms. Ono-Evangelista. In addition, during the review of the supporting documents provided by OHA for the disbursement sample, CLA determined that 9 of the transactions selected as "disbursements" were actually payments on existing contracts or grant awards, and were processed by OHA as such. According to the approved scope of work, "contracts will include vendor contracts, other contracts for professional services and/or goods, and grant agreements awarded by the OHA." Therefore, in addition to the 5 remaining disbursements selected, CLA selected 9 replacement disbursements and 5 back-up disbursements, for a total of 19 disbursements sent to Ms. Ono-Evangelista.⁵

During the sample selection process, CLA attempted to identify when a transaction was a contract or a grant using the general ledger information and a contract listing previously provided by OHA. In some cases, a transaction selected was a disbursement for a contract issued prior to the scope period covered by CLA (FY2011-12 through FY2015-16); therefore, the contract did not appear on the contract listing provided by

⁴ Ms. Pali-Oriol is no longer part of the Grants Department; however, CLA was told that she would have some of the historical knowledge regarding the process for grant awards.

⁵ Five back-up disbursements were selected in case one of the new 14 disbursements selected ends up being a contract or grant.

OHA. There were also instances in which it was not evident from the general ledger detail that a transaction was a grant. In order to fulfill the requirements of the scope to test 80 contracts and 50 disbursements for OHA, CLA determined that it was best to replace the 9 transactions selected with a new sample selection. Of the 9 disbursements that ended up being contracts or grants, CLA decided to retain 2 as part of the contract testing. Therefore, only 3 new contracts were selected to complete the sample of 80 contracts.

2. LLC Sample Selection & Testing:

On May 10, 2019, CLA sent to ES&A the sample selection for contracts and disbursements for the LLCs. According to the approved scope of work, CLA is to test 30 contracts and 25 disbursements for the LLCs. The sample selection sent to the LLCs consisted of 23 contracts and 21 disbursements. CLA reserved 7 contracts and 4 disbursements to select after the trustee interviews that occurred the week of July 22, 2019.

On July 3, 2019, CLA was informed that the LLCs had pulled together the supporting documents for the sample selection, and the documents are available in hardcopy at the respective LLC offices. CLA is confirmed to be at the LLC offices the weeks of August 12, 2019 and August 19, 2019 to review the supporting documentation for the sample selection.⁶ CLA is planning to be on site for Hi'ipaka the week of August 12, 2019 and on site for Hi'ilei Aloha (and the remaining LLCs) the week of August 19, 2019.

On Friday, August 2, 2019, CLA selected the remaining sample of 7 contracts and 4 disbursements for the LLCs and emailed this list to Sam Sneed of ES&A, legal counsel to the LLCs. CLA requested that the supporting documentation for the remaining 7 contracts and 4 disbursements be available to CLA during its site visit during the weeks of August 12, 2019 and August 19, 2019.

E. Other Work Performed

- 1. Phone Call with State Auditor:** As reported in Status Report #3 (dated June 4, 2019), CLA was advised of a letter OHA received from the Office of the Auditor of the State of Hawaii. The letter notified OHA that the Office of the Auditor is considering OHA's LLCs as one of the possible programs and activities to audit; however, the State does not intend to duplicate the work being performed by CLA.

On June 26, 2019, CLA was notified (via the Resource Management Committee leadership) that the State Auditor is conducting an audit of OHA, is considering auditing OHA's LLCs, and requested to speak with CLA by phone. On June 27, 2019, CLA received authorization, via email, to meet with the State Auditors by phone. On July 1, 2019 at 7:00 am HST, CLA participated in a phone call with the State Auditors. Also in attendance on the call were two representatives from the Resource Management Committee leadership.⁷ The call consisted of the State Auditors asking CLA questions regarding the scope of work, process for selecting the sample for testing, and current status.

⁶ On August 1, 2019, CLA received written authorization from OHA to book travel arrangements for this visit.

⁷ CLA was informed prior to the call and at the beginning of the call that the call was being recorded by the State Auditors. CLA gave authorization for the call to be recorded.

As of the date of this status report, no further requests have been made of CLA by the State Auditors.

F. Next Steps

1. **Complete Testing of Contracts & Disbursements:** Because OHA provided the supporting documents in electronic format, CLA is continuing its review of these documents from its offices in California. Included below are critical dates to ensure that CLA is able to complete its testing and prepare a written report within the current deadline approved by the Board of Trustees (December 16, 2019).

- a. **August 12, 2019 to August 23, 2019:** CLA on site at LLC offices to perform testing of LLC sample selection.⁸

- b. **August 23, 2019:**

- i. CLA will complete its review of the supporting documents for the initial 75 contracts and 45 disbursements submitted to OHA on May 10, 2019 and submit to OHA all questions and additional documents needed.
- ii. OHA to send to CLA the supporting documentation for the remaining 14 disbursements (5 new disbursements and 9 replacement disbursements) and 5 contracts (3 new contracts and 2 disbursements moved to contracts).

- c. **August 31, 2019:**

- i. OHA to send to CLA a response to all questions and additional documents requested for the initial 75 contracts and 45 disbursements (see b.i. above).
- ii. CLA will complete its review of the supporting documents for the 14 disbursements and 5 contracts and submit to OHA all questions and additional documents needed.

- d. **September 6, 2019:** OHA to send to CLA a response to all outstanding questions and provide all outstanding documents requested.⁹

2. **Discussion/Meeting with RM Committee Leadership:** As documented in the timetable dated April 2, 2019, CLA will meet with the RM Committee Leadership during the week of September 9, 2019 to brief the leadership on CLA's findings from the testing performed.¹⁰ If OHA is able to get all items to CLA as outlined in #1 above, CLA will be prepared to meet with the RM Committee leadership by the end of this week.

⁸ If there are open items from the LLC testing after CLA leaves the LLC offices on August 23, 2019, CLA will work with the LLCs and their legal counsel to coordinate responses to follow-up questions or documents needed. CLA will request that all open items be provided no later than September 6, 2019.

⁹ Based on the most recent timetable prepared by CLA (dated April 2, 2019) and shared with the Resource Management Committee leadership, CLA is to close out all open items, review the work performed, and finalize the testing and results by September 6, 2019. Therefore, all items must be provided to CLA by OHA on or before this date.

¹⁰ Whether the meeting will be in person or via a conference call will be determined with the RM Committee Leadership as the date gets closer. The recommended format of the meeting will likely depend on the nature of the results of CLA's work, such as complexity, sensitivity, etc.

3. **Prepare Draft Report:** Based on the results of the testing performed, CLA will begin drafting its report on or around September 13, 2019.

G. Project Obstacles – Obtaining Outstanding Documents on LLC Request List

As mentioned above, there are 9 items still outstanding from the original document request lists sent to the LLCs in 2018. CLA is following-up with the LLCs and their legal counsel to determine the status of these items. CLA previously communicated that it needed all remaining document no later than July 31, 2019; however, this date has now passed. ***CLA will communicate to the LLCs that all remaining documents on the LLC request list must be provided no later than August 12, 2019, in order for CLA to perform the testing required of the LLC sample selection.***

CLA is currently on schedule to complete the project and issue our report by December 16, 2019, assuming that all documents are provided by OHA and the LLCs within the time periods requested.

H. Items of Notable Mention

1. **Attempted meeting with Kamana’opono Crabbe:** There were 3 contracts selected for testing by CLA for which OHA identified Dr. Kamana’opono Crabbe, former OHA CEO, as the contract manager. While at OHA for testing the week of June 3, 2019, CLA was notified that Dr. Crabbe’s last day with OHA would be June 30, 2019. As such, CLA prioritized testing these 3 contracts so that CLA could meet with Dr. Crabbe prior to his last day with OHA to ask any questions related to the contracts.

On June 11, 2019, CLA emailed Ms. Ono-Evangelista (cc: to Raina Gushiken) to request a meeting with Dr. Crabbe and was informed that a meeting with Dr. Crabbe was being worked on. A meeting with Dr. Crabbe was not scheduled while CLA was on site at OHA (through June 14, 2019). CLA then requested a phone conference with Dr. Crabbe prior to his last day, and a call was scheduled for Tuesday, June 25, 2019 from 11:00am – 12:00pm HST. CLA provided the conference call information and called into the number at the scheduled time. CLA waited for approximately 15 minutes, but Dr. Crabbe did not call in. CLA sent a follow-up email to Ms. Gushiken and Dr. Crabbe, to which Dr. Crabbe replied and apologized for missing the call. He indicated that he would work with Ms. Gushiken for a possible reschedule of the call. On the same day, CLA provided its availability for this rescheduled call, but did not get a response on a new day/time.

2. **Redactions on OHA supporting documentation:** As mentioned above, the supporting documents for the OHA sample selection were provided electronically (scanned PDFs). Based on the documents reviewed thus far, the supporting documents for 2 contracts include pages containing redactions. The redactions have been applied to attorney invoices (detailed time descriptions), email communications (which include OHA’s corporate counsel), and a Procurement Document Checklist (the portion of the form where OHA’s corporate counsel typically signs).

Based on discussions between CLA and Ms. Gushiken, current Corporate Counsel to OHA, Ms. Gushiken reviewed the supporting documentation prior to it being submitted to CLA. To the extent that she identified communications believed to be privileged, she redacted the applicable portions of the documents. CLA is unable to assess the impact these redactions have on its ability to fully assess the documentation provided as CLA does not know the substance of the information that has been redacted.

I. Total Hours & Costs Incurred and Billed through July 30, 2019

Table 1 summarizes the total hours and costs incurred and billed to OHA for professional services and travel-related costs through July 30, 2019. Based on the total estimated budget and the work completed to date, CLA is over the dollar amount budgeted for the categories “Project oversight, meetings, status briefings” and “Travel: 50% of actual travel time.” This is due to the time incurred by CLA in updating the new Resource Management Committee leadership on the scope of work, historical work performed, and project obstacles. Additionally, CLA attended an in-person meeting with the Resource Management Committee leadership on March 12, 2019. CLA will not bill OHA in excess of the approved \$500,000 contract cost to complete the approved scope of work.

Table 1: Summary of Total Hours and Cost

Description	Total Budgeted Hours	Total Budgeted Costs	Hours Through 07/30/19	Costs Through 07/30/19
Testing of OHA transactions*	861.00	\$ 246,580.00	876.20	\$ 201,412.88
Testing of LLC transactions*	354.00	81,090.00	181.85	42,071.80
Project oversight, meetings, status briefings	180.00	49,840.00	173.80	54,090.00
Report of findings and recommendations	346.00	86,360.00	-	-
Travel: 50% of actual travel time	130.00	38,773.00	142.20	41,341.00
Travel: Out-of-pocket costs	N/A	31,470.00	N/A	31,558.01
Total	1,871.00	\$ 534,113.00	1,374.05	\$ 370,473.69
Less estimated Professional Discount		(34,113.00)		
OHA's Not-to-Exceed Cost		\$ 500,000.00		

*These categories broadly represent the work being conducted related to the OHA and its LLCs, including reviewing documents and financial data, performing data analytics on the financial data, preparing for and conducting the process and risk assessment interviews, review of internal controls over the reporting to the OHA Board of Trustees, and the contract and disbursement testing.

As of the date of this status report, CLA has not yet received payment from OHA for invoice #2192208; however, CLA has been informed that the invoice has been submitted for payment processing. Invoice #2216196 for costs incurred from June 28, 2019, through July 30, 2019 has been processed and will be sent to OHA within the next few days (the costs for this invoice are included in Table 1 above).



OFFICE OF HAWAIIAN AFFAIRS MEMORANDUM

Mea ho'omana'o a ke Ke'ena Kuleana Hawai'i

To: Trustee Dan Ahuna, Chair
Committee on Resource Management

From: Trustee Leina'ala Ahu Isa, Ph.D.

Date: August 29, 2019

Re: Excused Absence

Please be advised that I am unable to attend the RM Committee meeting on Wednesday, September 4, 2019 at 10:00 A.M. due to my doctor's recommendation that I refrain from all activities because of a medical condition.

If you have any questions, please contact my staff.

Mahalo!

STATE OF HAWAI'I
OFFICE OF HAWAIIAN AFFAIRS
560 N. Nimitz Hwy, Suite 200
HONOLULU, HI 96817

Minutes of the Office of Hawaiian Affairs Committee on Resource Management
November 27, 2019
9:01 am

ATTENDANCE:

Trustee Dan Ahuna, Chairperson
Trustee Kalei Akaka
Trustee Keli'i Akina
Trustee Carmen Hulu Lindsey
Trustee Colette Machado
Trustee John Waihe'e

Trustee Brendon Kalei'aina Lee
Trustee Leina'ala Ahu Isa

STAFF PRESENT:

Sylvia Hussey, ICEO
Everette Ohta
Johnathan Ching
Lee Miller
Miles Nishijima
Raina Gushiken
Sterling Wong
Carol Ho'omanawanui
Lehua Itokazu
Alyssa Kau
Claudine Calpito
Anulua Patoc
Paul Harleman
Maria Calderon
Crayn Akina
Brandon Mitsuda
Kama Hopkins
Kauikeaolani Walehuanui
Lei Ann Durant
Zuri Aki
Priscilla Nakama
Nathan Takeuchi

Guest and Community:

Robert G. Klein, Esq.

I. CALL TO ORDER

Chair Ahuna welcomes everyone to the Committee on Resource Management and calls the meeting to order at 9:01 am.

	Present	Excused	Comments
TRUSTEE LEI AHU ISA	x		
TRUSTEE KALEI AKAKA			arrived at 9:24
TRUSTEE KELI 'I AKINA	x		
TRUSTEE BRENDON KALEI 'AINA LEE	x		
TRUSTEE HULU LINDSEY	x		
TRUSTEE ROBERT LINDSEY		x	
TRUSTEE COLETTE MACHADO	x		
TRUSTEE JOHN WAIHE'E			arrived at 9.11
CHAIRPERSON DAN AHUNA	x		
TOTAL	6		
At the Call to Order, there are six (6) Trustees present establishing a quorum.			

II. PUBLIC TESTIMONY

None

III. NEW BUSINESS**A. Approval of Minutes**

1. November 6, 2019
2. November 20, 2019

Chair Ahuna stated we would be deferring November 6, 2019 minutes. Asked for motion to approve minutes for November 20, 2019.

Trustee Hulu Lindsey moved to approve minutes for November 20, 2019.

Trustee Machado seconds the motion.

Chair Ahuna asked for discussion. Hearing no discussion, Chair Ahuna called for a roll call vote.

Trustee Hulu Lindsey, MOVED, SECOND by Trustee Machado, to approve minutes of November 20, 2019.

TRUSTEE	1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI AHU ISA			X			
TRUSTEE KALEI AKAKA						Not Present
TRUSTEE KELI'I AKINA			X			
TRUSTEE BRENDON LEE			X			
TRUSTEE HULU LINDSEY	1		X			
TRUSTEE ROBERT LINDSEY						X
TRUSTEE COLETTE MACHADO		2	X			
TRUSTEE JOHN WAIHE'E						Not Present
CHAIRPERSON DAN AHUNA			X			
TOTAL VOTE COUNT			6			
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED						
Motion passes with six (6) YES votes.						

B. Workshop #2 – Kaka'ko Makai Discussion re: Programmatic Elements

Chair Ahuna called upon Sylvia Hussey

Sylvia Hussey called upon Miles Nishijima to share at table. Jonathan Ching, participated via telecom.

Miles Nishijima and Johnathan Ching shared details on the fourteen programmatic elements. See attachment on the presentation of Kaka'ako Makai.

IV. EXECUTIVE SESSION*

RM Chair Ahuna asks for a motion to resolve into Executive Session pursuant to HRS § 92-5(a)(4).

Trustee Hulu Lindsey moves resolve into Executive Session pursuant to HRS § 92-5(a)(4).

Trustee Waihe'e seconds the motion.

RM Chair Ahuna calls for a **Roll Call Vote**.

Trustee Hulu Lindsey, MOVED, SECOND by Trustee Waihe'e, to resolve into Executive Session pursuant to HRS § 92-5(a)(4).

TRUSTEE		1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI	AHU ISA	1		X			
TRUSTEE KALEI	AKAKA			X			
TRUSTEE KELI'I	AKINA			X			
TRUSTEE BRENDON	LEE			X			
TRUSTEE HULU	LINDSEY			X			
TRUSTEE ROBERT	LINDSEY						X
TRUSTEE COLETTE	MACHADO			X			
TRUSTEE JOHN	WAIHE'E		2	X			
CHAIRPERSON DAN	AHUNA			X			
TOTAL VOTE COUNT				8			
MOTION: <input type="checkbox"/> UNANIMOUS <input checked="" type="checkbox"/> PASSED <input type="checkbox"/> DEFERRED <input type="checkbox"/> FAILED							
Motion passes with nine (8) YES votes.							

The committee resolved into Executive Session at 10:19 a.m. to discuss:

A. Approval of Minutes

1. January 9, 2019
2. April 10, 2019
3. May 1, 2019
4. July 31, 2019
5. October 2, 2019

B.

Consultation with Board Counsel Robert G. Klein, Esq., Kama Hopkins and RM Leadership re: questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities relating to CLA-OHA & LLC's Contract & Disbursement Review Draft Report, Pursuant to Hawai'i Revised Statutes §92-5(a)(4).

The committee returned to Open Session at 11:49 a.m.

IV. ANNOUNCEMENTS

None

V. ADJOURNMENT

Chair Ahuna calls for motion to adjourn.

Trustee Hulu Lindsey moved to adjourn.

Trustee Waihe'e seconds the motion.

Trustee Hulu Lindsey, MOVED, SECOND by Trustee Waihe'e. Motion to adjourn.						
		1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)
TRUSTEE LEI	AHU ISA			X		
TRUSTEE KALEI	AKAKA			X		
TRUSTEE KELI	AKINA			X		
TRUSTEE BRENDON	LEE			X		
TRUSTEE HULU	LINDSEY	1		X		
TRUSTEE ROBERT	LINDSEY					X
TRUSTEE COLETTE	MACHADO			X		
TRUSTEE JOHN	WAIHE'E		2	X		
CHAIRPERSON DAN	AHUNA			X		
TOTAL VOTE COUNT				8		
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED						
Motion passes with eight (8) YES votes.						

Chair Ahuna adjourned meeting at 11:50 am.

Respectfully Submitted,

Anuheia Patoc, Trustee Secretary
Committee on Resource Management

Dan Ahuna, Chairperson
Committee on Resource Management

Approved: RM Committee meeting _____

Attachment(s):

1. Presentation of Kaka`ako Makai (54 pages)

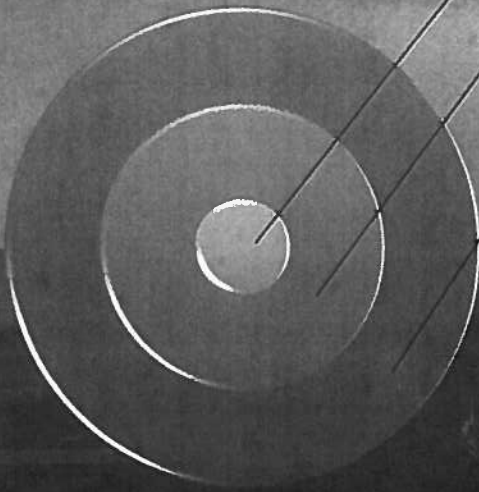
Kaka‘ako



Makai

1

Kaka‘ako Makai



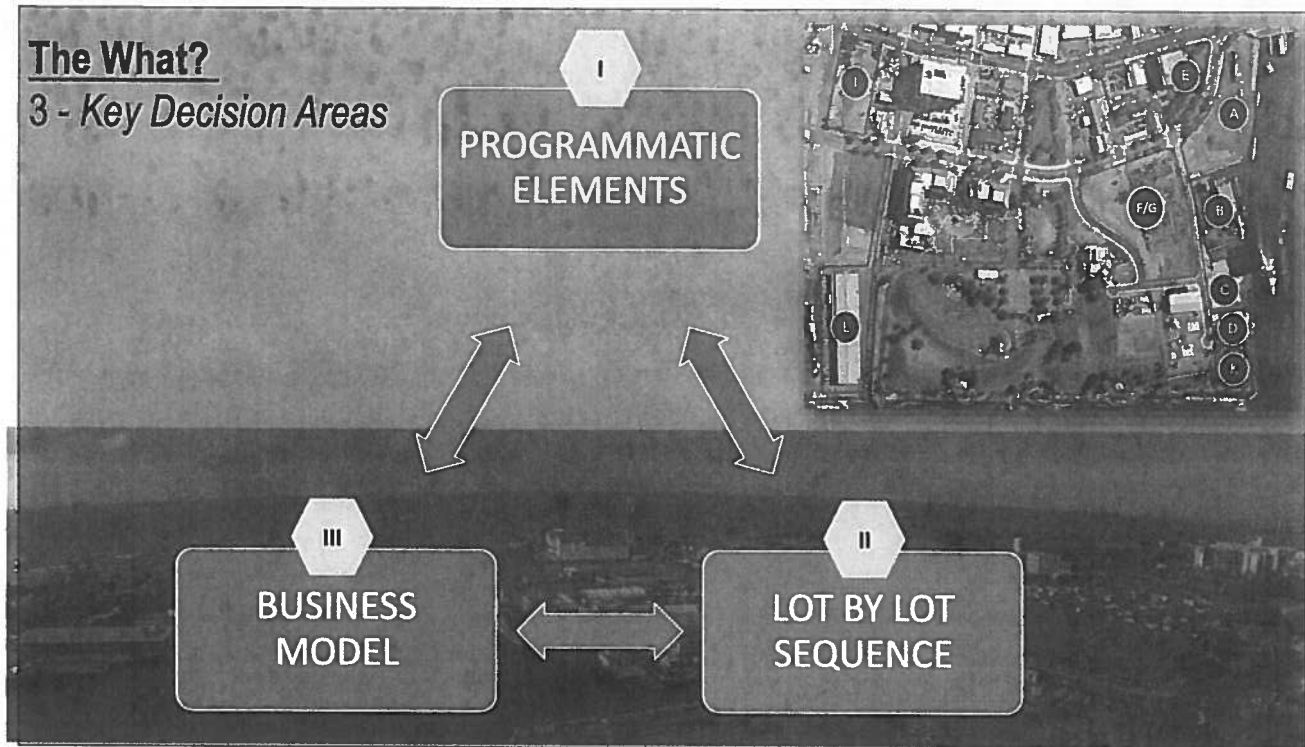
Why? – Need for strategically aligned, Trustee approved Kaka‘ako Makai plan

What? – Decisions about programmatic elements, lot by lot sequence, and business model

How? – 3 Workshops (November and December 2019) and 1 Action Item (January 2020)

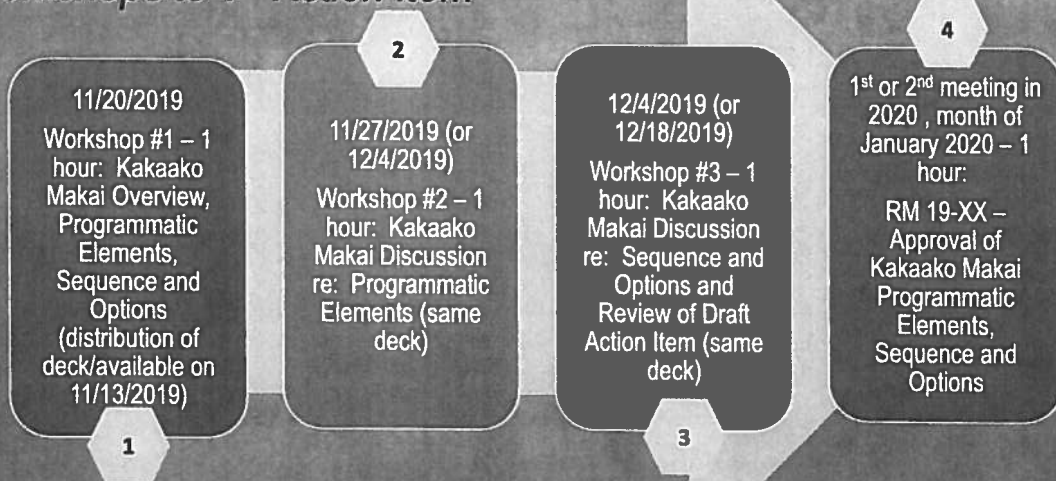
The What?

3 - Key Decision Areas



The How? and the When?

3 - Workshops to 1 - Action Item



Land Assets staff – Miles Nishijima, Jonathan Ching and Lee Miller available for individual meetings with no more than two (2) Trustees or Trustees' staff from 11/13/19 to 01/15/20.

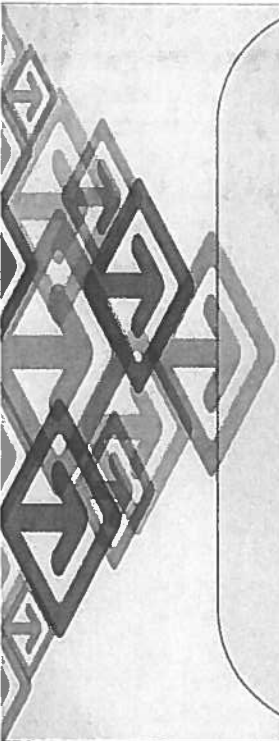
NEED

Why? – Need for strategically aligned, Trustee approved Kaka'ako Makai plan

- Setting Context
- What's Happened Since 2012?
 - + In the Organization
 - + With the Policy
 - + At the Legislature
 - + With Planning Process

Kaka'ako Makai Development Timeline Overview

Land Transfer	April – Oct.			April			February
KM Policy Adopted	OHA's Strategic Action Plan	<ul style="list-style-type: none"> Land Division Created Conceptual Master Plan Begins OHA Requests Residential 	<ul style="list-style-type: none"> Pae 'Āina Engagement RM Committee Presentation 	Commercial Property Manager Leaves	OHA Decides to Proceed w/Existing Entitlements OHA Asks HCDA to be EIS Accepting Authority	Master Plan Contract Expires	Commercial Property Manager Leaves
2012	2013	2014	2015	2016	2017	2018	2019
<ul style="list-style-type: none"> Balance Rev. Generation w/OHA's Strat. Goals Create a Haw. Place Embrace Community 	<ul style="list-style-type: none"> Cultural Context for Development Baseline Development Strategy Basis for Conceptual Master Plan 	<ul style="list-style-type: none"> Legislature Denies Residential Use WCIT Selected for Conceptual Master Plan 	<div>STOP</div> OHA Stops Pursuing Additional Entitlements	September Commercial Property Manager Starts	<ul style="list-style-type: none"> Pae 'Āina (Report Back) Begin Work on Design Guidelines 	<ul style="list-style-type: none"> Plans not finalized Design Guidelines not completed EIS and SMA not completed \$1mil of contract unspent 	<ul style="list-style-type: none"> Begroup Set Strategic Course Holomua



Kaka'ako Makai Policy: Guide Management & Development

1) Relationship to OHA's Vision and Strategic Priorities

- A. Maximize revenues while providing economic development opportunities for Native Hawaiians.**
- B. Incorporate Native Hawaiian culture in design elements and purposes.**
 - i. Proceed with the mindset to transfer the assets to the Nation;
 - ii. Raise an architectural landmark/signature that signifies KM as a Hawaiian Place;
 - iii. Create a sense of Nation.

2) Design and Use, Including Cultural Values

- A. Create a Hawaiian Sense of Place**
 - i. Connect physical structures and environment to socio-psychological, cultural & spiritual aspects that connects the past, present & future;
 - ii. Consider trajectory of historical uses of the area;
 - iii. Incorporate cultural uses;
 - iv. KM to be a meeting place for Native indigenous leaders of the Western hemisphere and Pacific Islands;
 - v. Encourage uses and activities that attract beneficiaries and locals;
 - vi. Incorporate cultural identity of the area.

7



Kaka'ako Makai Policy: Guide Management & Development

2) Design and Use, Including Cultural Values (cont.)

- B. Balance pono and commerce**
 - i. Encourage cohesiveness among parcels/projects;
 - ii. Establish priority for qualified Hawaiian business and professionals;
 - iii. Incorporate mixed uses;
 - iv. Use green technology (environmentally friendly);
 - v. Prioritize the use of indigenous plants.

- C. Collaborate with other Native Hawaiian organizations**
 - i. Work with KS on potential partnerships on adjoining properties;
 - ii. Work with other Alii Trusts.

3) Revenue Generation and Proceeds

- A. Balance near-term revenue generation for programmatic use with long-term vision.**
 - i. Create revenue stream for strategic priorities
 - ii. Allocate funds for grants (and LLP) (requires policy update)
 - iii. Set leases and contractual arrangements at market value.

8



Kaka'ako Makai Policy: Guide Management & Development

4) Timetable and Process

A. Key Planning Considerations

- i. Have an overall conceptual plan before considering or initiating major proposals;
- ii. Establish a timeline for tasks that need to be accomplished.

B. Key execution considerations

- i. Engage professional – finance, real estate, marketing, development, etc.;
- ii. Maintain the momentum, in keeping with fiduciary duties.

C. Transparency and communication Kuleana

- i. Embrace community engagement – ensuring dialogue with community and neighbors;
- ii. Have a robust communications and information-sharing infrastructure.

9



Kaka'ako Makai Policy: Guide Management & Development

5) Governance and Decision-making

A. Vision for master-planning and property management

- i. Implement knowledge-based decision-making;
- ii. Establish efficient management;
- iii. Act in ways that are consistent with KM being a flagship of actions, values and leadership.

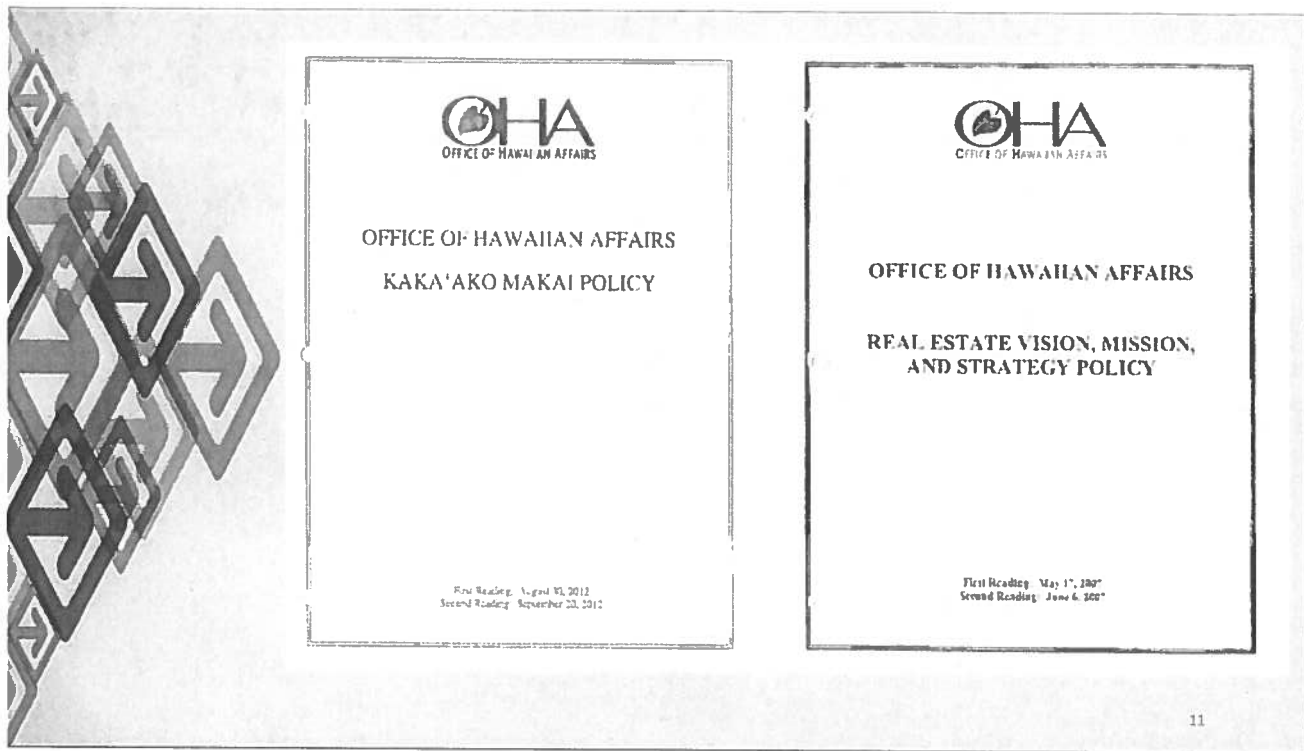
B. Accountability

- i. Lead with people who have financial, management, and development expertise;
- ii. Complete an annual budget and a 5-year management and operating budget.

Update and Maintenance: The CEO is responsible for the update and maintenance of this policy. A review shall be done minimally on an annual basis to insure that amendments or changes in law are duly incorporated; or as requested by the BOT Chair or Chair of a Standing Committee

Status/Effective Date: September 20, 2012

10



Vision: A vision statement describes the organization as it would appear in a future successful state. When developing a vision statement, try to answer this question: If the organization were to achieve all of its strategic goals, what would it look like 10 years from now? An effective vision statement is inspirational and aspirational. It creates a mental image of the future state that the organization wishes to achieve. A vision statement should challenge and inspire members.

Vision: Kaka`ako Makai is a Culture & Commerce Center

Mission Statement. A mission statement explains the organization's reason for existence. It describes the organization, what it does and its overall intention. The mission statement supports the vision and serves to communicate purpose and direction to members, vendors, collaborators and other stakeholders. Both Vision and Mission should help with answering the question of "Why?" in all of the organization's strategies, activities, resource investments and development.

Mission: Kaka`ako Makai exists to:

- 1) Create accessible/meaningful impacts for 'ohana, mo`omeheu and `aina;
- 2) Maximize revenue generation for the Native Hawaiian Trust Fund;
- 3) Blend culture and commerce spaces, activities and experiences; and
- 4) Serve as a commercial attraction for the broader community.

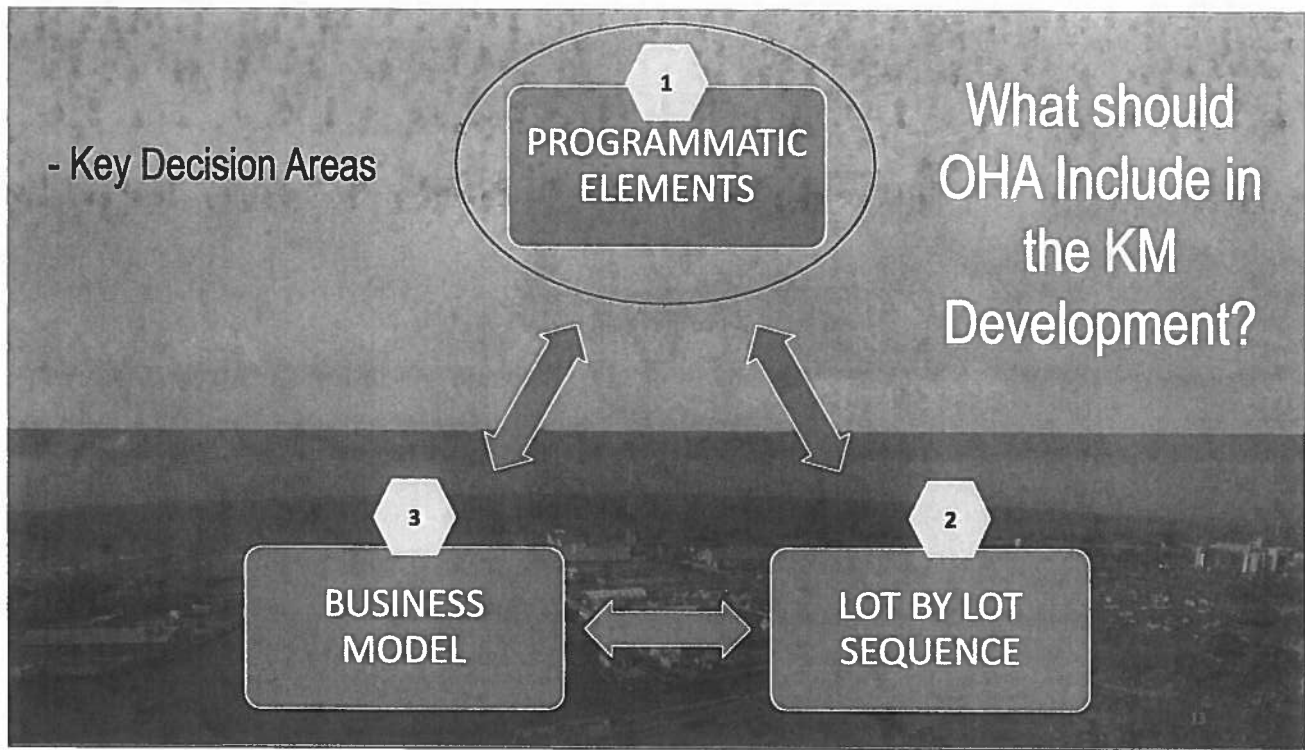
How:

- 1) Finalize programmatic elements;
- 2) Sequence development lot by lot;
- 3) Determine business model;
- 4) Implement, monitor, report, adjust

AS IS

TO BE

12



KAKA'AKO MAKAI: *What to include at Kakaako Makai?*

14 RECOMMENDATIONS RE: PROGRAMMATIC ELEMENTS

Recommendations based on:

- Allowable and compatible uses;
- Feasibility; and
- Alignment with "Center for Culture and Commerce"

- | | |
|---|--|
| 1. New OHA Headquarters | 8. Places for Cultural Practice & Display |
| 2. Native Hawaiian Center of Business/Incubator | 9. Certified Kitchen & Imu |
| 3. Gathering, Performance, & Entertainment Spaces | 10. Open/Naturally Vegetated Spaces |
| 4. Small, Medium, & Large Meeting Spaces | 11. Utilize Native Landscaping, include Community Garden |
| 5. Overnight Accommodations | 12. Observation Deck |
| 6. Museum that Honors Native Hawaiian Culture | 13. Home for Hokulea, Hikianalia and other Waa. |
| 7. World-Class Saltwater Aquarium | 14. Automated Dry-Stack Boat Storage |



1. NEW OHA HEADQUARTERS

- 45,000 sf (based on existing)
 - Boardroom/Trustee Offices
 - Administrative Offices/Workspaces
 - Meeting Rooms
 - Protocol Spaces
 - Lumi 'Āina
 - Front Desk and Waiting Area
 - Parking (suggest 90 stalls)
 - Secured

15



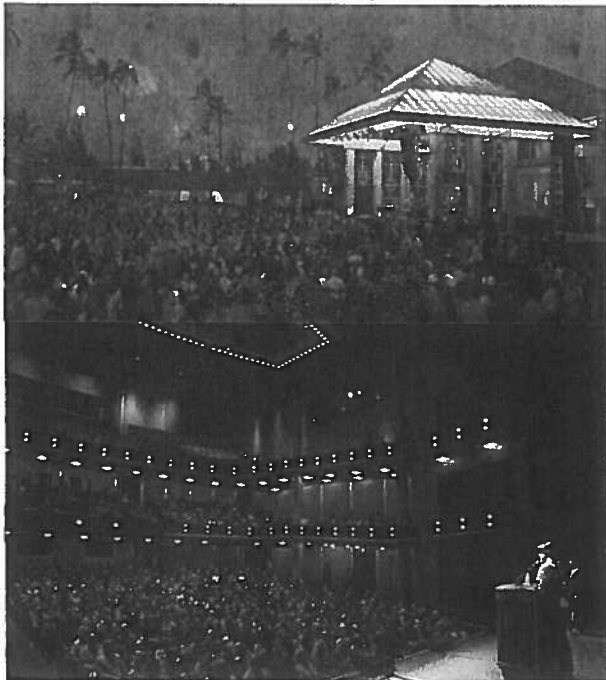
2. NATIVE HAWAIIAN CENTER OF BUSINESS/INCUBATOR

Create business/incubator spaces for Native Hawaiian and other business to start and grow near Honolulu's business district. 1 or 2 (5,000 – 10,000 sf)

- Provide financial assistance, building business plans, assessing financial needs, provide loan financing, small business administration, other business advisors part of center
- Provide coworking space opportunities, to allow small business to network and build relationships with others
- Provide "pop up" opportunities for businesses to test their products within retail/entertainment venue areas

16





3. GATHERING, PERFORMANCE, AND ENTERTAINMENT SPACES

Multi-purpose, Indoor/Outdoor, or Outdoor for cultural performances, parties, concerts, events, etc.;

Examples:

- Ballroom w/outdoor space
- Waikiki Shell (2,400-seat capacity plus lawn)
- Blaisdell Concert Hall (2,158-seat capacity)
- Blaisdell Arena (7,700 to 8,800-seat capacity)
- Hawaii Theater (1,350-seat capacity)
- Andrews Amphitheater (5,500-seat capacity)
- Stan Sheriff Center (10,300-seat capacity)
- Edith Kanakaole Stadium (5,000-seat capacity)
- Maui Arts and Cultural Center (1,200-seat Castle Theater)

17



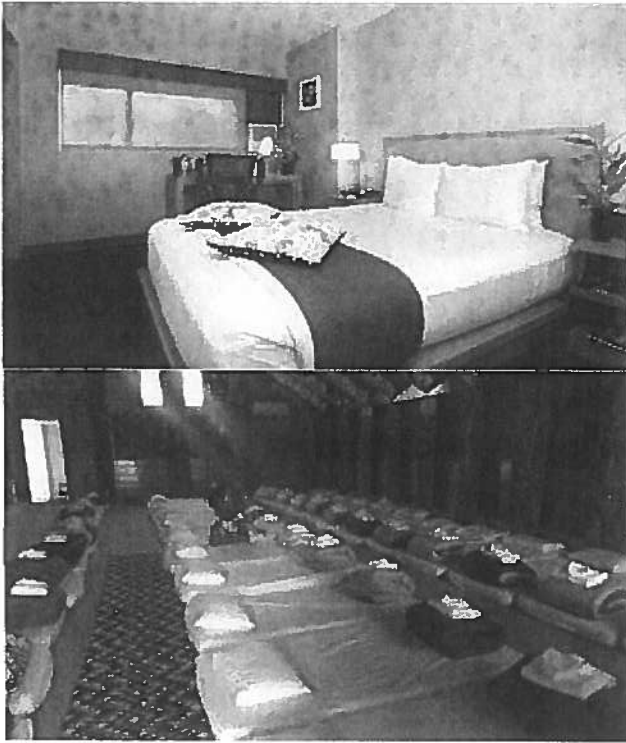
4. SMALL, MEDIUM, AND LARGE MEETING SPACES

Multi-purpose and potentially convertible indoor spaces that can be used for meeting, education, convention, etc. These spaces would be available for use/rent at an affordable rate by beneficiaries, community and tenant

Examples:

- Small: something like Pukui classroom/meeting room
 - Size range: 250 to 500 square feet
 - How many: 4-6
- Medium: Something like Boardroom
 - Size range: 1,500 (Maui Ola) to 2,000 square feet
 - How many: 2-4
- Large: Something like Coral Ballroom at Hilton Hawaiian Village
 - Size range: 27,000 to 45,000 square feet, with banquet kitchen
 - How many: 1

18

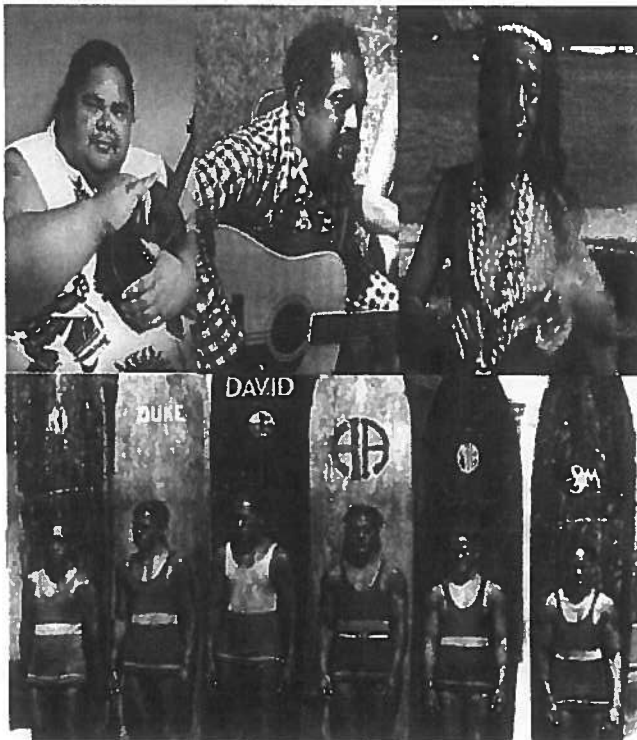


5. OVERNIGHT ACCOMMODATIONS

Would require variance for Hotel Use, and would provide places to stay for people, help to provide customers for on-site business, and enable social impact. 1 or 2 (sizes tbd)

- It is intended that Kakaako Makai will have an official area to greet dignitaries in a traditional manner, the intent is to provide informal overnight accommodations.
- House students that are part of short term work study programs that will be held at Kakaako Makai, beneficiaries that travel to O'ahu for medical services, sports teams, etc.

19



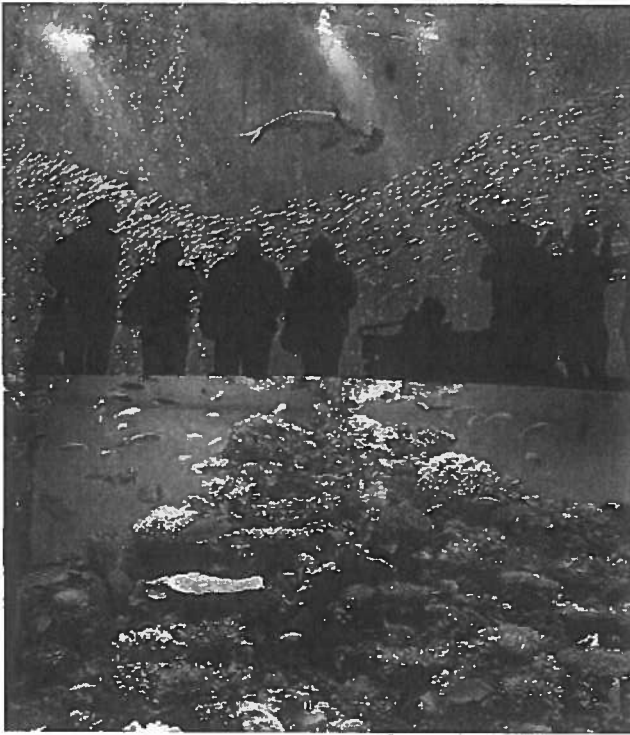
6. MUSEUM THAT HONORS NATIVE HAWAIIAN CULTURE

Museums that celebrate Hawaii's history, arts, culture, music, etc.

Examples:

- Surf, Hawaiian music, hula museums
- Provide educational opportunities
- Host community events
- Intended for both local and visitors as an attraction
- One or two size tbd

20



7. WORLD CLASS SALTWATER AQUARIUM

Provide a Native Hawaiian perspective of what an aquarium should be, educate on, and showcase. 1 size tbd.

Examples:

- Provide educational opportunities; aquatic health, how to raise fish, how fish used in Native Hawaiian diet, etc.
- Host community events
- Intended as attraction for both locals and visitors

21



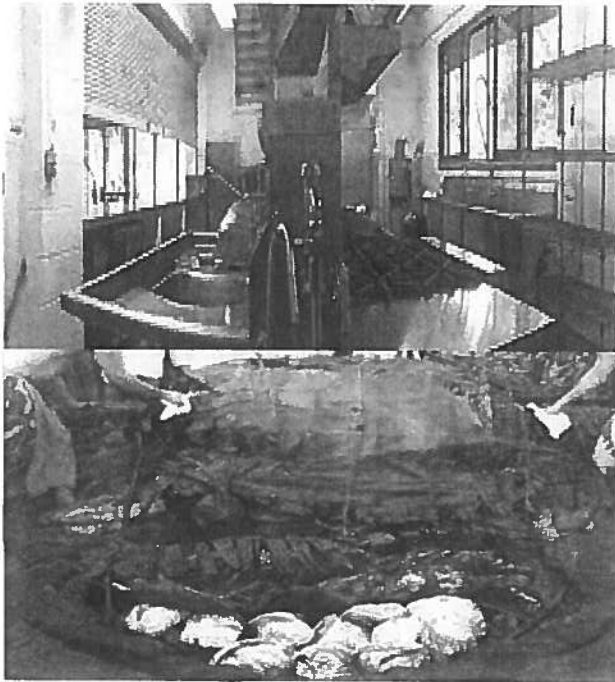
8. PLACES FOR CULTURAL PRACTICE AND DISPLAY

Indoor or Outdoor spaces where cultural practitioners can demonstrate their practices, provide education, and display their work

Examples:

- Outdoor: Multiple locations can be included in the open spaces or landscaped areas. (300-500sf)
- Indoor: Spaces that would allow for long-term or revolving exhibits. 1 space in a prominent common space in each building (200-400 sf)

22



9. CERTIFIED KITCHEN AND IMU

- Provide certified kitchen for start up businesses (e.g. bakery, food trucks), beneficiary, and community use. 2 or 3 (2,000-40,00sf)
 - Utilized in conjunction with communal spaces for use by Native Hawaiian events and activities
- Provide a dedicated community imu and prep-area (with potential cover/smoke mitigation) for cultural, fundraising, educational opportunities, visitor attraction. (1,000 – 1,500 sf)

23



10. OPEN/NATURALLY VEGETATED SPACES

An open and naturally vegetated area that enables diversified use. This area that can be used for protocol and welcoming of dignitaries, notable people/groups, visitors, and our beneficiaries;

Examples:

- Community Events Lawn (25,000+ square feet) with a large pā hula
- Amphitheater
- Maori Marai outdoor spaces
 - Size range 25,000sf enable 4,000 pax

24

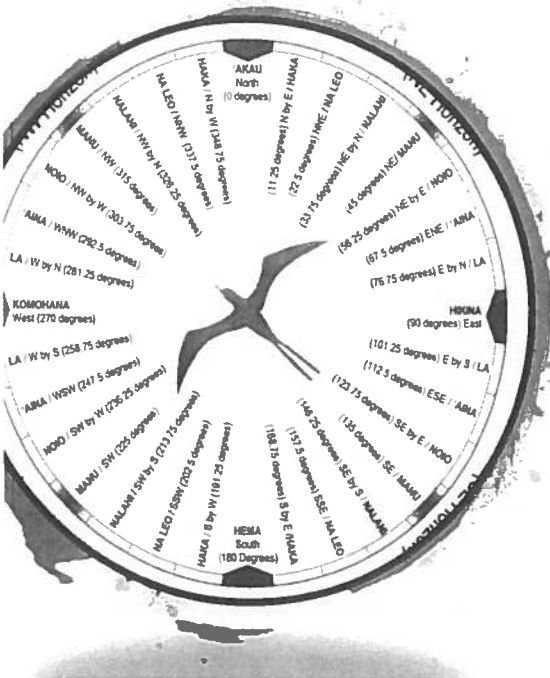


11. UTILIZE NATIVE LANDSCAPING, INCORPORATE COMMUNITY GARDENS

To be incorporated into the landscaping of the site and engaged by OHA beneficiaries /community for use. Gardens should include native and canoe plants used for cultural practices.

- Provide educational opportunities
- Native practitioners can utilize landscape for medicinal, cultural uses
- Multiple garden areas (2 or more) ranging between 500 – 1,500sf.

25

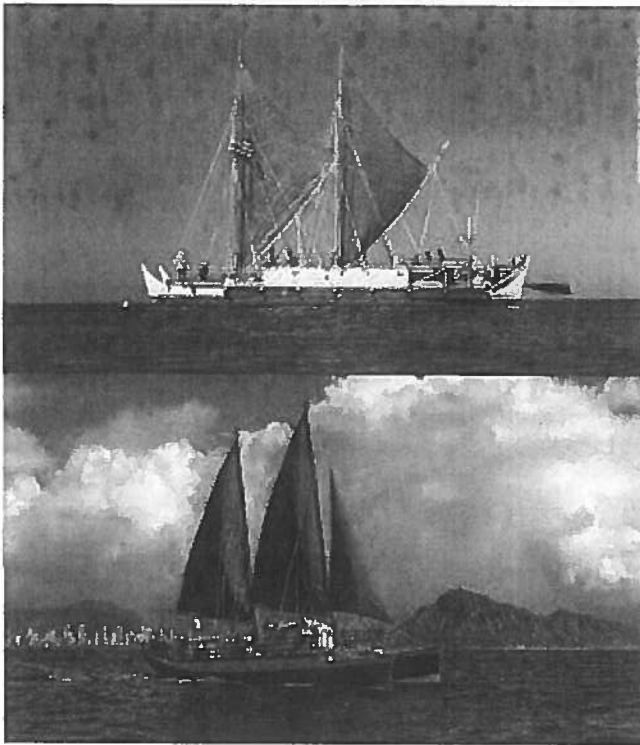


12. OBSERVATION DECK

The observation deck(s) are intended to connect people to place, educational purposes, and to observe prominent features/celestial elements, and take in the view. These can be located at the top of one or more of the taller buildings with 200ft height limits.

- Intended for both locals and visitors as an attraction
- To include intuitive Hawaiian wayfinding/navigation elements and a place to observe the surroundings including celestial elements

26

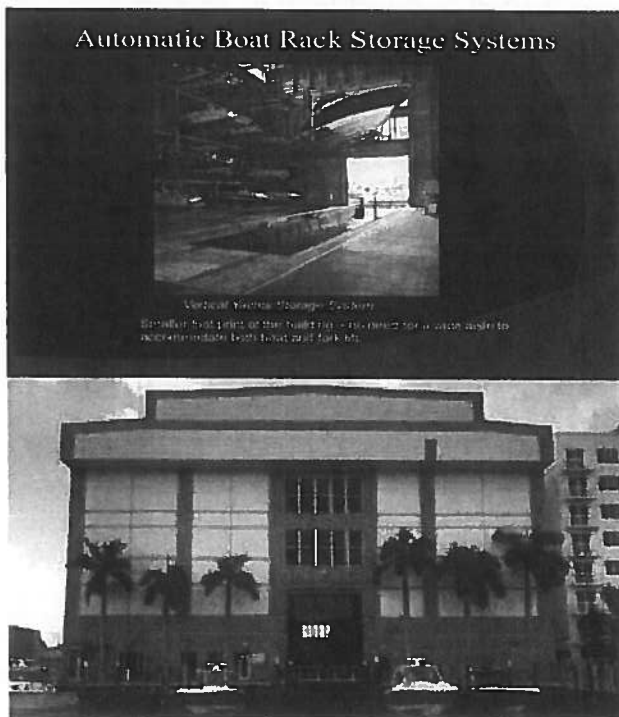


13. A HOME FOR OUR VOYAGING CANOE

Provide waterfront berth for Hōkūleʻa and Hikianaliʻa; symbols of Native Hawaiian pride and success in ocean navigation (size requirements tbd)

- Intended for both locals and visitors as an attraction
- Educational opportunities; wayfinding and navigation
- Host community events

27



Automatic Boat Rack Storage Systems



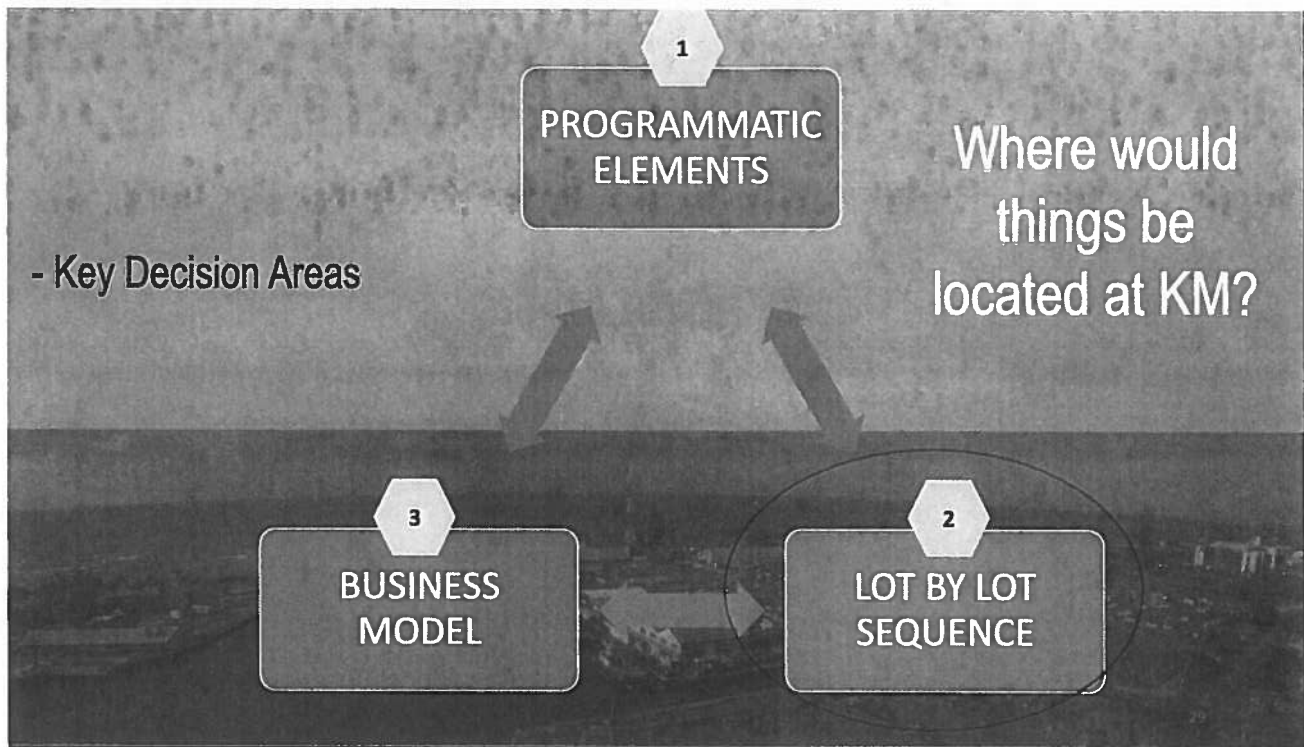
Vertical Storage System
Boats are hoisted up the front of the building by a crane and stored in a rack system to save space and protect the boats from the elements.

14. AUTOMATED DRY-STACK BOAT STORAGE

Provide waterfront boat storage rental space to improve conditions for boat owners that live in the urban area. (size tbd)

- Provides access to ocean for boaters
- Alternate source of revenue

28



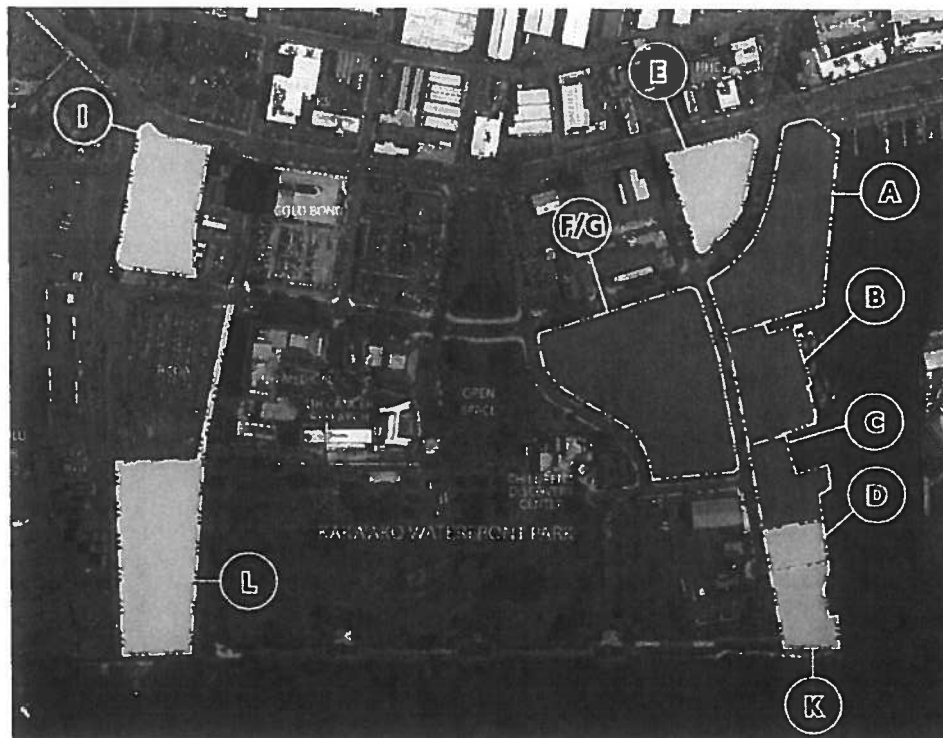
Proposed Land Use by Parcel:

Lot	Lot A	Lot B	Lot C	Lot D	Lot E	Lot F/G	Lot I	Lot K	Lot L
Approximate Size	4.394 acres	2.378 acres	1.769 acres	0.938 acres	2.200 acres	7.531 acres	3.256 acres	1.358 acres	5.266 acres
Zoning	Waterfront Commercial (potential hotel See Note A)	Waterfront Commercial	Waterfront Commercial	Waterfront Commercial	Mixed-Use Commercial (potential OHA HQ/residential (Note B))	Mixed-Use Commercial (potential hotel note I)	Mixed-use Commercial (potential sale to City for a sewer pump station)	Waterfront Commercial	Mixed-Use Commercial
Maximum Density	1.5 FAR	1.5 FAR	1.5 FAR	1.5 FAR	2.5 FAR	2.0 FAR	3.5 FAR	1.5 FAR	0.06 FAR
Height Limit	65 '	65 '	65 '	65 '	200'	200'	200'	65 '	45 '
Proposed Phasing	Phase 1	Phase 1	Phase 1	Phase 3	Phase 1 or 2	Phase 1	N/A or Phase 2	Phase 2	Phase tbd (Note C)

Note A: Will need to get a zoning variance for hotel.

Note B: Dependent on transfer of regulatory authority from HCDA to City. Anticipate residential to be allowed.

Note C: Dependent on termination of Next Steps shelter lease



Proposed Phasing

- PHASE I
2022-2027
- PHASE I or II
- PHASE II
2027-2032
- PHASE III
Post 2042

Lots A, B, and C:

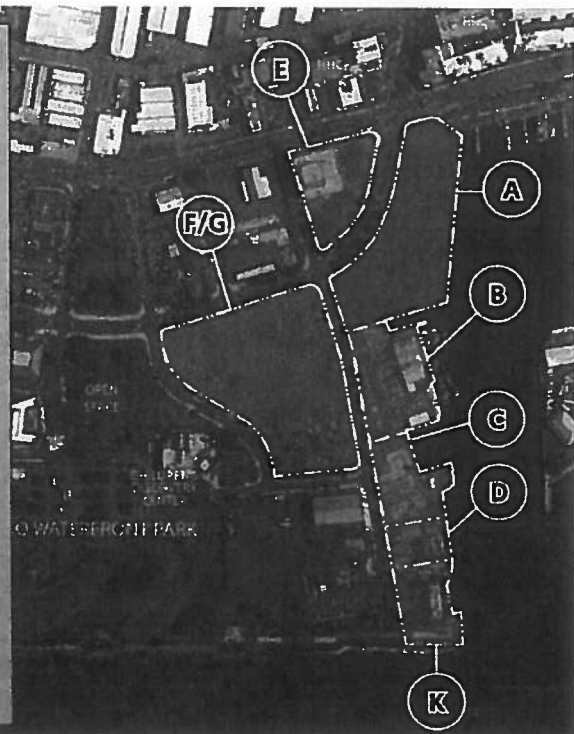
(Phase 1 - Waterfront Commercial):

- Assumed to be three or four floors of waterfront retail, restaurant, office and meeting space with maximum FAR.
- Assume that a major parking structure will be on F/G, thus parking may be minimized here with off-site parking on F/G
 - Would include loading/delivery zones for tennants; drop-off area for busses, shuttles, and visitors; emergency service access; and handicapped parking.



Lot A (Phase 1 – Waterfront Commercial (potential for hotel use)); 4.394 acres - 1.5 FAR - 65' height limit
Has the potential for

- Overnight accommodation/Hotel Use. It would require an exemption from the City when it gets regulatory oversight.
- Native Hawaiian center of business/incubator
- World class aquarium
- Indoor meeting/educational spaces
- Museum



Lot B (Waterfront Commercial) PHASE I
(potential hotel use)

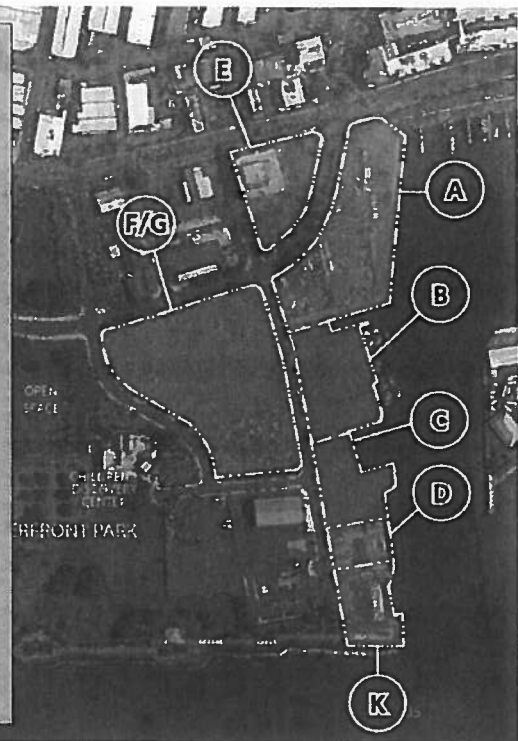
2.378 acres - 1.5 FAR - 65' height limit.

Lot C (Phase 1 – Waterfront Commercial)
(potential hotel use);

1.769 acres - 1.5 FAR - 65' height limit.

Has the potential for

- World class aquarium
- Dry-Stacked boat storage
- Indoor meeting/educational spaces
- Museum
- Wa'a and home to Hokulea/Hikianalia
- Place for ceremony



Lot D (Waterfront Commercial): PHASE III

0.938 acres - 1.5 FAR - 65ft height limit.

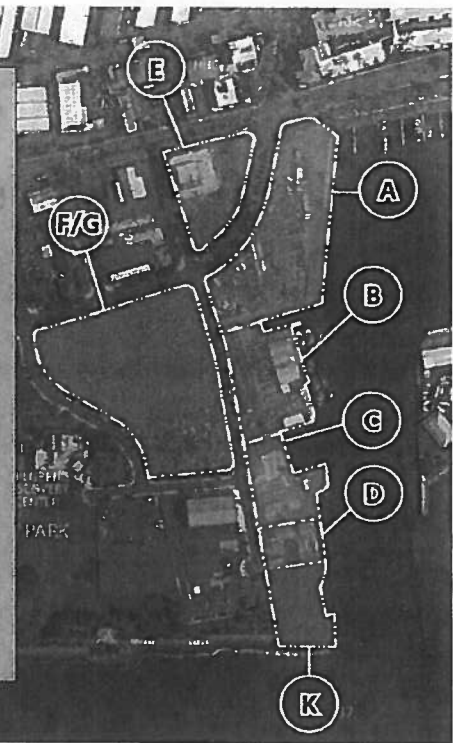
- Encumbered to 53 by the Sea until 2042;
and Salem Communications until 2035.



Lot K (Waterfront Commercial);
1.358 acres - 1.5 FAR - 65ft height limit.

PHASE II

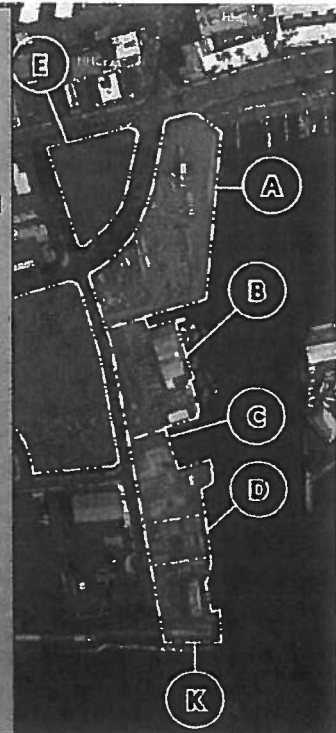
- Is under a long-term ground lease with the University of Hawaii, and we have reflected the value of the OHA leased fee interest. However, once the lease expires, it is envisioned the site would be developed with a three or four-story waterfront retail and restaurant improvement with 59,000 square feet
- Potential for
 - Surfing museum with ancillary restaurant
 - Open outdoor area for ceremony
 - Maintain access to ocean



Lot E (Mixed-Use Commercial (potential OHA HQ/residential);
2.200 acres - 2.5 FAR - 200ft height limit.

PHASE I or II

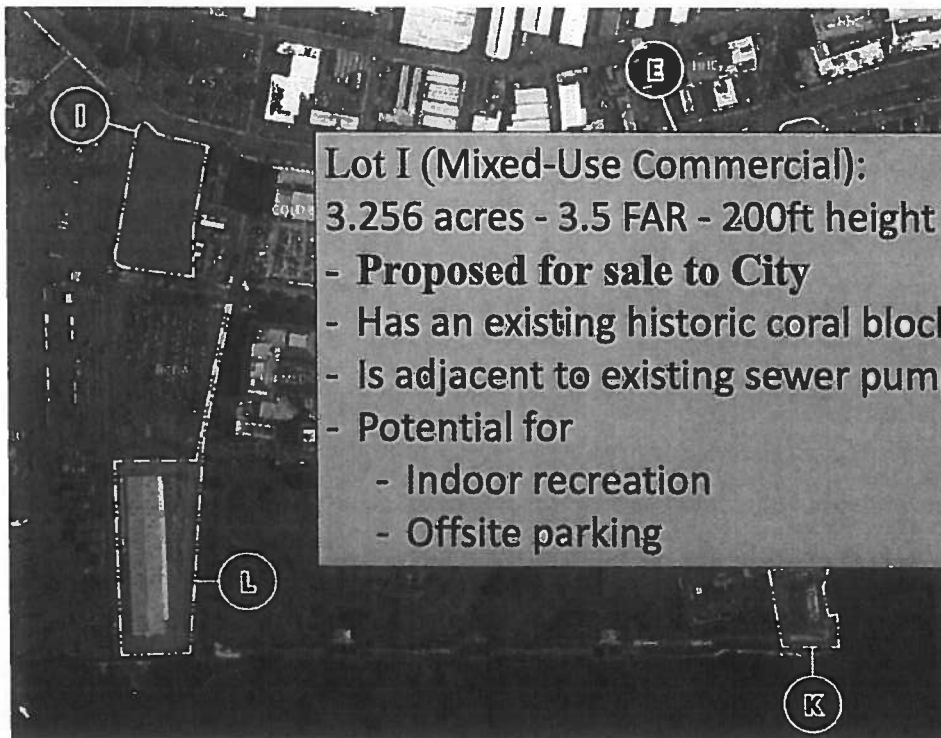
- May benefit from off-site parking on lot F/G.
- Has potential for high-rise residential and is considered the highest and best use for this property
 - The existing 108,000-sf (AAFES) building is assumed to be land-banked after the Department of Public Safety vacates, perhaps as early as June 2020. Land-banking would last until the transfer of regulatory authority from HCDA to the City, which could result in the allowance of residential use.
- Current conditions
 - Building will fully vacated as early as summer 2020;
 - The building becomes 50-years old in 2019 and eligible for listing on the State Register of Historic Places.
 - Current costs for deferred maintenance of the major infrastructure components (AC, fire alarm system, elevator modernization, electrical/data systems, hazmat abatement) is anticipated to cost approximately \$5-6 million.
- LAD's recommendation is to demolish the building (preferably a developer). Anticipated cost for demo is \$1-2 million.
- Potential location for:
 - New OHA Headquarters (current leased area at NLK is 45,000 sf)
 - Native Hawaiian center of business/incubator
 - Indoor meeting/educational spaces
 - Museum
 - Observation Deck



Lots F/G (Mixed-Use Commercial (potential hotel));
7.531 acres - 2.0 FAR - 200' height limit.

PHASE I


- Assumed to have a large parking structure to accommodate parking for other lots as well as its own uses. It is envisioned to have ground floor retail and restaurant and a sky podium capable of accommodating a variety of programmatic uses and/or outdoor entertainment.
 - Could include "Skywalks" connecting the parking garage to lots A, B, C, and possibly E (depending on timing).
- Has the potential for Hotel Use. It would require an exemption from the City when it gets regulatory oversight.
- Potential location of:
 - Observation deck.
 - Performance venue(s)
 - The "Great Lawn" on the Ilalo and Ahui Intersection
 - Place for ceremony with an ahu
 - Indoor/Outdoor Amphitheater with Hula Pa
 - Overnight accommodations/Marae-like functions
 - Museum(s)
 - Business incubator and innovation center
 - Imu and commercial kitchen.
 - Indoor/outdoor meeting/educational spaces
 - Primary communal spaces
 - Major landscaped and garden spaces



Lot I (Mixed-Use Commercial):
3.256 acres - 3.5 FAR - 200ft height limit.

PHASE N/A
or
PHASE II

- **Proposed for sale to City**
- Has an existing historic coral block wall
- Is adjacent to existing sewer pump station (smelly)
- Potential for
 - Indoor recreation
 - Offsite parking

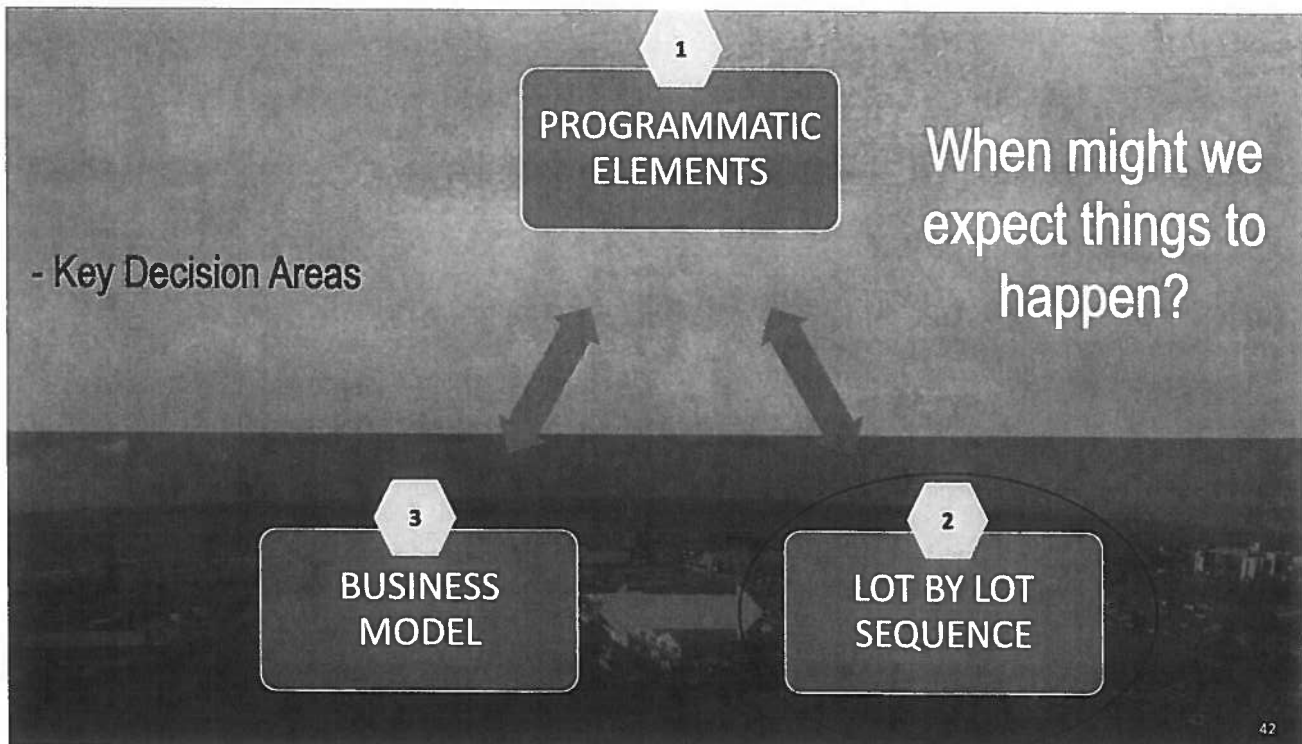


Lot L (Mixed-Use Commercial)
5.266 acres - 0.6 FAR - 45ft height limit.

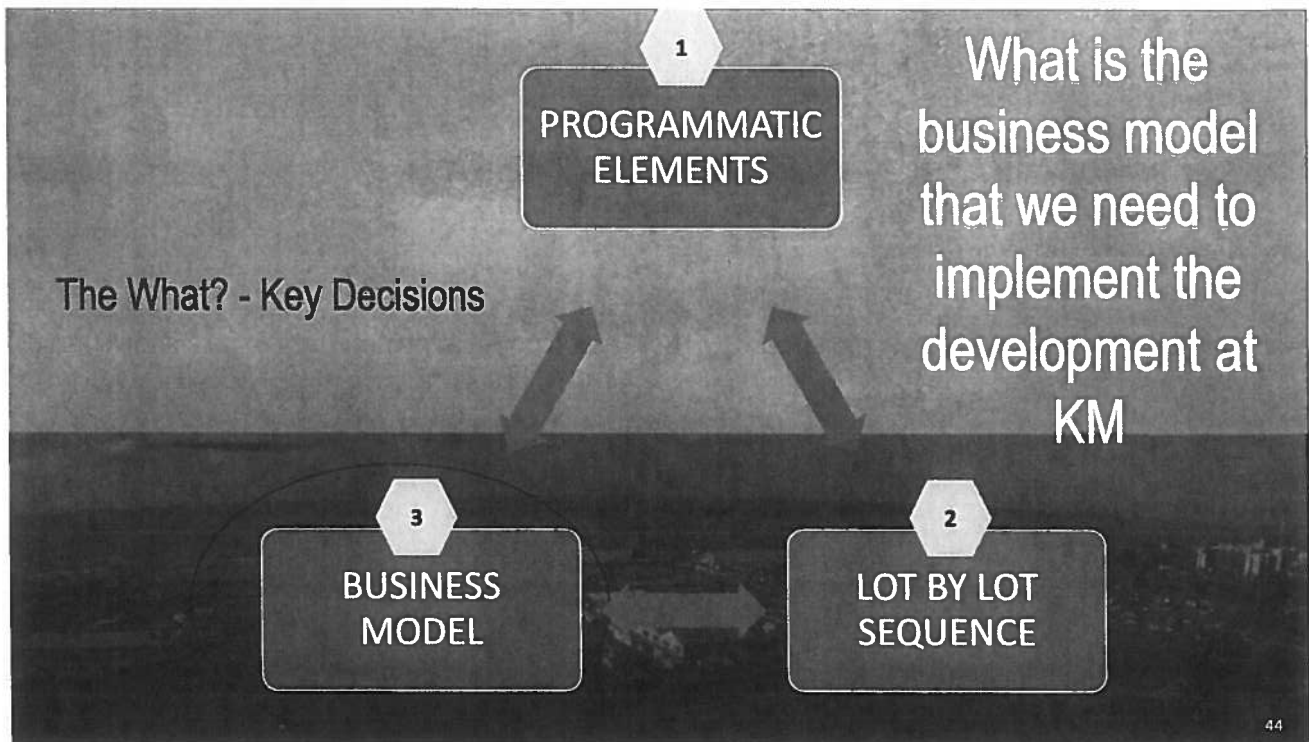
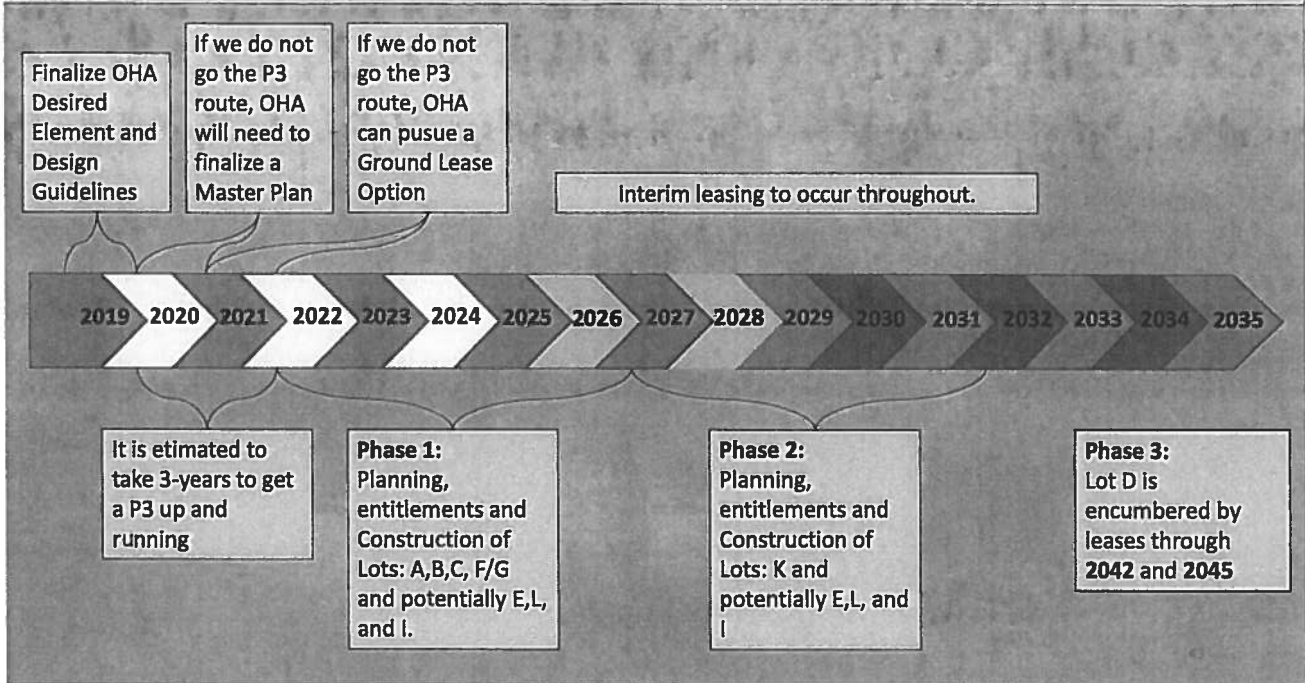
PHASE I, II,
or III

- Is assumed to be used as a mixed-use commercial property.
- Next Step Shelter is expected to relocate by 2022.
- May be considered for
 - New OHA Headquarters
 - Outdoor entertainment attraction (Luau)
 - Oceanfront dining
 - Indoor meeting facilities
 - Entertainment Venue
 - Commercial kitchen and imu
 - Community use spaces (for rent)
 - Business incubator spaces

41



Kaka'ako Makai Projected Development Schedule Through the New Strategic Plan



Business Model Options

A. The OHA as Developer

B. Establish 3rd Party Joint Business Venture (LLC's)

C. Master Developer, Ground Lease to the OHA

D. Public Private Partnership

45

Business Model Option A

OHA as Developer

Description:

OHA creates a Master Plan, finds all funding, secures in-house expertise and 3rd party consultants/contractors/developer to plan, design, permit, build, manage and maintain KM.

Key Takeaways:

- OHA has complete control of the project from concept to completion to management
- OHA assumes all of the risks
- OHA will need considerable financing and may have to consider a longer development timeline because it will need to develop one project at a time until it considers another

Example:

KS, Royal Hawaiian Shopping Center

		Helpful to Success of the Development	Harmful to the Success of the Development
Internal Attributes of the Organization	Internal	Strengths	Weakness
		<ul style="list-style-type: none"> • As the landowner and developer, OHA would make all decisions • Highest financial returns 	<ul style="list-style-type: none"> • OHA has never done this before; • OHA currently does not have enough funds; • Minimal in-house expertise; • OHA would be responsible for funding development costs; • OHA takes on all risks (i.e. delays, additional costs, poor performance, debt, repayment, etc.) and exposes the Trust.
External Attributes of the Environment	External	Opportunities	
		<ul style="list-style-type: none"> • OHA could attract non-traditional funders to participate in its development 	<ul style="list-style-type: none"> • Potential global, national or local economic downturn; • Overall Hawaii real estate market shifts that affect occupancy and leases; • Increasing construction costs have sent many projects over budget; • Cost of financing

46

Business Model Option B (contingent on obtaining title insurance)

Joint Venture (LLC's)		Helpful to Success of the Development		Harmful to the Success of the Development	
Description: OHA creates a Master Plan and assigns a subsidiary with the charge of planning, design, permitting, building, managing and maintaining the development.		Internal Attributes of the Organization	Strengths	Weakness	
Key Takeaways: <ul style="list-style-type: none">OHA benefits from partner experience and cloutLimit liability to individual project; Insulate the trust.Partner can bring other financing resourcesOHA must be okay with LLC structure and limitations			<ul style="list-style-type: none">Well known model for developmentPartner could bring development experience and cloutEasier way to procure services with ability to negotiateOHA has a voice in the direction and interest in the projectPartner can provide additional financial backingLimit liability to individual project; insulate the trust.	<ul style="list-style-type: none">OHA has never done this before"Arms-length" relationship to the organizationOHA's trust in establishing an LLCPartner's experience in Hawaii or outreach effort needed to build support	
Example Hi'ipaka, Waimea Valley; Typical Real Estate Model (e.g Howard Hughes)		External Attributes of the Environment	Opportunities	Threats	
			<ul style="list-style-type: none">Joint venture could attract more interested partiesJoint venture could attract other investors and funding	<ul style="list-style-type: none">Potential global, national or local economic downturnOverall Hawaii real estate market shifts that affect occupancy and leasesIncreasing construction costs have sent many projects over budgetCost of financingPotential public perception of an OHA LLC. (Distrust)	

47

47

Business Model Option C (contingent on obtaining title insurance)

C. Master Developer, Ground Lessee		Helpful to success of the Development	Harmful to the Success of the Development
Description: OHA creates a Master Plan and selects a Master Developer to be a Ground Lessee. The ground lessee is then responsible for building, managing and maintaining the development.	Internal Attributes of the Organization	Strengths <ul style="list-style-type: none">Well known model for developmentDeveloper would bring development experience and cloutDeveloper is responsible for financial backing of projectGuarantee income to OHA and ownership of assets at the end of lease	Weakness <ul style="list-style-type: none">OHA has less of a voice in the direction and interest in the projectOHA has no involvement with the overall management of the developmentBased on economic return of useUnsure of how much of Hawaiian culture will be infused into the developmentProcurement restrictions on OHA's ability to negotiate are unclear
		Opportunities <ul style="list-style-type: none">Developer assumes all economic risksLessees and tenants will be attracted to developer's reputation and relationships	Threats <ul style="list-style-type: none">Financial stability of master developer business
Key Takeaways: <ul style="list-style-type: none">OHA has very little control after selection of the developerDeveloper assumes all of the risksDeveloper is responsible for all financing, construction and management			
Example KS, Pearl Ridge and Kahala Mall			

48

48

Business Model Option D (contingent on obtaining title insurance)

D. Public Private Partnership		Helpful to success of the Development	Harmful to the Success of the Development
Description: OHA hires a P3 Consultant, Financial Advisory Consultant, Third-Party Counsel, and Underwriter (to secure funding) to work collaboratively to create a master plan that works for OHA and the Private party. OHA then decides how much risk we will take on and passes the rest of the responsibilities to the Private entity. OHA gets its uses and can participate in the interim and can receive income (based on how much money OHA puts in up front); and gains asset at end of term (30 years).	Internal Attributes of the Organization	Strengths <ul style="list-style-type: none"> P3 creates strong partnership with private sector Rigorous process with strong controls should keep project in check Performance based project development Multiple financing vehicles and performance securities Potential use of tax-exempt status Shared risks 	Weakness <ul style="list-style-type: none"> New to OHA and the State of Hawaii Long and complex procurement process P3 projects are generally not profit driven, if that is an objective. Payback primarily comes back after 30 years. OHA may benefit from revenue generation contingent on initial investment
		Opportunities <ul style="list-style-type: none"> State is moving toward enabling P3's as a procurement process 	Threats <ul style="list-style-type: none"> Potential global, national or local economic downturn Overall Hawaii real estate market shifts that affect occupancy and leases
Key Takeaways: <ul style="list-style-type: none"> Brings all the expertise under one umbrella Performance based Rigorous process with strong controls Long and complex procurement process Requires an intricate profit-sharing agreement. 	External Attributes of the Environment		
Example Aloha Stadium, OCCC, UH Dorms			

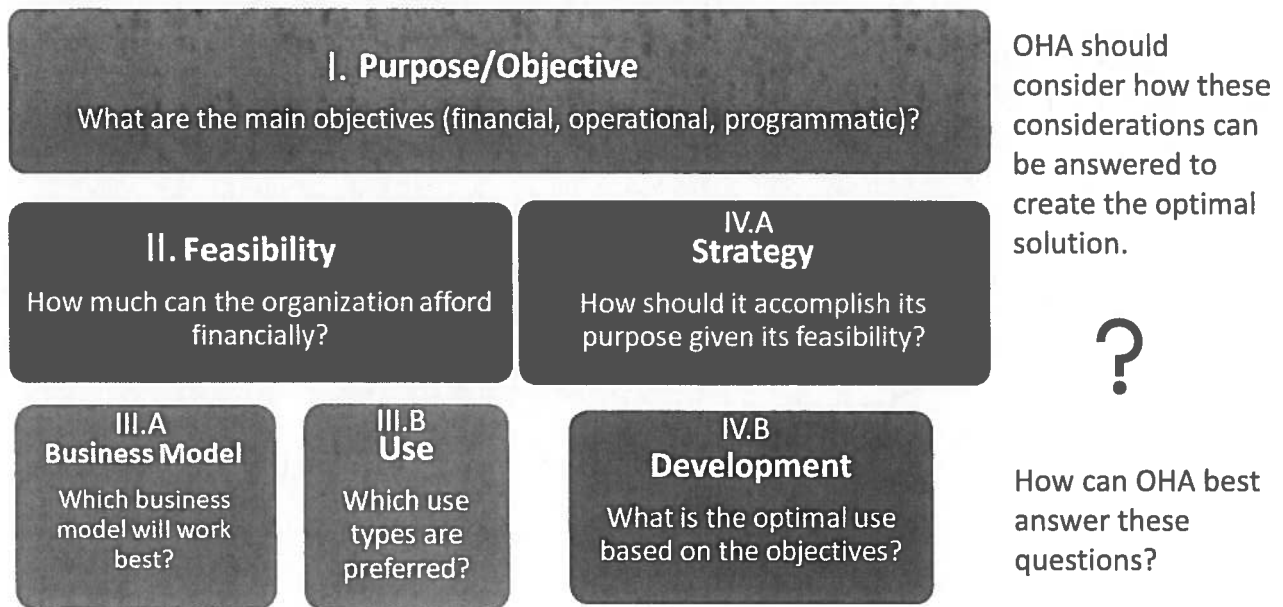
49

Business Model Risk

Business Model	Risk Types					
	Financial/Economic	Operational/Management	Construction	Procurement	Maintenance	Direction/Control
OHA as Developer						
Joint Venture						
Master Developer / OHA land lease						
Public Private Partnership						

Risk Level	Color
Low	
Moderate	
High	

Business Model Consideration Matrix



51

Next Steps



Land Assets staff – Miles Nishijima, Jonathan Ching and Lee Miller available for individual meetings with no more than two (2) Trustees or Trustees' staff from 11/13/19 to 01/15/20.

52

Kakaako Makai Contact Information

Miles Nishijima
Jonathan Ching
Lee Miller

53

APPENDIX – GLOSSARY

(See Handout)

54



OHA & LLCs Contract and Disbursement Review

Recommendations Implementation Report

January 2020

Disclaimer: The document is intended for the sole use of OHA Trustees, Counsel, Administration, and Staff. Its contents may not be reproduced, reprinted or distributed (either electronically or via hard copy) in whole or in part without the express written permission of Administration.

TABLE OF CONTENTS

I. Executive Summary	3
II. Summary of Recommendations	6
III. Recommendations Implementation Plan	8
IV. Possible Fraud, Waste & Abuse	20
V. Monitoring and Reporting	22
VI. Conclusion and Next Steps	24

APPENDICES

A	Implementation Plan for 73 OHA Recommendations
B	Implementation Plan for 30 LLCs Recommendations
C	OHA Addressing Possible Fraud Waste Abuse Flagged Test Items (32)
D	LLCs Addressing Possible Fraud Waste Flagged Test Items (6)
E	Recommendations Implementation Plan Monitoring and Reporting Dashboard
F	3.28.19 OHA Response to Audit Report 18-03 Status of Implementation
G	8.30.19 OHA Response to Audit Report 18-08 Status of Implementation

I. EXECUTIVE SUMMARY

A. Scope, Background and Context

In 2018, the Office of Hawaiian Affairs (OHA) contracted CliftonLarsonAllen (CLA) to review for a period of five (5) years, specifically fiscal years (FY) 2012, FY 2013, FY 2014, FY 2015, and FY 2016 and to include both OHA and the Limited Liability Company(ies) (LLCs). For OHA, the scope of work called for CLA to select eighty (80) contracts and fifty (50) other financial disbursements of funds for testing and review. For the LLCs, the scope of work called for CLA to select thirty (30) contracts and twenty-five (25) other financial disbursements of funds for testing and review. The scope of services specified all contracts and financial disbursements tested would be selected by CLA based on CLA's understanding of OHA's and LLC's policies and procedures and data analytics performed on the financial activity of the organizations.

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Consulting Services, Consulting Services: Definitions and Standards (codified as CS Section 100 in AICPA Professional Standards) of the American Institute of Certified Public Accountants (AICPA). The report did not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA did not express such an opinion.

The results of the review was reported to the Board of Trustees (BOT) Committee on Resource Management (CRM) on December 4, 2019 and after full and free discussion, recommended approval of the following action to the BOT:¹ *Move to recommend that: 1) the Board of Trustees receive the final report on OHA & OHA's LLCs Contract & Disbursement Review prepared by CliftonLarsonAllen LLP and commissioned by the Board under [Contract] 3284, as amended; and 2) direct Administration to review and analyze the recommendations contained in the final report and report back to the RM Committee with its analysis and plan to implement the recommendations at the first Resource Management Committee meeting in January 2020.* The BOT approved the action at its meeting on December 5, 2019 and this report by Administration is in response to that action and directive.

B. Activities Completed by CLA – Review, Analyses, Observations and Recommendations²

In executing the engagement, CLA completed reviews and analyses of data gathered from: preliminary information gathering and document review; process interviews of OHA and LLCs staff; documents requested; test items; selected sample of contracts and disbursements; interviews with OHA Trustees; inquiries with OHA and LLCs staff; assessments of Board of Trustees oversight; and status updates and communications with the Resources Management Committee (RMC).

In the final report, CLA provided both observations and recommendations for OHA and the LLCs separately. For OHA: Seventy-three (73) recommendations based on the results of contracts and financial disbursements testing as well as measures concerning the internal controls in place to ensure

¹ Committee on Resource Management Committee Report dated December 4, 2019

² CLA report, p 18

the integrity of the performance indicators in the OHA annual report to the BOT; and six (6) recommendations pertaining to the BOT's general oversight and governance of OHA and the LLCs. CLA also made thirty (30) recommendations based on the results of contracts and financial disbursements testing as well as measures concerning the internal controls in place to ensure the integrity of the performance indicators in the LLC's Quarterly reports to the BOT. In addition the CLA Report strongly encouraged the Trustees to delegate to OHA's Administration the development of a "Recommendations Implementation Plan".

C. Fraud, Waste and Abuse

Administration noted the CLA Report definitions of fraud³, waste⁴ and abuse⁵ in responding to the observations, recommendations and implementation plan. In addition, there are two limitations⁶ that should be noted, CLA's procedures were designed to: 1) Detect and identify possible fraud, waste, and abuse; however, CLA cannot provide absolute assurance that all instances of possible fraud, waste, and abuse were identified; and 2) Detect red flags of fraud and transactions that appeared questionable. The CLA Report noted, **"However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to the Resource Management Committee of the Office of Hawaiian Affairs."**⁷ [emphasis added] To Administration's knowledge, no such communication was made to the Resource Management Committee.

D. Recommendation Implementation Plan Development Activities

In preparing this response to the Committee on Resources Management directive, in addressing the recommendations⁸ provided by CLA (Recommendations), Administration completed the following: 1) Reviewed in detail, the related testing criteria, methodology, results and observations; 2) Compared the recommendations to policy, procedure and practice actions taken by the organization since FY2016; 3) Contacted prior employees, vendors and other stakeholders, reviewed

³ "A type of illegal act involving the obtaining of something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond the auditor's professional responsibility."---CLA Report, page 24.

⁴ "Involves not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by actors with control over or access to government resources (e.g., executive, judicial, or legislative branch employees, grantees, or other recipients). Importantly, waste goes beyond fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight."---CLA Report, page 24

⁵ "Involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or others of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement."---CLA Report, page 24.

⁶ CLA Report, page 28

⁷ CLA Report, Page 2

⁸ Refers to 73-OHA, 30-LLC and 7-BOT recommendations, collectively "Recommendations"

internal systems and sources and located documents and deliverables that CLA noted were not available at the time of field work; 4) Assessed implementation status (e.g., full, partial); 5) Determined corrective action and related implementation actions; and 6) Designed implementation monitoring and reporting activities.

In addition to addressing the CLA Recommendations, Administration also focused on transactions flagged by CLA as “potential” for fraud waste and abuse in both OHA and the LLCs. Appendices C and D reflect Administration’s comments and notes to the 32 and 6 items flagged for OHA and the LLCs, respectively.

E. Responses by LLCs Leadership

Implementation responses to the 30 Recommendations and six (6) test items flagged for possible fraud, waste and abuse, were provided by LLC Management (e.g., Chief Operating Officer, Executive Director). Administration reviewed and discussed the LLC implementation plan responses (e.g., implemented, partially implemented, not implemented) and included LLC Management in the recommendations and implementation quarterly monitoring and reporting responsibilities.

F. CLA Report to the Committee on Resource Management, Dated December 4, 2019

The CLA report to the Committee on Resource Management, dated December 4, 2019 (CLA Report), is incorporated herein by reference and used as the basis for Administration’s Recommendations Implementation Plan (RIP). Restating of certain sections of the CLA Report verbatim is done when deemed by Administration to be important for context, clarity and emphasis.

G. Reporting and Monitoring of Recommendations Implementation Plan

Administration developed a CLA Report Recommendations Implementation Plan dashboard that will be used to report the progress of the implementation at Appendix E. Administration plans to update the dashboard and report to the CRM on a quarterly basis----no later than April 30, 2020 for the third quarter ending March 31, 2020; and no later than July 31, 2020 for the fourth quarter and year ended June 30, 2020. Administration anticipates that all Recommendations will be addressed no later than fiscal year ended June 30, 2020, with the exception of OHA Recommendation #55 related to a records management system, implementation activities are scheduled for completion by June 30, 2021.

II. SUMMARY OF RECOMMENDATIONS

The recommendations served many purposes including tending to: improve the overall financial internal control efficiencies and effectiveness of the financial processes of OHA; minimize the risk of fraud, waste, and abuse; and overall strengthen the BOT's fiduciary, general oversight and governance of OHA. In addition, **“the recommendations for both OHA and the LLCs comprise a few central themes, including: 1) Written policies to align with current procedures and ensure best practices are followed; 2) Increasing documentation of the decision-making process, authorizations, and monitoring and oversight of contracts and grants; 3) Employee training and development; 4) Increasing transparency; and 5) Oversight and governance of the organizations.”**⁹ [emphasis added]

In preparing this response to the Committee on Resources Management and in addressing the Recommendations, Administration completed the following: 1) Reviewed in detail, the related testing criteria, methodology, results and observations; 2) Compared the recommendations to policy, procedure and practice actions taken by the organization since FY2016; 3) Contacted prior employees, vendors and other stakeholders, reviewed internal systems and sources and located documents and deliverables that CLA noted were not available at the time of field work; 4) Assessed implementation status (e.g., full, partial); 5) Determined corrective action and related implementation actions; and 6) Designed implementation monitoring and reporting activities.

A. OHA RECOMMENDATIONS (73)

Appendix A details the 73 OHA recommendations, including cross referenced responses to the State Audit Recommendation Responses^{10 11}, implementation status and comments including implementation or targeted implementation date. CLA recommendations impacted the Grants, Procurement and Financial Services programs as well as recommendations that jointly involved two programs (e.g., Grants/Procurement, Procurement/Financial Services), Corporate Counsel/Records Management, Community Engagement and the Board of Trustees. The Grants and Procurement programs combined and Financial Services comprise 66.4% and 13.7%, respectively of the CLA recommendation areas.

B. LLCs RECOMMENDATIONS (30)

Appendix B details the 30 LLC recommendations, implementation status and comments including implementation or targeted implementation date as determined by LLC Management. Sixty-seven percent (67%) of the 30 LLC recommendations pertained to Hi'ilei Aloha LLC, 30% to Hi'ipaka LLC and one recommendation related to Ho'okipaipai LLC.

⁹ CLA Report, p. 18

¹⁰ Report No. 18-08, June 2018, Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, <http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf>

¹¹ Report No. 18-03, February 2018, Audit of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawaii, <http://files.hawaii.gov/auditor/Reports/2018/18-03.pdf>

C. BOARD OF TRUSTEES OVERSIGHT OF OHA AND THE LLCs (7)

In addition to the OHA (73) and LLC (30) recommendations, CLA “...also developed observations and recommendations pertaining to the Board of Trustees oversight of OHA and the LLCs.” The governance related recommendations are: 1) Development of Permitted Interaction Group on Organizational Guidance; 2) Transparency and Financial Reporting; 3) Internal Audit; 4) Hotline; 5) Employee Training; and 6) Audit Committee. An additional recommendation made by CLA was related to the development of a Recommendations Implementation Plan (this document). Some of the governance related recommendations have been addressed in OHA’s responses to the State Auditor for, Report No. 18-08, June 2018 and Report No. 18-03, February 2018.

DRAFT

III. RECOMMENDATIONS IMPLEMENTATION PLAN

A. OHA 73 Recommendations Implementation Plan

Appendix A details the 73 OHA recommendations, including cross referenced responses to the State Audit Recommendation Responses^{12 13}, implementation status and comments including implementation or targeted implementation date. When the implementation of the recommendations involve two operating units, the unit status is split between A and B to reflect the different implementation status for the one recommendation. For example, for recommendation 26—the Procurement Services Program status is ‘partially implemented’ and the Grants Program is ‘implemented’, therefore, 26A is in the ‘partially implemented’ row and 26B is in the ‘implemented’ row in Table 1 below.

Table 1 - Summary of Implementation Plan for 73 OHA Recommendations by Implementation Status

Implementation Status	Total	Recommendation Numbers
Implemented	45 (61.6%)	1, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 25A, 26B, 27, 30, 32B, 33, 34B, 35B, 37, 39, 41, 42, 44, 46, 48, 51, 52, 53, 54, 58, 59, 61, 62, 63, 66, 68B, 71, 72
Partially Implemented	18 (24.7%)	6, 23A, 26A, 28, 29, 31, 32A, 34A, 35A, 36, 38, 40, 43, 45, 47A, 47B, 50, 55, 57, 60, 68A, 69
Not Implemented	0	
Not Implemented, N/A	7 (9.6%)	23B, 24, 25B, 49, 56, 64, 65, 70
Not Implemented, Disagree	3 (4.1%)	2, 67, 73
Total	73 (100%)	

¹² Refer to Appendix G for OHA Response to Report No. 18-08, June 2018, Audit of the Office of Hawaiian Affairs’ Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, <http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf>

¹³ Refer to Appendix F for OHA Response to Report No. 18-03, February 2018, Audit of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawaii, <http://files.hawaii.gov/auditor/Reports/2018/18-03.pdf>

Table 2 - Summary of Implementation Plan for 73 OHA Recommendations by Operating Unit

Implementation Status	Total	Joint ¹⁴	Grants	Procurement	Financial Services	Executive Office, Organization Wide	CC, Rec Mgmt	CE	BOT
Implemented	45	1, 12, 14, 27	3, 4, 5, 7, 8, 9, 10, 11, 13, 15, 16, 17, 18, 19, 20, 21, 22, 26B, 32B, 33, 34B, 35B, 59, 62, 72	25A, 37, 39, 41, 42, 44, 46, 51, 53, 54	30, 48, 52, 58, 63, 66, 68B	61		71	
Partially Implemented	18	38		23A, 26A, 28, 32A, 34A, 36, 40, 43, 45, 47A, 50, 68A	29, 47B	35A, 31, 69	6, 55		57, 60
Not Implemented	0								
Not Implemented, N/A	7		23B, 25B	24, 49, 64, 70	65				56
Not Implemented, Disagree	3		2, 73		67				
Total	73 (100%)	5 (6.8%)	26 (35.6%)	22.5 (30.8%)	10 (13.7%)	3.5 (4.8%)	2 (2.7%)	1 (1.4%)	3 (4.2%)

¹⁴ Joint recommendation implementation activities (e.g., Grants/Procurement, Grants/Financial Services, Corporate Counsel/Procurement)

B. LLCs 30 Recommendations Implementation Plan

Appendix B details the LLCs' 30 recommendations, implementation status and comments including implementation or targeted implementation date; with 87% of the recommendations implemented to date and two recommendations to be implemented by June 2020.

Table 3 - Summary of Implementation Plan for 30 LLC Recommendations by LLC Entity¹⁵

		Recommendation No.		
Implementation Status	Quantity	Hi`ilei Aloha LLC	Hi`ipaka LLC	Ho`okipaipai LLC
Implemented	26 (87%)	1-11,13,16,23, 26-29	12,14,15,17,18, 19,20,25	
Partially Implemented	2 (7%)	30	21	
Not Implemented	0			
Not Implemented, N/A	1 (3%)			22
Not Implemented, Disagree	1 (3%)	24		
Total	30 (100%)	20 (67%)	9 (30%)	1 (3%)

¹⁵ LLCs are calendar year entities whose operating year begins on January 1st and ends on December 31st

C. Board of Trustees Oversight of OHA and the LLCs

1. Governance: Development of Permitted Interaction Group on Organizational Guidance

Summarized Recommendation. CLA’s recommendation noted the “excellent process” of the Permitted Interaction Group (PIG) to effect Board governance work; suggested reference tools from the Government Finance Officers Association and American Institute of Certified Public Accountants; and recommended addressing conflict of interest codes violations (from June 2019 minutes).

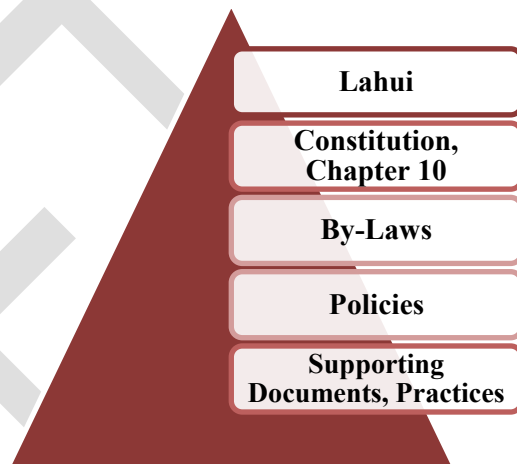
Implementation Plan. In January 2019, the Board approved the formation of a Permitted Interaction Group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. Via Action Item BOT# 19-04, the Board was asked to approve the five elements of OHA’s Board Governance Framework: 1) Identity; 2) Values and Mana; 3) Statutory Basis; 4) Policies; and 5) Supporting Documents and Practices (Operations).

Included in the final report, the PIG recommended implementation of the Board Governance Framework elements via the following sequenced, subsequent, newly formed, approved and executed PIGs:

1. Development of L-Lahui level policies;
2. Alignment and update of existing BOT By-Laws;
3. Development of T-Trustee level policies;
4. Development of C-CEO level policies¹⁶; and
5. Alignment and update of existing Board governance documents (e.g., Executive Policy Manual, BOT Operating Manual).

Implementation of the Board’s Governance Framework, is “in flight” and progressing well.

Targeted Implementation Date: June 2020.



¹⁶ The development of C-CEO level policies work has since been determined to be Administration (vs. Board) level work and a Permitted Interaction Group will not be formed by the Board to address.

2. Governance: Transparency and Financial Reporting

Summarized Recommendation: CLA believes "...that when RM #18-2 is fully implemented, financial reporting and transparency will be adequately addressed."¹⁷ In the meantime, to improve transparency, it is recommended that additional financial reporting be provided to the Board regarding: 1) Contracts awarded; 2) Expenditures incurred, and 3) Grant submissions. It is recommended that a list of grantees be provided on a monthly basis to the Board.

- a. Implementation Plan re RM #18-12 Recommendation:** On October 11, 2018 (2nd rdg), the Board approved RM #18-12, amendments to the OHA BOT Executive Policy Manual and BOT Operations Manual relating to budget preparation, format and budget reporting requirements (PPB approach). The amendments were aimed at improving fiscal management, transparency, reporting, and accountability as well as to address the 18-03 Audit recommendations 1.d., 1.e., and 1.f. Under the approved amendments, "Administration is delegated authority to approve budget adjustments that fall within the lesser of \$100,000 or 5% between each program. Budget adjustments in and out of grants and sponsorships appropriations are prohibited." Furthermore, under the amendments, the authority of the CEO to approve Grants in an amount up to \$25,000 under paragraph 2.2.d. of the OHA EPM was eliminated, meaning that the CEO will no longer have any authority to approve any Grants regardless of amount without Board approval. The effective date of these approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes into effect on July 1, 2021, the organization operates under the approved amendments.

Implementation Date: October 2018

- b. Implementation Plan re Other Financial Reporting Recommendations:** Administration recommends further discussion with the Board regarding the granularity, form and frequency of the additional suggested reports by CLA (e.g., contracts, expenditures, grants).

Targeted Implementation Date: June 2020

¹⁷ CLA Report, page 295

3. Governance: Internal Audit

Summarized Recommendation. CLA’s recommendation is to establish an Internal Audit Division with Internal Auditors reporting to the Audit Committee or Governing Board. The internal audit function should assist management with: 1) Control Environment (e.g., policies, procedures, organizational structure, management philosophy and ethical values; 2) Fraud Risk Assessment; 3) Control Assessments (e.g., design and operating effectiveness of internal controls including assessing the risk for fraud or misconduct); 4) Communication and Training; and 5) Monitoring (e.g., assessing monitoring activities related to computer software and security, and conducting investigations as required through normal monitoring and as requested by the audit committee (or governing board) as needed.

Internal auditors often perform proactive fraud audits and tests, investigations when needed, and provide remediation for findings. In addition, management’s fraud risk assessment and help in identifying and testing risks (e.g., high risk transactions, transactions involving suppliers, contracts and related parties) can be performed. Internal auditors can also assist management with assessing the effectiveness of information, systems and practices, and provide support for fraud-related training initiatives.

Implementation Plan Initial (March 2019). An internal audit division or function, also described as a quality assurance function, was contemplated and documented by OHA in March 2019 when providing a response to the State Auditor’s Formal Request for Information on Status of Implementation of Audit Recommendations, Report No. 18-03 (refer to **Appendix F**). Implementation of a quality assurance function with a Senior Internal Auditor position was anticipated to begin July 1, 2019, included in the FY 20-21 biennium budget and applied to the Grants Department (fka Transitional Assistance Program).



Figure 1.
COSO Framework

The March 2019 response also contemplated the implementation of an internal control framework¹⁸ for the organization modeled after the COSO framework.

What Does COSO Stand For?

In 1992, the [Committee of Sponsoring Organizations of the Treadway Commission \(COSO\)](https://info.knowledgeleader.com/bid/161685/what-are-the-five-components-of-the-coso-framework) developed a model for evaluating internal controls. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

¹⁸ <https://info.knowledgeleader.com/bid/161685/what-are-the-five-components-of-the-coso-framework>, retrieved 2/24/2019

What Is The COSO Framework?

The **COSO** model defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations”

In an “effective” internal control system, the following five components work to support the achievement of an entity’s mission, strategies and related business objectives.

1. Control Environment

- Integrity and Ethical Values
- Commitment to Competence
- Board of Directors and Audit Committee
- Management’s Philosophy and Operating Style
- Organizational Structure
- Assignment of Authority and Responsibility
- Human Resource Policies and Procedures

2. Risk Assessment

- Company-wide Objectives
- Process-level Objectives
- Risk Identification and Analysis
- Managing Change

3. Control Activities

- Policies and Procedures
- Security (Application and Network)
- Application Change Management
- Business Continuity/Backups
- Outsourcing

4. Information and Communication

- Quality of Information
- Effectiveness of Communication

5. Monitoring

- Ongoing Monitoring
- Separate Evaluations
- Reporting Deficiencies

These components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organization. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down and across the company. The entire system of internal control is monitored continuously and problems are addressed timely. OHA's Trustees and Administration were in the process of designing and implementing an internal control framework using the COSO framework as an exemplar to be completed no later than June 30, 2019.

Implementation Plan Updated (January 2020). As the organization completed its biennium budget construction process (Spring of 2019 for fiscal year beginning 7/1/2019) fiscal and related policy constraints (e.g., lapsed funds, freeze on fiscal reserve, sunset of Kaka'ako Makai policy, no cash management policy), hampered the ability for the organization to implement staffing and strategic functions in the biennium budget for FY 20-21; and therefore, the biennium budget for FY 20-21 approved by the Trustees in June 2019, did not include new personnel positions and functions, including the Senior Internal Auditor position.

In late Spring of 2019, Administration commissioned a white paper study that recommended, "OHA should focus on improving its internal controls to ensure that it has the proper environment and framework. Once internal controls are improved, OHA could consider appointing an internal compliance officer to ensure compliance with its mission and legal requirements. In OHA's current condition, these steps would serve OHA better than an internal audit function. Without a properly designed and monitored internal control system, an internal audit function can do little to promote efficiency or prevent fraud or other illegal acts."¹⁹ Administration concurred with the recommendation. The FY 20-21 biennium budget was subsequently realigned in September 2019 and a Compliance Officer was included in the budget instead of a Senior Internal Auditor position. Recruitment began in early October and continued through November, the position remains unfilled and active recruitment continues, including the use of 89-day employee hires.

It is Administration's intent to continue active recruitment for a Compliance Officer, supplement with 89-day employee hires, eventually build and skill up to develop and implement a formal internal audit function, and implement the COSO framework at OHA. The targeted date noted below is to hire and onboard a Compliance Officer to begin to develop and strengthen the internal control environment at OHA. The Board's By-Laws identified the following responsibility for the Committee on Resource Management (CRM): The committee shall: handle all fiscal and budgetary matters and ensure proper management, planning, evaluation, investment and use of OHA's trust funds. Therefore, the CRM can function as an audit committee (governing board).

Targeted Implementation Date: June 2020 for Compliance Officer; to be considered for the internal audit function

¹⁹ SPIRE, OHA Internal Audit White Paper, July 2019

4. Governance: Hotline

Summarized Recommendation. CLA recommended OHA consider the implementation of a hotline for anonymous reporting of fraud and abuse. “This is an important and essential part of a successful ethics and compliance program in any organization. Hotline programs can be operated internally, especially if an internal audit division is in place, or can be outsourced to a reputable company offering such services. CLA’s recommendation including details to establishing a hot line (e.g., planning, communication, responding).

Implementation Plan. Administration acknowledges CLA’s observation that “This (hotline) is one of the most effective and cost efficient tools available to organizations. As reported in the ACFE’s²⁰ Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse²¹, tips are the by far the most common means of detecting fraud. The report explains further that more than half of the tips were provided by employees of the victim organizations.”²² A hotline is essentially a systems implementation requiring purchase of software, possibly hardware and implementation services, including training. At this point in OHA’s strategic and tactical priorities, resourcing in dollars and time will need to be prioritized considering other priorities.

BUILDING COMMUNITY

BOARD OF TRUSTEES MEETINGS Snippet

DC INTERNSHIPS

EMPLOYMENT OPPORTUNITIES

GRANTS

HAWAIIAN REGISTRY

LEASING OPPORTUNITIES

LOANS

SCHOLARSHIPS

SOLICITATIONS & AWARDS

FINANCIAL TRANSPARENCY

However, based on observations and experiences, Administration believes there are mitigating mechanisms and processes to provide avenues for “tips” for fraud and waste, including: a) Internal/HR policies and processes for employees to raise and escalate concerns to supervisors, managers, director and senior leadership (e.g., CFO, COO, CEO) without fear of retaliation; b) the Hawaii State Ethics Commission; c) State of Hawai‘i Attorney General’s office; d) Trustees (e.g., directly, via “Community Concerns” on Board agendas, via organizations and communities); e) Administration; f) Trustees’ engagement and meeting(s) in the community; and g) Beneficiaries engagement; to name a few. OHA’s current website also provides a “Financial Transparency” section which will take readers to OHA’s annual reports, financial statements and audits, Trustee protocol allowance and the CLA report.

Not Implemented: January 2020

²⁰ Association of Certified Fraud Examiners

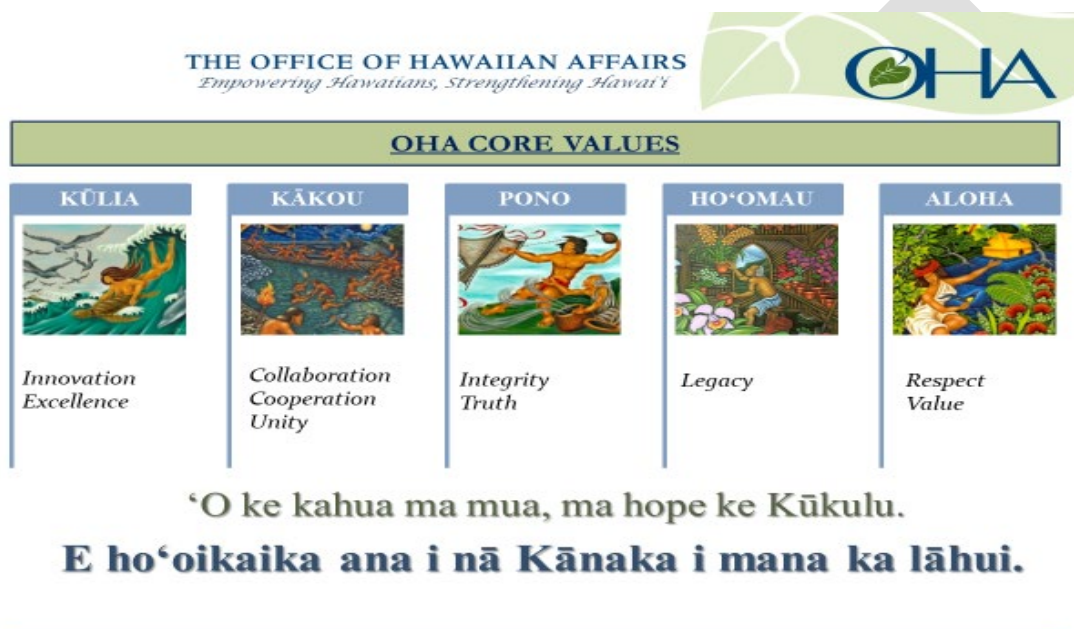
²¹ <https://s3-us-west-2.amazonaws.com/acfe-public/2018-report-to-the-nations.pdf> , retrieved 1/15/2020

²² CLA Report, page 298

5. Governance: Employee Training

Summarized Recommendation. CLA's recommendation is to provide robust and consistent employee training as part of an effective anti-fraud program. Such training should include expectations of employees in regards to their duty to communicate certain matters, a list of such matters, including actual or suspected fraud and information on how to communicate such matters.

Implementation Plan. In April 2019, the Board approved **Element 2: Values and Mana** as part of the Board Governance Framework.



Element 2: Values and Mana

A Permitted Interactin Group recommended that the Board Governance Framework acknowledge the surrounding intangible, yet invaluable role of values and mana in governance.

Effecting the operating values of kūlia, kākou, pono, ho'omau and aloha,

begins with Trustees and Board work as exemplars for Administration and the Organization as a whole. *O ke kahua mamua, mahope ke kūkulu*, the site first, and then the building, learn all you can, then practice, 'ōlelo no'eau 2459²³.

The concept of mana²⁴, often oversimplified as "power", belies the complexity of the concept and its acquisition, development and maintenance toward OHA enabling capital. As the organization builds out the various business processes and internal control framework, related and applicable employee training will be conducted organization wide.

²³ Pukui, 'Olelo No'eau, Hawaiian Proverbs & Poetical Sayings, p. 268

²⁴ Na Puke Wehehe, Supernatural or divine power, mana, miraculous power; a powerful nation, authority; to give mana to, to make powerful; to have mana, power, authority; authorization, privilege; miraculous, divinely powerful, spiritual; possessed of mana, power, <http://weheweh.org>, retrieved 3/26/2019

Mana as Capital. The acquisition, development and maintenance of mana toward strengthening OHA's influence capital, cultural capital and financial capital.

THE OFFICE OF HAWAIIAN AFFAIRS
Empowering Hawaiians, Strengthening Hawai'i



Mana – OHA will:



- Build upon the wisdom of our ancestors;
- Build upon the patriots who came before us; and
- Acquire and grow its mana as it strives to serve for the betterment of Hawaiians.

Targeted Implementation Date: June 2021

DRAFT

6. Governance: Audit Committee

Summarized Recommendation. CLA noted a key attribute of an effective anti-fraud program is the audit committee. An audit committee can help to reinforce management's commitment to creating a culture with "zero tolerance" for fraud. OHA should consider establishing an audit committee that could include: evaluating management's identification of fraud risks; implementation of anti-fraud measures; creating an appropriate "tone at the top"; ensuring senior management implements appropriate fraud deterrence and prevention measures to better protect stakeholders; work with independent auditors regarding the external audit; evaluating the financial reporting process, especially considering the potential for management to override-controls; assuring there is a mechanism in place to report concerns; ability to authorize and oversee alleged or suspected wrongdoing; assuring there is a mechanism in place to report concerns about unethical behavior, actual or suspected fraud, or violations of OHA policies and procedures.

Implementation Plan. As noted earlier, the Board's By-Laws identified the following responsibility for the Committee on Resource Management (CRM): The committee shall: handle all fiscal and budgetary matters and ensure proper management, planning, evaluation, investment and use of OHA's trust funds. Therefore, the CRM can function as an audit committee (governing board). Administration is committed to working with the CRM to more explicitly support the definition and implementation of an Audit Committee.

Targeted Implementation Date: June 2020

IV. POSSIBLE FRAUD, WASTE AND ABUSE – APPENDICES C & D

In addition to addressing the Recommendations, Administration also focused on test items that were flagged by CLA as “possible” fraud, waste and abuse in the context of the following limitations on the identification of possible fraud, waste, and abuse stated in the CLA Report²⁵, bolded emphasis added:

“C. Limitations on the Identification of Possible Fraud, Waste, and Abuse

The following limitations regarding the identification of possible fraud, waste, and abuse were included in the scope of work approved by OHA.

- 1) *CLA’s procedures were designed to detect and identify possible fraud, waste, and abuse; however, CLA cannot provide absolute assurance that all instances of possible fraud, waste, and abuse were identified. **If indicators of potential fraud were identified, the scope of this engagement did not include investigative procedures into these matters. Rather, CLA will communicate such matters to you.** Examples of investigative procedures, which were not performed as part of this engagement, may include, but are not limited to, undercover procedures, interviews of vendors or other third-parties/individuals external to the OHA/LLCs, review of vendor files solely in the possession of a vendor (such as payroll files), etc. **To the extent that information was identified during the scope of this engagement that indicates a possibility of fraud, waste or abuse, CLA has included in this report the information identified.***
- 2) *CLA’s procedures were designed to detect red flags of fraud and transactions that appeared questionable. However, CLA cannot render an opinion as to the existence of fraud. Additionally, fraud and irregularities by their very nature are most often hidden, and no absolute assurance can be given that all such matters were detected. CLA’s engagement cannot be relied upon to disclose any irregularities or illegal acts, including fraud, which may exist.”*

Appendix C - Detailed Responses Addressing 32 Flagged Test Items of Possible Fraud Waste Abuse summarizes test items flagged by CLA related to OHA, including notes from Administration.

²⁵ CliftonLarsonAllen LLP OHA & LLCs Contract and Disbursement Review report, dated December 4, 2019, page 28

Table 4 - Summary of Responses Addressing 32 OHA Flagged Test Items of Possible Fraud Waste Abuse by Process Area

Type	Items	Amount	Flagged Test Items No.
Grants	5	\$3,948,000	1-5
Competitive Sealed Bid (RFP)	2	\$3,110,752	6,7
Professional Services	3	\$843,496.24	8,9,10
Exempt Purchase	10	\$1,274,162.50	11-20
CEO Sponsorship	5	\$129,999	21-25
Exempt Non-Grants, Small Purchase	7	\$850,797.08	26-32
Total	32	\$10,157,206.82	

Appendix D – Detailed Responses Addressing 6 Flagged Test Items of Possible Fraud Waste Abuse summarizes test items flagged by

Table 5 - Summary of Responses Addressing 6 LLC Flagged Test Items of Possible Fraud Waste Abuse by Process Area

Type	Total Items	Total \$	Response No.
Contracts	2	\$11,960	1, 2
Disbursements	4	\$103,367	3,4,5,6
Total	6	\$115,327	

V. MONITORING AND REPORTING

Appendix E provides dashboards to track all of the ‘partially implemented’ recommendations. Sample tables below are for OHA and LLC quarterly tracking.

Table 6 – Sample Dashboard for OHA Partially Implemented (18) Recommendations

OHA PARTIALLY IMPLEMENTED (18)				
ITEM NO	REC NO	SUMMARY	Q3 (MARCH 2020 ²⁶)	Q4 (JUNE 2020 ²⁷)
1	6	<p>Corporate Counsel: The primary responsibility to identify and disclose conflicts of interest will remain with the individual staff involved in decision-making. A certification by the contract signator, will be included as part of the standard OHA contract signature line, to attest that he/she has no conflicts of interests related to the contract. An additional step to screen for potential conflicts during the processing of contracts by staff in OHA Grants, Procurement, and Corporate Counsel, will utilize a list of publicly disclosed entities from the Hawai'i State Ethics Commission Short Form Disclosures of Financial Interests.</p> <p>Targeted Implementation Date: June 2020</p>		

Table 7– Sample Dashboard for LLCs Partially Implemented (16) Recommendations

LLC PARTIALLY IMPLEMENTED (2) – APPENDIX B				
ITEM NO	REC NO	SUMMARY	Q3 (MARCH 2020)	Q4 (JUNE 2020)
1 (HI'ILEI ALOHA LLC)	L-30	<p>Consider formatting the quarterly financial reports to mirror the format of the audited financial statements.</p> <p>To be implemented upon confirmation from OHA of preferred format.</p>		

²⁶ Reported no later than April 30th

²⁷ Reported no later than July 31st

LLC PARTIALLY IMPLEMENTED (2) – APPENDIX B				
ITEM NO	REC NO	SUMMARY	Q3 (MARCH 2020)	Q4 (JUNE 2020)
		Targeted Implementation Date: No later than June 30, 2020		

DRAFT

VI. CONCLUSION AND NEXT STEPS

CLA's closing statement is important to emphasize regarding OHA and LLCs staff engagement: "CLA is extremely appreciative of the outstanding efforts by the OHA and LLC staff throughout the course of this engagement. The staff of OHA and the LLCs were cooperative throughout this engagement, responsive to CLA's requests, and provided documents and information within the updated timetable request by CLA in order to complete this engagement. CLA recognizes the increased demand and pressure this engagement has put on the staff in addition to their day-to-day duties and responsibilities."²⁸

Administration acknowledges the improvements in people, processes, policies, procedures and practices post CLA review period (e.g., 2016+); values the recommendations provided by CLA; and is committed to implementation of the recommendations and strengthening of the overall organizational control environment.

²⁸ CLA Report, Page 18

VII. APPENDICES

- A Implementation Plan for 73 OHA Recommendations**
- B Implementation Plan for 30 LLCs Recommendations**
- C OHA Addressing Possible Fraud Waste Abuse Flagged Test Items (32)**
- D LLCs Addressing Possible Fraud Waste Flagged Test Items (6)**
- E Recommendations Implementation Plan Monitoring and Reporting Dashboard**
- F 3.28.19 OHA Response to Audit Report 18-03 Status of Implementation**
- G 8.30.19 OHA Response to Audit Report 18-08 Status of Implementation**

I. Summary of Implementation Plan for 73 OHA Recommendations by Implementation Status

Implementation Status	Total	Recommendation Numbers
Implemented	45 (61.6%)	1, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 25A, 26B, 27, 30, 32B, 33, 34B, 35B, 37, 39, 41, 42, 44, 46, 48, 51, 52, 53, 54, 58, 59, 61, 62, 63, 66, 68B, 71, 72
Partially Implemented	18 (24.7%)	6, 23A, 26A, 28, 29, 31, 32A, 34A, 35A, 36, 38, 40, 43, 45, 47A, 47B, 50, 55, 57, 60, 68A, 69
Not Implemented, N/A	7 (9.6%)	23B, 24, 25B, 49, 56, 64, 65, 70
Not Implemented, Disagree	3 (4.1%)	2, 67, 73
Total	73 (100%)	

II. Summary of Implementation Plan for 73 OHA Recommendations by Operating Unit

Implementation Status	Total	Joint ¹	Grants	Procurement	Financial Services	Executive Office, Organization Wide	Corporate Counsel, Records Management	Community Engagement	Board of Trustees
Implemented	45	1, 12, 14, 27	3, 4, 5, 7, 8, 9, 10, 11, 13, 15, 16, 17, 18, 19, 20, 21, 22, 26B, 32B, 33, 34B, 35B, 59, 62, 72	25A, 37, 39, 41, 42, 44, 46, 51, 53, 54	30, 48, 52, 58, 63, 66, 68B	61		71	
Partially Implemented	18	38		23A, 26A, 28, 32A, 34A, 36, 40, 43, 45, 47A, 50, 68A	29, 47B	35A, 31, 69	6, 55		57, 60
Not Implemented	0								
Not Implemented, N/A	7		23B, 25B	24, 49, 64, 70	65				56
Not Implemented, Disagree	3		2, 73		67				
Total	73 (100%)	5 (6.8%)	26 (35.6%)	22.5 (30.8%)	10 (13.7%)	3.5 (4.8%)	2 (2.7%)	1 (1.4%)	3 (4.2%)

¹ Joint recommendation implementation activities (e.g., Grants/Procurement, Grants/Financial Services, Corporate Counsel/Procurement)

III. Details of Implementation Plan for 73 OHA Recommendations by Recommendation Number

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
01)	Update policies and procedures to require that all vendors hired by OHA complete the Standards of Conduct Declaration form and retain the completed form in the contract files.		Procurement Services Program: X Implemented Grants Program: X Implemented	Procurement Services Program: The Procurement Services Program (PSP) contract template revision in 2012 included the Standards of Conduct Declaration form as page 6. These documents are retained according to OHA's records retention policy. Implementation Date: June 2012 Grants Program: All grant agreements, with the exception of 'Ahahui grant agreements, were updated in May 2019 to include the Provider's Standard of Conduct Declaration. Effective January 1, 2020, the Provider's Standard of Conduct Declaration has been added to the 'Ahahui grant agreements. Implementation Date: May 2019 and January 2020, for all and 'Ahahui grant agreements, respectively.
02)	Require grant applicants to disclose on the grant application form any previous or existing financial relationships that any of the grantee's governing board or executives had or have with OHA, the LLCs, or its employees. Additionally, grant applicants should be required to disclose any personal relationships with OHA staff that may be perceived as a potential conflict of interest. This information should be reviewed and used by OHA in making its assessment on whether to award a grant to the applicant.		Grants Program: X Not Implemented, Disagree Disagree with the use by OHA in making its assessment on whether to award a grant to the applicant (or not) based on potential conflicts. There are four process areas to address conflicts in the granting process.	Grants Program: Grant applicants are not required to disclose actual or potential conflicts. Existence of previous or current personal or financial relationships of grant applicants with OHA Board, Administration or staff is not an awarding criteria. OHA processes address potential or perceived conflicts in several ways: 1) OHA employee; 2) Grants Staff; 3) Internal or External reviewers; and 4) Board of Trustees. During the grant application phase, conflict disclosures are required by grant application reviewers (submission of a form) and disclosure requirements are mandated for OHA employees by the Hawai'i State Ethics Code and OHA's Employee Handbook . Grants staff are not assigned to grants wherein a staff member may have an actual or potential conflict. The recommendation is not implemented because conflict disclosure requirements at the grant application phase are addressed through processes and OHA staff mandated disclosure requirements. <i>See also CLA Recommendation #03, Comments.</i>

² Refer to Appendix G for OHA Response to Report No. 18-08, June 2018, Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, <http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf>

³ Refer to Appendix F for OHA Response to Report No. 18-03, February 2018, Audit of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawaii, <http://files.hawaii.gov/auditor/Reports/2018/18-03.pdf>



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				Implementation Date or Targeted Implementation Date: N/A
03)	Provide training to OHA grants staff to ensure that they document any apparent or perceived conflicts of interest between OHA staff and a grant applicant or grantee. Grants files should maintain documentation of how the grants staff reached its determination of whether the conflict existed and/or how the conflict was resolved prior to awarding a grant.		Grants Program: X Implemented	Grants Program: OHA processes address potential or perceived conflicts in several ways: 1) OHA employee; 2) Grants Staff; 3) Internal or External reviewers; and 4) Board of Trustees. Conflict of interest disclosures for OHA employees are mandated by the Hawai'i State Ethics Code and OHA's Employee Handbook. The Grants Program conducts internal conflict assessments before assigning staff to facilitate the grant application review processes. If an apparent or perceived conflict exists, the employee is not assigned to the application review process or to monitor a grant. All employees who are assigned as grant application reviewers are required to submit conflicts disclosure forms in the grants information management system (OHA Grants Portal). Prior to Board of Trustee grant award decision making, the Grants Program provides the Board with a list of the grant applicant's governing board and executive staff names and the Board conducts its own conflicts checks prior to its awarding decision. Implementation Date: July 2019
04)	Require any OHA employee that has an existing relationship with a grantee, or had a relationship with a grantee in the prior two years, to disclose whether he or she is receiving compensation for his or her involvement with the grantee and its activities. OHA employees with an existing relationship (personal or professional) with a grant applicant should abstain from making any decisions pertaining to the grant award.		Grants Program: X Implemented	Grants Program: Conflict of interest disclosure and policy requirements for OHA employees are mandated by the Hawai'i State Ethics Code and OHA's Employee Handbook. See CLA Recommendation #03, Comments. Implementation Date: July 2019
05)	Grantees should be required to communicate and report to OHA any time that it intends to change or alter the intended purpose and outcome of the activities for which the grant is awarded. Changes or alterations to the grants purpose and outcome should be documented on a grant contract amendment, which should clearly state what the new purpose and outcome of the grant is and an updated budget to reflect how grant funds will be used. Any additional supporting documentation that reflects how OHA and the grantee resolved the change should be retained in the grant file. OHA must review and approve the revised purpose and outcome and document its decision to continue funding the grant.		Grants Program: X Implemented	Grants Program: The current Grants Program Standard Operating Procedures (SOP) requires that a grant amendment be executed for grant agreement revisions. Amendments document the grant changes and are retained in the Grantee's file. Implementation Date: April 2019



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
06)	Implement a process whereby the Hawai'i State Ethics Commission Short Form Disclosure of Financial Interests filed by OHA's officers are reviewed to ensure there are no potential conflicts with OHA vendors or grantees. Copies of the disclosure forms and documentation of the internal review should be retained according to OHA's document retention policy.		Corporate Counsel: X Partially Implemented	Corporate Counsel: The primary responsibility to identify and disclose conflicts of interest will remain with the individual staff involved in decision-making. A certification by the contract signator, will be included as part of the standard OHA contract signature line, to attest that he/she has no conflicts of interests related to the contract. An additional step to screen for potential conflicts during the processing of contracts by staff in OHA Grants, Procurement, and Corporate Counsel, will utilize a list of publicly disclosed entities from the Hawai'i State Ethics Commission Short Form Disclosures of Financial Interests. Targeted Implementation Date: June 2020

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
07)	Ensure that the OHA grant contract and procurement forms are compliant and clearly document that the grantee is meeting the conditions for awarding grants as described in HRS §10-17(b). There should be documentation in the procurement forms that OHA verified if the grantee had applied or received all applicable licenses and permits and that OHA verified the grantee's insurance was sufficient to provide indemnification, when requested by OHA. OHA should require the grantee submit copies of the applicable licenses and insurance certificates and retain them in the grantee file. If the grantee was not required to obtain licenses, permits, or insurance, the grant documentation should indicate so with an explanation for why the grantee was exempt.	18-08 Recommendation No. 1.a.	Grants Program: X Implemented	<p>Grants Program: All Grants (except 'Ahahui): The current grant agreement incorporates mandated performance requirements and grantee's compliance with HRS 10-17 pertaining to applicable federal, state and county licensing and entertainment and perquisites disallowed costs. The grant agreement requires the submission of a certificate of liability to meet minimum state standards and the certificate is retained in the Grantee's file. The grant agreement also includes an indemnification provision. Effective December 2019, the grant agreement template was revised to include that the grantee has applied for or received all applicable licenses and permits and a provision that the grantee confirms that it has sufficient funds to support grant activities.</p> <p>'Ahahui Grants: Current 'Ahahui grant agreements require that the grantee have current licenses and permits to conduct grant activities and comply with all applicable federal, state, and county statutes and ordinances. The 'Ahahui grant agreement also has an indemnification provision. 'Ahahui Grants are awards of \$10,000 or less for community events. OHA does not mandate the purchase and a submission of insurance certificates for 'Ahahui Grants. Effective January 2020, the 'Ahahui grant agreement was revised to include provisions for: 1) records retention and access; 2) entertainment and perquisites disallowed costs; and 3) sufficient funds compliance. Contrary to the CLA audit recommendation, HRS §10-17(b) does not require OHA to request and retain copies of Grantee's licenses and permits in Grantee's files.</p> <p>Implementation Date: December 2019 and January 2020 for all grants (other than 'Ahahui) and 'Ahahui grants, respectively</p>
08)	Ensure that the OHA grant contract and procurement forms are compliant and clearly document that the grantee is meeting the conditions for grantees as described in HRS§10-17(c). There should be documentation in the procurement forms that OHA verified the composition of the grantee's governing board, the governing board does not receive compensation, the grantee has bylaws that address conflicts of interest and nepotism, and the grantee does not employ or contract with two or more family members. OHA should retain in the grant files all related documentation obtained during this verification process.	18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b. 18-08 Recommendation No. 2.e. 18-08 Recommendation No. 3.a.	Grants Program: X Implemented	Grants Program: All current grant applications (competitive and noncompetitive grants) include a Board Governance Certification submission requirement. The certification provides that the grant applicant is in compliance with HRS 10-17(c)(2) pertaining to Board compensation and has policies that govern conflict of interest/nepotism for board members and employees. The certification also provides that if a grant applicant employs or contracts with two or more members of a family or kin, the grant applicant confirms that it has policies that govern nepotism and potential conflict of interest situations that may arise. Contrary to the

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
		18-08 Recommendation No. 3.d.		CLA audit recommendation, HRS §10-17(c) does not require OHA to certify the composition of the grantee's governing board. Implementation Date: July 2019
09)	Ensure that OHA grants are consistently executed on the most current OHA templates, including Memorandum of Agreements and Fiscal Sponsorship Agreements. The same language from the OHA grant contract should apply to all OHA grants awarded. Add a revision date to the bottom of all grant templates so that grant staff are able to easily identify the most current version.	18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: Effective January 2020, all grant agreement and form templates include revision dates on the bottom of each template and are included in the Grants Program G Drive Templates Folder. Implementation Date: January 2020
10)	Ensure that the grants staff is conducting grant monitoring and evaluation in accordance with HRS §10-17(d). Grants are required to be evaluated annually to determine whether the grant attained the intended results in the manner contemplated. Documentation of the evaluation must be retained in the grant file. OHA should consider whether the development of a standard annual evaluation form will assist in this process.	18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b. 18-08 Recommendation No. 2.a. 18-08 Recommendation No. 2.b 18-08 Recommendation No. 2.c. 18-08 Recommendation No. 2.d. 18-08 Recommendation No. 2.e. 18-08 Recommendation No. 3.a. 18-08 Recommendation No. 3.a. 18-08 Recommendation No. 3.b. 18-08 Recommendation No. 3.c. 18-08 Recommendation No. 3.d.	Grants Program: X Implemented	Grants Program: The current Grants Program standard operating procedures include policies and procedures to ensure that grants are consistently monitored and assessed. The Grants staff utilizes the current grants information management system (OHA Foundant Grants Portal) to ensure grants are monitored and assessed on a consistent basis. The system: a. Electronically tracks and retains grant pre-award, award and post-award documents; b. Verifies submission of and retains system emails and required grant documents (e.g., grant agreements, support documents, OHA Staff Attendance Reports, Grantee Final Reports, and Grant Monitor Closeout Reports, expenditure, reports, and payment information); and c. Provides 'real time' status updates to verify that grantee reports, program assessments and monitoring have been completed and submitted. This includes system generated automatic reminders and past due notifications for reports that are emailed to the grantee, grant monitor and assigned Grants Program staff. The Grants Manager and assigned staff are also able to check OHA Grants Portal dashboards in 'real time' to determine if reports have been submitted and completed on a timely basis by the grantee and staff. The foregoing process ensures that each grant, at minimum, is evaluated on an annual basis in compliance with HRS §10-17 to determine whether the grant attained the intended results in the manner contemplated. Implementation Date: July 2019

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
11)	Implement a process whereby the Grant Monitor reviews the grant file to ensure that Purchase Requisitions have been prepared and approved in an amount equal to the total grant award. The Grant Monitor should also notify procurement of multi-year awards to ensure that a Purchase Requisition is prepared and approved for the grant award for each fiscal year.		Grants Program: X Implemented	Grants Program: Purchase requisitions (PR) are submitted by Grants Specialists to the Grants Manager and Line of Business Director for review and approval to ensure PRs match grant awards. At the beginning of each calendar year, the Procurement Department issues an organization-wide notification to all programs to complete PRs for multi-year grants. Implementation Date: July 2019
12)	CLA observed that certain grants that were not fully spent contained a Request to Close a Purchase Order; however, CLA did not observe a policy regarding this in the Fiscal Procedures Manual. Update the Fiscal Procedures Manual to indicate when a Request to Close a Purchase Order should be used in the grant process, train staff accordingly, and enforce the use of this form and process		Grants Program: X Implemented Financial Services Program (FSP): X Implemented	Grants Program: The Grants Program SOP requires that the Grants Specialist check the final payment box on the Payment on Contract form when submitting a final payment request. The checked box initiates the closeout of the grant purchase order. The Grants Manager and the Line of Business Director review and approve prior to final submission. After submission of the form, it is then Financial Services Program's process to close the purchase order (PO). Implementation Date: July 2019 Financial Services Program (FSP): In instances where contract monitors/requestors did not check the appropriate box or submit for "final" payment resulting in unspent funds, FSP requires a <u>Request to Close a Purchase Order</u> form to be completed, which includes the reason for closing the PO and the proper approval signatures. FSP then files the form for any future inquiries. Implementation Date: June 2008
13)	Implement a review process whereby each grant contract file is reviewed to ensure that each of the documents required for the monitoring and evaluation of grants is appropriately completed and retained in the grant file. This should include all monitoring and evaluation documents required by HR\$ §10-17, OHA's Fiscal Procedures Manual, and OHA's Grants Standard Operating Procedures.	18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b. 18-08 Recommendation No. 2.a. 18-08 Recommendation No. 2.b 18-08 Recommendation No. 2.c. 18-08 Recommendation No. 2.d.	Grants Program: X Implemented	Grants Program: The current Grants Program SOP incorporates a monitoring and evaluation process for all grants. Progress reports completed by Grants Specialists are subject to review and approval by the Grants Manager. This approval process is mandated and required prior to grant payment approval. The current grants information management system (OHA Foundant Grants Portal) includes a retention system for required grant documents (grant agreements, support documents, OHA Staff Attendance Reports, Grantee Final Reports, and Grant Monitor Closeout Reports, expenditure reports, and payment information). The system also provides 'real time' status updates to verify that grantee reports, program assessments and monitoring

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
		18-08 Recommendation No. 2.e. 18-08 Recommendation No. 3.a. 18-08 Recommendation No. 3.a. 18-08 Recommendation No. 3.b. 18-08 Recommendation No. 3.c. 18-08 Recommendation No. 3.d.		<p>have been completed and submitted.</p> <p>The Grants Manager and assigned staff can check and monitor OHA Foundant Grants Portal dashboards in 'real time' to determine if reports have been submitted and completed on a timely basis by the grantee and staff.</p> <p>Implementation Date: July 2019</p>
14)	A check should never be issued for an amount different than what was approved on the Request for Payment on Contract or Request for Check Issuance. Implement a policy and train staff to ensure this practice does not continue. If the amount requested for payment must be modified, a new or revised Request for Payment on Contract (or Request for Check Issuance) should be prepared and approved and supporting documentation should be retained to document the reason for the change.		Grants Program: X Implemented	<p>Grants Program: Requests for Payment on Contract and Requests for Check Issuances are reviewed against grantee invoices by the Grants Specialist and forwarded to the Grants Manager and Line of Business Director for review, approval and final submission.</p> <p>Implementation Date: July 2019</p> <p>Financial Services Program (FSP): FS currently has multiple layers of review to ensure that the approved amounts requested for payment are properly supported and that checks issued are for the same amounts.</p> <p>Implementation Date: June 2008</p>
15)	Implement a process to mark digital and hard copies of grant applications with the date the grant was received so that grant staff that review the application can verify that the application was received before the solicitation deadline.		Grants Program: X Implemented	<p>Grants Program: All grant applications are now submitted electronically through the current grants information management system (OHA Grants Portal) which provides a digital stamp of receipt upon application submission.</p> <p>Implementation Date: July 2019</p>



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
16)	Ensure that the grant committee scoring and recommendation documentation is retained in the grant file to provide evidence that the review and recommendation processes occurred.	18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: The current grants information management system (OHA Foundant Grants Portal) retains grant committee scoring as evidence that the review process occurred. The OHA Grants Portal electronically tracks each grant pre-award phase, i.e., application, evaluation & scoring process. Effective <i>Jan. 15, 2020</i> , the system was updated to include all recommendation and award documents for each process cycle in the OHA Grants Portal (i.e., Action Items, BOT minutes, CEO / BOT Memos) Implementation Date: January 2020
17)	Ensure that attachments and schedules to BOT minutes are retained in the grant file to provide evidence that the grant was reviewed and approved by the BOT.	18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: <i>See Rec. CLA #16, Comments Section (supra)</i> Implementation Date: January 2020
18)	Enforce the requirement that Kulia Initiative grant files contain a statement explaining why the grant requests and awards were not made through the Community Grants Program. Ensure that the Certificate of Vendor Compliance and IRS letter of determination are retained in the grant files.	18-03 Board Recommendation No.2.a. 18-03 Board Recommendation No.2.b. 18-03 Board Recommendation No.2.d. 18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: Kūlia Grants Guidelines & Processes were approved by the Board of Trustees on July 26, 2018. Beginning with the FY20 Kūlia Grant Solicitation, Kūlia Grant applications require that applicants confirm the basis for their grant request submitted as a Kūlia Grant request and not through the Community Grants Program. Certificate of Vendor Compliance and IRS determination letters are retained in each grant applicant's grants information management system (OHA Foundant Grants Portal) Letter of Intent file. Implementation Date: December 2019

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
19)	Ensure that Kulia Initiative grants are assessed using the Kulia Initiative Review Form and that a copy of the form is retained in the grant file.	18-03 Board Recommendation No.2.a. 18-03 Board Recommendation No.2.b. 18-03 Board Recommendation No.2.d. 18-03 Adm Recommendation No. 2.a. 18-03 Adm Recommendation No. 2.b. 18-08 Recommendation No. 1.a. 18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: Beginning with the FY19 Kūlia Grants Solicitation, Kulia Grant applications are assessed based on the grant solicitation and scoring system. The review and scoring process is documented in the grants information management system (OHA Grants Portal). The OHA Grants Portal electronically tracks Kūlia Grant pre-award phase (i.e., application, evaluation & scoring process). This process replaces the Kūlia Initiative Review Form which was used for Kulia grants prior to 2018. Implementation Date: November 2018
20)	Implement a process whereby the grant staff, when reviewing a new grant application for award, conduct research to determine whether the grant applicant has received prior grants from OHA or has other historical business relationships with OHA. For example, if a grant applicant has previously received grants from OHA, and the purpose or intended results of the grant were not attained, OHA should consider this information in the review process for the new grant application. This information should be documented in the grant file and used by the grant staff to determine whether the grant applicant is in good standing with OHA as required by the Grants SOP.	18-03 Board Recommendation No.1.f. 18-03 Board Recommendation No. 1.g. 18-08 Recommendation No. 1.b.	Grants Program: X Implemented	Grants Program: The current Grants SOP includes a noncompliance and ineligibility process. The Grant Closeout Report has a provision in which the Grants Specialist confirms (checks a box) and provides a justification if a grantee is found ineligible for future OHA funding. The Grants Manager reviews, confirms the eligibility determination and signs the Closeout Report. Eligibility determinations are tracked in the grants information management system (OHA Grants Portal) wherein a list can be retrieved and used to identify ineligible grantees during the grant application process. Implementation Date: November 2019
21)	Provide all grants department staff with ongoing training to ensure all policies and procedures are being followed and necessary documentation is being retained in the grant files.		Grants Program: X Implemented	Grants Program: Grants Program staff training is conducted for current employees and all new employees. Implementation Date: July 2019

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
22)	<p>Implement the use of a software program for tracking all grant applications and awards. OHA currently uses Excel spreadsheets to track and monitor grants awarded. To ensure that there is one reliable source of information for grants, OHA should implement the use of a software program that allows the following:</p> <ul style="list-style-type: none"> a. Input of all grant applications with applicant information b. Uploading of all applicable grant documents for each application and award c. Status of grant applications, including those that were not awarded d. Grant awards with total dollar amount, time period, and award per year e. Tracking of all monitoring activities, including uploading electronic copies of evaluation and monitoring reports f. Customization of reports <p>Using a software program for tracking grants will assist OHA in retaining grant information on a long-term basis and prevent the accidental loss of information. Additionally, the program will result in a comprehensive database that OHA can use when assessing future grant applications for award.</p>	<p>18-03 Board Recommendation No.1.f. 18-03 Board Recommendation No. 1.g. 18-08 Recommendation No. 1.b.</p>	<p>Grants Program: X Implemented</p>	<p>Grants Program: The grants information management system (OHA Foundant Grants Portal) serves as the grants comprehensive database and tracks all Grants Program grants.</p> <p>Tracking By Phases. Reports can also be generated for all phases of a grant lifecycle:</p> <ul style="list-style-type: none"> a. Pre-Award: applications submitted/ineligible/denied, email notifications, application evaluations/scores. b. Award: email notifications, grant agreements, support documentation-insurance certificates. c. Post-Award: email notifications, reports (progress, monitoring and closeout) with specific report data such as date due/date submitted/submitter name, and award amount/payments made (amount expended)/award balance. <p>The OHA Foundant Grants Portal ensures that grant files are complete. All mandated reports for each grant are on a dashboard, which serves as a checklist for each grant. The system electronic file includes system emails and all grant documents (e.g., grant agreements, support documents, OHA Staff Attendance Reports, grantee Final Reports, and Grant Monitor Closeout Reports, expenditure reports, and payment information). The system emails include auto generated emails and emails from Grants Program staff to the grantees. The system serves as the system of record for all grant information and documents. Grants Program staff can access the system to provide customized grant reports.</p> <p>Implementation Date: July 2019</p>
23)	<p>Establish a process to ensure that all documentation related to the RFP process is retained in the contract procurement file. This documentation should include (1) written determination on the use of the RFP method, (2) appointment of the evaluation committee, (3) a copy of the RFP, (4) a copy of the published notice, (5) a copy of the registry of proposals received by OHA, (6) copies of the acknowledgment of receipt of proposal (7) a copy of the evaluation documents, (8) a copy of the evaluation matrix, (9) a copy of the evaluation committee recommendation to hire, and (10) any other documents relevant to the RFP process.</p>		<p>A. Procurement Services Program (PSP): X Partially Implemented</p>	<p>Procurement Services Program (PSP): Effective 2016, the Procurement Services Program contract file is comprised of three sections: 1) all solicitation documents, including the appointment of the evaluation committee, evaluation documents, and copy of recommendation to award; 2) the executed contract documents; 3) all original proposals and any other documents relevant to the RFP process. The solicitation section includes all seven items noted by the CLA recommendation required for an RFP. To maintain the integrity of the contract file, Procurement does not permit original proposals to be loaned out for any type of review. Only copies of</p>

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				<p>the proposals submitted are loaned out for reviewing purposes. Currently, one hard copy of each proposal is maintained in the contract file. Procurement plans to scan all solicitation documents for efficient document retrieval. The entire procurement contract file is retained throughout the term/life of the contract. Once the contract has expired, the contract file comprised of the three parts is archived according to OHA's records retention policy. This process will be included in the current draft of the Procurement Services Program SOP which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p> <p>Grants Program: Effective FY2019, the Grants Program no longer uses the RFP process, a solicitation process is used.</p> <p>Implementation Date or Targeted Implementation Date: N/A</p>
24)	Ensure that in accordance with OHA policy, a written determination is made by the Administrator that a competitive sealed proposal is the more appropriate method of contracting rather than competitive sealed bidding.		<p>Procurement Services Program (PSP): X Not Implemented, N/A</p> <p>Grants Program: X Not Implemented, N/A</p>	<p>Procurement Services Program (PSP): HRS 103D-301, as amended by Act 239 (2013), no longer requires that procurements begin with a competitive sealed bidding. Pursuant to Act 239, the designated procurement official has the authority to choose the appropriate source selection to meet the circumstances of each procurement. The Procurement Services Program documents in the contract file the written justification for the selection of the procurement method, which is approved by the Procurement Manager, the designated procurement official.</p> <p>Implementation Date or Targeted Implementation Date: N/A</p> <p>Grants Program: The Grants Program does not use this process.</p> <p>Implementation Date or Targeted Implementation Date: N/A</p>



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
25)	Implement the requirement for a review of the RFP draft by legal counsel prior to publication, and document this review on the Procurement Solicitation Routing form.		A. Procurement Services Program (PSP): X Not Implemented, N/A B. Grants Program: X Not Implemented, N/A	Procurement Services Program (PSP): There is no statutory requirement that legal counsel must review an RFP prior to publication. Notwithstanding, the Corporate Counsel office conducts reviews of the RFPs provided by Procurement prior to publication. If the Procurement staff have any substantive questions or issues at any time during the procurement process, they seek guidance from Corporate Counsel and/or State Procurement Office (SPO). Implementation Date or Targeted Implementation Date: N/A Grants Program: Effective FY 2019, the Grants Program no longer uses the RFP process. Implementation Date or Targeted Implementation Date: N/A
26)	Conduct a review of each contract to ensure that each of the documents required for the establishment of a contract is appropriately completed and retained in the contract file. See also recommendation 47.		A. Procurement Services Program (PSP): X Partially Implemented B. Grants Program: X Implemented	Procurement Services Program (PSP): Effective 2016, all procurement contract documents are uniformly organized into the procurement contract file with three dividers. The three dividers create six sections as follows: 1) Solicitation document (other than IFB Or RFP); 2) Primary contract, supplemental and completed PAC forms; 3) Supplemental contracts and completed Procurement Authorization Checklist (PAC) forms; 4) PO and all PO revisions; 5) internal communications; and 6) external communications. The procurement contract files for the IFB and RFP have two sections: 1) Solicitation, approval forms, and documents; and 2) the Final IFB and RFP. This process will be included in the current draft of the PSP's SOPs which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020. Grants Program: The Grants Program grant agreement process requires that documents required for the establishment of a contract are submitted and retained in the grants information management system (OHA Foundant Grants Portal). The Grants Program routing form requires that initial documents are secured prior to routing the agreement for Grants Manager, LOB Director, and Legal review.



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				Implementation Date: July 2019
27)	Ensure that whenever an amendment is executed for an existing contract, the amendment document is retained in the contract file.		Procurement Services Program (PSP): X Implemented Grants Program: X Implemented	Procurement Services Program (PSP): Effective 2016, the Procurement Services Program files all primary contracts and supplemental contracts in Section 2 of the Procurement Contract File. Implementation Date: January 2016 Grants Program: The Grants Program maintains grant agreement amendments in the grant files in the grants information management system (OHA Foundant Grants Portal). Implementation Date: July 2019
28)	Ensure that the senior staff attorney performs a review of the contract file prior to signing the contract. The senior staff attorney must ensure compliance with State Procurement Laws for purchases of more than \$2,500 and document the review on the Procurement Document Checklist as indicated by OHA Policies and Procedures Manual. See also recommendations 48 and 52.		Procurement Services Program (PSP): X Partially Implemented	Procurement Services Program (PSP): It is the responsibility of the Procurement Services Program to ensure compliance with the State Procurement Laws for purchases of more than \$2,500. The Procurement Manager reviews and signs for approval of the source selection on the PAC form. The Procurement Document Checklist is no longer used. The Procurement Services Program submits to Corporate Counsel the procurement contract file for review and approval of a contract as to form. This process has been included in the current draft of the PSP's SOP, which is pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020
29)	Provide training to OHA staff, especially accounts payable staff, to ensure that once a payment is processed for a vendor, the payment is mailed or otherwise delivered directly to the vendor. It is not a best practice to deliver a prepared check to the staff requesting the payment. This practice heightens the risk of an employee not mailing or otherwise delivering the payment to the intended vendor.		Financial Services Program (FSP) X Partially Implemented	Financial Services Program (FSP): Processed check payments are being sent directly to vendors via mail or in person. While the current fiscal procedures allow for checks to be released to the requestors for delivery to vendors/grantees, with the control over the practice the signature of receipt (by the requestor) as indicated on the check transmittal; procedures to be updated to discontinue this practice. Targeted Implementation Date: June 2020



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
30)	Ensure that individuals in the accounts payable department are trained to double check their work to reduce the risk of overpayment in error.		Financial Services Program (FSP) X Implemented	Financial Services Program (FSP): FS has multiple layers of review to reduce the risk of overpayment in error. Staff pre-audits requests for correct amounts, charge codes and authorized signatures before inputting into the accounting system. The Accounting Manager reviews the Invoice Register against the individual requests for accuracy of data entries and validity of billings. The Controller conducts final review and approval of invoices for payment issuance. Accounting staff have been reminded to double check their work prior to approval. Implementation Date: June 2008
31)	Implement a process whereby record of the deliverables submitted by the vendor are retained in the contract file. If the deliverable by the vendor consists of verbal updates or meetings, ensure that some type of documentation is included in the contract file as reference for the deliverable.		Executive Office, Organization Wide: X Partially Implemented	Executive Office, Organization Wide, Contract Management: Once a good or service has been procured through the PSP, the Program (e.g. Land, Community Engagement, Research) is responsible for contract administration. PSP is not responsible for maintaining a record of the deliverables submitted by the vendor or for keeping a record of the deliverable in the contract file. The Program communicates and works directly with the contractor or vendor to ensure the deliverables are met, received, and/or otherwise maintained. An organization wide process for contract administration will be developed and implemented that complements and is integrated with OHA's Oracle Fusion processes. Targeted Implementation Date: June 2020
32)	Ensure that OHA staff and administration are aware that it is not a best practice to execute a contract for which the effective date precedes the execution date. There may be certain instances when a contract must be executed in this manner; however it should be only in rare occasions and a note should be included in the contract file to indicate the reason for this.		A. Procurement Services Program (PSP): X Partially Implemented B. Grants Program: X Implemented	Procurement Services Program (PSP): This is an exception to the normal practice. Only in rare occasions, and in instances concerning emergencies, will contracts with an effective date that precedes the execution date be reviewed for consideration by Corporate Counsel. A memo to file will be included with the contract to document the reason for Corporate Counsel's granting of the exception, consistent with state practice (Comptroller's Memorandum no. 2009-14). Targeted Implementation Date: June 2020 Grants Program: The grant agreement review and contract execution process includes administrative oversight (Grants Manager) to ensure that contracts do not have effective dates that precede execution dates. Implementation Date: July 2019



Appendix A – Implementation Plan for 73 OHA Recommendations

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
35)	Implement a process for all contracts whereby the contract manager reviews all contracts no less than 60 days prior to the termination of the contract to assess whether there is a need for a contract amendment to document an extension in the effective period and, if applicable, an increase in contract fees. The contract manager, LOB Director, CFO, or any other OHA staff should never approve for payment an invoice that includes time or costs incurred after the contract period has expired for which no amendment has been executed. See also recommendation L10.		A. Executive Office, Organization Wide, Contract Management X Partially Implemented B. Grants X Implemented	Executive Office, Organization Wide, Contract Management: Once a good or service has been procured through the PSP, the Program (e.g. Land, Community Engagement, Research) is responsible for contract administration. PSP is not responsible for maintaining a record of the deliverables submitted by the vendor or for keeping a record of the deliverable in the contract file. The Program communicates and works directly with the contractor or vendor to ensure the deliverables are met, received, and/or otherwise maintained. An organization wide process for contract administration will be developed and implemented that complements and is integrated with OHA's Oracle Fusion processes. Targeted Implementation Date: June 2020 Grants Program: Current Grants Program practice includes Grants Specialist and Grants Manager ongoing review of grantee progress and proactive determinations by the Grants Program regarding contract extensions. Implementation Date: July 2019
36)	Establish a process whereby the contract procurement file maintains the names of the persons serving on a professional services review committee and selection committee and the following documents providing evidence that an appropriate selection process was completed: (1) Memorandum to CEO to appoint the Selection Committee, (2) evidence that the Procurement Officer ensured the impartiality and independence of committee members, (3) the Selection Committee individual scoring sheets, (4) the Selection Committee Scoring Matrix, (5) Memorandum to CEO recommending the top three ranked candidates with the CEO's approval.		Procurement Services Program (PSP): X Partially Implemented	Procurement Services Program (PSP): Effective 2016, the Procurement Services Program retains the approved review and selection committee members' names in the procurement contract file. The following documents that evidence completion of an appropriate selection process are kept in Section 1 of the procurement contract file: (1) Memorandum to CEO to appoint the Selection Committee, (2) evidence that the Procurement Officer ensured the impartiality and independence of committee members, (3) the Selection Committee individual scoring sheets, (4) the Selection Committee Scoring Matrix, and (5) Memorandum to CEO recommending the top three ranked candidates with the CEO's approval. The approval memos and evaluation conducted by the Review committee are kept in a separate file with the corresponding fiscal year's Statement of Qualifications and Notice of Interest. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System Targeted Implementation Date: June 2020

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
37)	Consistently require a process is in place to ensure the impartiality and independence of committee members. This process may include requiring that persons serving on a professional services review committee and selection committee complete and sign an affidavit attesting to having no personal, business, or any other relationship that would influence their decision.		Procurement Services Program (PSP): X Implemented	<p>Procurement Services Program (PSP): Effective 2016, the Procurement Services Program requires that the SPO-024 “Attestation Serving on an Evaluation, Review or Selection Committee” form is completed, signed, and dated by all persons serving on an evaluation, review, or selection committee. The SPO-024 form is kept in the solicitation file, and this form documents the following:</p> <ul style="list-style-type: none"> 1) identifies a committee member as a governmental employee or non-governmental employee; 2) states the purpose of the committee; and 3) requires the committee member to attest: <ul style="list-style-type: none"> • I have no personal, business, or any other relationship that will influence my decision in the applicable evaluation, review, or selection process. • I agree not to disclose any information on the applicable evaluation, review, or selection process; and • I agree that my name will become public information upon award of the contract. <p>Implementation Date: January 2016</p>
38)	Ensure that, in accordance with HRS §84-18(c) and (e), no former employee of OHA who was employed for more than 181 days in the prior year, is hired for compensation nor any other consideration to perform the same type of work the person had performed while employed by OHA.		Corporate Counsel: X Partially Implemented	<p>Corporate Counsel:</p> <p>The CLA statement is over-broad.</p> <p>The Hawaii State Ethics Commission (HSEC) provides the following guidance on post-employment ethics laws:</p> <p>There are three basic provisions of the post-employment law, which apply to anyone who works for OHA for more than 180 days (HRS § 84-18(e)):</p> <ol style="list-style-type: none"> 1. There’s a confidentiality provision (HRS § 84-18(a)), so former OHA employees are still prohibited from using or disclosing any confidential information obtained while with OHA. That prohibition applies as long as the information is confidential. 2. There’s a one-year ban on representing any private entity before OHA. HRS 84-18(c). That is, the former OHA employee cannot

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				<p>communicate with OHA personnel on behalf of the employee’s new employer. (The former employee can, of course, testify to the Board of Trustees as an individual member of the public; s/he could not do so on behalf of her/his new employer, however.)</p> <p>3. There’s a one-year ban on representing any private entity before <u>any</u> state agency on <u>any matter</u> the former OHA employee worked on at OHA. HRS 84-18(c). For example, if the OHA employee worked on a project to promote kalo production, the former OHA employee would be prohibited from lobbying the Legislature on that same matter on behalf of a private entity.</p> <p>One note for #2 and #3: In this context, “represent” means to communicate directly with OHA. So the former OHA employee could work with a new employer behind the scenes (as long as they don’t use or disclose any confidential information), but they can’t be communicating directly with OHA on any matter (#2), nor can they communicate with any state agency regarding any matter they worked on while with OHA (#3).</p> <p>There is another provision in the Contracts law, HRS § 84-15, which applies if a former OHA employee is helping her/his new company obtain a contract from OHA. If the former OHA employee worked on some matter at OHA, and then goes to work for a private employer, there is a <u>two</u>-year ban on the employee assisting the new employer in trying to get a contract (such as a grant) from OHA on the same matter. If, within that two-year period, the former OHA employee helps the new private employer apply for that contract, then OHA would be prohibited from entering into the contract with the private employer. In other words, a violation of this particular provision doesn’t result in penalties against the former employee; instead, it results in OHA being prohibited from entering into the contract with the private employer. Furthermore, this isn’t just a ban on direct communication between the former OHA employee and OHA - instead, the former OHA employee is prohibited even from <i>assisting</i> her/his new employer in getting the contract.</p>

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				<p>With this guidance from HSEC, if during the contracts or grants process, OHA staff becomes aware that a former OHA employee is working for a prospective vendor, contractor, or grantee, then OHA staff should inform Corporate Counsel. Corporate Counsel can confirm with Human Resources the separation date of the former employee and follow-up with the former OHA employee or his/her current employer on the former OHA employee's role or responsibilities with respect to the contract or grant being considered by OHA. Corporate Counsel can make a determination on whether OHA or the vendor, contractor, or grantee can proceed further. If there are any questions, Corporate Counsel or the former OHA employee can contact HSEC for guidance.</p> <p>Targeted Implementation Date: June 2020</p>
39)	Provide training and education to all levels of OHA employees involved in the execution of contracts. It must be clear to them that completed documentation and approvals must be in place, such as the completed Authorization to Proceed with Contract, before a contract is actually executed.		Procurement Services Program (PSP): X Implemented	<p>Procurement Services Program (PSP): All Procurement Services Program staff involved in the execution of a contract are required to complete training and SPO webinars documented on the Procurement Unit Checklist. Any required documentation and approvals are obtained before the execution of a contract. All construction contracts have the requisite Notice to Proceed, and all other service contracts are sent with the information to proceed, executed contract, and PO numbers.</p> <p>The Procurement Services Program has provided onboarding training to all levels of OHA staff for the past several years. The first level of basic procurement training consisted of 4-5 classes and was provided twice a month during new hire onboarding.</p> <p>Implementation Date: January 2014</p>
40)	Ensure that the contract procurement process is followed as dictated by current OHA policies and procedures without circumvention and without completing the required steps in the wrong order. For example, a contract should never be executed prior to all of the necessary steps being completed. See also recommendation 51.		Procurement Services Program (PSP): X Partially Implemented	<p>Procurement Services Program (PSP): Currently, to process a procurement request from solicitation to an executed contract requires the PAC form to be completed. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. The PAC form includes: the PR number and relevant information; approval for solicitation method; compliance documents; and approvals as required by program managers, directors, CFO, COO and/or CEO.</p>

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				<p>This process has been included in the current draft of the Procurement Services Program Standard Operating Procedures, which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>
41)	<p>Consistently follow the process outlined by HRS §103D-304 and by OHA's policy for the selection of Professional Service providers from the approved list when the need arises during the year for a specific service.</p> <p>a. An administrator should designate a Selection Committee to evaluate the Statements of Qualification submitted by the approved professional service providers and rank at a minimum three providers using the selection criteria.</p> <p>b. Professional service providers should not be selected without written documentation of the process followed and reason for selection.</p> <p>c. The vendors approved for inclusion on the list of approved professional service providers must have submitted a Statement of Qualification and Expression of Interest for the year applicable to the contract for which they are being considered. The Statement of Qualifications and Expression of Interest should not be carried forward from one year to the next.</p>		<p>Procurement Services Program (PSP):</p> <p>X Implemented</p>	<p>Procurement Services Program (PSP): Past and current Procurement Services Program practice has been to follow the process outlined by HRS §103D-304 and OHA's policy for the selection of Professional Service (PS) providers from the approved list when the need arises during the year for a specific service. Effective 2016, the Procurement Services Program has retained the documentation for the approvals to conduct the professional services review and selection, in the procurement contract file according to OHA's records retention policy. The names of the individuals serving on the professional services review committee and the selection committee are also maintained in the procurement contract file. The following documents that evidence completion of an appropriate selection process are kept in Section 1 of the procurement contract file: (1) Memorandum to CEO to appoint the Selection Committee, (2) evidence that the Procurement Officer ensured the impartiality and independence of committee members, (3) the Selection Committee individual scoring sheets, (4) the Selection Committee Scoring Matrix, and (5) Memorandum to CEO recommending the top three ranked candidates with the CEO's approval.</p> <p>The approval memos and evaluation conducted by the review committee are kept in a separate file with the corresponding fiscal year's Statement of Qualifications and Notice of Interest.</p> <p>All Procurement Services Program staff conducting a procurement for Professional Services (PS), complete the SPO training webinar SPO 115, and are required to read HRS §103D -304 and HAR §3-122-62. The procurement staff conducting the PS is required to use the forms provided by SPO and OHA Memos created for PS.</p> <p>Prior to each new fiscal year, the Procurement Services Program conducts its annual solicitation for the various Professional Services Categories needed for OHA. A Statement of Qualifications and Expressions of Interest are solicited for as well.</p>

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				Implementation Date: January 2016
42)	Ensure that a copy of the published Notice to Providers of Professional Services is included in the Professional Service Providers binder for reference along with evidence that the notice was published. This may include a newspaper clipping or screenshot of the Procurement Notices System to provide evidence that the notice was posted.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): The publication of solicitations is done electronically on the SPO website. Previously, only the Star Advertiser receipt for posting was kept with the file. The Procurement Services Program currently retains the SPO website publication confirmation, the OHA website posting, and the Star Advertiser receipt, with the respective fiscal years' Professional Services solicitation files. Implementation Date: September 2016
43)	Ensure that compliance documents are always obtained from the vendors prior to contract execution. It would be prudent to establish a policy that requires an explanation as to why compliance documents may not be required from a vendor whenever this designation has been listed on the Procurement Package Checklist for procurements that are not grants or purchases of less than \$25,000.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): The Procurement Services Program currently requires a "Procurement Authorization Checklist" (PAC) form to be completed in order to process a procurement request from solicitation to an executed contract. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. If an exemption is applicable, procurement staff provides citation to the exemption with an explanation on the PAC form. The PAC form is then submitted to the PSP Manager for approval. The PAC form includes: the PR number and relevant information; approval for solicitation method; compliance documents; and approvals by program managers, directors, CFO, COO and CEO. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020
44)	Ensure that a Purchase Requisition is always completed not only at the beginning of the procurement process for a new contract, but also when the need for a contract amendment is identified so that there is verification of availability of funds, encumbering funds, and for use in creating the Purchase Order. See also recommendations 47, 48, and 54.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): Currently, the Procurement Services Program requires the completion of a Purchase Requisition for all new purchases, contract amendments, and encumbering the new FY funds. Funds are verified prior to creating a Purchase Order. Implementation Date: January 2016

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
45)	In the event that a procurement violation is identified, ensure that the appropriate steps are taken to complete a Report of Procurement Violation on State Procurement Office (SPO) Form-016, which lists five steps including determining whether appropriate corrective action has been taken, and forwarding the form (request) to the CFO for after-the-fact payment approval if one has been requested. In addition to completing the appropriate documentation, ensure that a copy of the completed form is retained in the related contract file.		Procurement Services Program (PSP): X Partially Implemented	Procurement Services Program (PSP): Upon notice of a possible procurement violation, the Procurement Manager will gather information by requesting that the program complete the “Procurement Inquiry Form.” The Procurement Manager will use the information provided on the Procurement Inquiry Form to determine if a violation has occurred. If a violation has occurred, the Procurement Manager will request that the program complete Form SPO-016, Report of Procurement Violations: Finding and Corrective Actions and/or Request for After-The-Fact Payment Approval. Upon receipt of Form SPO-016 from the program, the Procurement Manager will review for completeness and submit to the HOPA and CPO for review and approval. All Procurement violations will be reported to SPO. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020
46)	Implement a process to increase communication with the Board of Trustees with respect to the procurement of professional services, particularly when the services involve action items from the Board of Trustees. For any contract for which it is expected that the results of the work will require action or agreement by the Board of Trustees, it is prudent that discussions with the Board of Trustees take place prior to the commencement of the procurement process. This will help reduce possible waste from decisions made by the Board of Trustees not to proceed on an action item.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): Effective 2016, the process to include the BOT in a professional services procurement has been done in accordance with HRS§103D-304 and HAR §§ 3-122-62 thru 69. The BOT has participated as advisors and selection committee members. Implementation Date: January 2016
47)	Perform revisions and updates to the OHA Fiscal Procedures Manual to ensure that it is complete and accurately reflects the policies and procedures as currently mandated by applicable Hawai'i Revised Statutes and as practiced by OHA. The manual should also be updated to reflect current titles and approval authorities. The review and update of this manual should take place at least every two years to ensure that current policies are reflected.		A. Procurement Services Program (PSP): X Partially Implemented B. Financial Services Program (FSP): X Partially Implemented	Resource Financial Management Assets: Financial Services Program (FSP) and Procurement Services Program (PSP): The updated FSP and PSP SOP is pending further revisions reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
48)	Consider implementing the process of stamping each invoice paid, indicating the check number on the invoice itself instead of, or in addition to, applying this stamp to the Request For Payment form. It is a best practice to apply this type of marking to the invoice itself to prevent the risk of the invoice being paid again should the invoice become separated from the Request for Payment form.		Financial Services Program (FSP): X Implemented	Financial Services Program (FSP): Current fiscal procedures require accounting staff to stamp “Paid” and write the check number on all invoices and Request for Payment forms. Implementation Date: June 2008
49)	Consider developing and implementing a policy and procedures that require the procurement office to obtain a minimum of three quotes, when feasible, when seeking services that qualify as exempt. Although obtaining quotes are not required for goods or services that qualify as exempt under HRS §103D-102(b), the statute states in subsection 102(d) that “[g]overnmental bodies making procurements which are exempt from this chapter are nevertheless encouraged to adopt and use provisions of this chapter and its implementing rules as appropriate ... ” Obtaining three quotes before awarding a contract for exempt goods or services will help ensure that OHA receives a fair price, increases competition, and helps reduce the risk of vendor favoritism or other unethical behavior in the procurement process. Documentation of the quotes received should be retained in the procurement files.		Procurement Services Program (PSP): X Not Implemented, N/A	Procurement Services Program (PSP): The process of obtaining minimum quotes for goods or services that qualify as exempt will not be implemented, as this is not applicable pursuant to Hawai’i Revised Statutes §103D-102 and Hawai’i Administrative Rules §3-120-4. The CLA recommendation did not include the complete text of HRS §103D-102(d). The complete text of HRS §103D-102(d) as provided below, does not require obtaining three quotes: “Governmental bodies making procurements which are exempt from this chapter are nevertheless encouraged to adopt and use provisions of this chapter and its implementing rules as appropriate; provided that the use of one or more provisions shall not constitute a waiver of the exemption conferred and subject the procurement or the governmental body to any other provision of this chapter.” Implementation Date or Targeted Implementation Date: N/A
50)	Require staff to use other procurement methods (e.g., Professional Services), whenever possible, prior to using the exempt procurement method. The exempt procurement method should be used only when the goods or services qualify under the statute and when other procurement methods are not feasible. The use of other procurement methods will provide more competition and ensure OHA is receiving a fair and competitive price for its purchases.		Procurement Services Program (PSP): X Partially Implemented	Procurement Services Program (PSP): The Procurement Services Program currently requires a “Procurement Authorization Checklist” (PAC) form to be completed in order to process a procurement request from solicitation to an executed contract. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. If an exemption is applicable, procurement staff provides citation to the exemption with an explanation on the PAC form. The PAC form is then submitted to the PSP Manager for approval. This process has been included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System. Targeted Implementation Date: June 2020
51)	Consider seeking guidance from the State Procurement Office regarding the appropriate application of the exemptions under HRS §103D-102(b) and Hawai'i Administrative Rules Section 3-120-4 - Exhibit A. The State Procurement Office may be able to provide additional training or guidance to OHA staff, especially the procurement department, to ensure the proper interpretation and application of the list of exempt goods and services. Appropriate OHA staff should be sufficiently trained. If staff are unsure of whether a service or good qualifies as exempt, they should be encouraged to contact the State Procurement Office for guidance.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): The Procurement Services Program and Procurement Manager has an open communication and active relationship with the State Procurement Office (SPO). The Procurement Manager encourages the Procurement Specialist to contact the SPO with any questions, concerns, and for guidance regarding procurements they are working on. The Procurement Manager also has an open communication and active relationship with the SPO. The OHA Procurement Services Program has participated in the annual Conference organized by the SPO office for the past four years. It is mandatory for all procurement staff to complete and pass SPO webinars prior to being assigned a method of solicitation. Implementation Date: January 2016
52)	Update the Operational Authority Delegation Hierarchy, Request for Payment on Contract, and Request for Issuance of Check to ensure that the approval signatures included on the request for payment/check align with the signatures required per the delegation hierarchy. If necessary, include a location on the payment request where the program, line of business, or other pertinent information is included so that staff can easily verify that the appropriate signatures were obtained.		Financial Services Program (FSP): X Implemented	Financial Services Program (FSP): The last updated Operational Authority Delegation Hierarchy is referenced when verifying approval signatures for all financial transactions. Implementation Date: June 2008
53)	Update the Procurement Document Checklist to include a location for the Procurement Manager to sign indicating that the form was reviewed.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): Effective 2016, the "Procurement Document Checklist" was replaced by the "Procurement Authorization Checklist" (PAC) form. The Procurement Services Program requires the PAC form to be completed in order to process a procurement request from solicitation to an executed contract. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. The PAC form tracks and records approvals from the receipt of the Purchase Requisition to the approvals by the Procurement Manager for the solicitation method selected; Program Manager and/or LOB for content; Controller, CFO, Budget Analyst for availability of funds; and COO and/or CEO for execution of contract.



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				Implementation Date: January 2016
54)	Implement a process for obtaining and retaining documentation when signing authority is delegated to another member of OHA staff, such as the CFO giving signing authority to the Controller while the CFO is absent. Ensure that this documentation is kept with the procurement, contract, and payment files for later verification.		Procurement Services Program (PSP): X Implemented	Procurement Services Program (PSP): Effective 2015, the Procurement Services Program has retained an electronic file of the Delegation of Signing Authority. Effective early 2019, the Procurement Services Program also retains a hardcopy of the Delegation of Signing Authority in the contract file when the signing authority is delegated to another OHA staff member. Implementation Date: May 2015 Electronic, January 2019 Hard Copy
55)	Implement procedures to ensure that documents are retained according to OHA's document retention policy and the Hawai'i state requirements. Consider the implementation of a digital document repository that would allow OHA to easily scan, upload, and store all relevant documents. This could assist OHA in the retention of important documents on a long-term basis.		Records Management Program: X Partially Implemented	Records Management Program: OHA Administration has initiated the Records Management Redesign Project, which will effect a systematic, agency-wide review and update to OHA's records management policies and procedures that is tailored to the unique records produced by each OHA program, starting with programs in our Resource Management – Financial Assets Division. In addition to digital document retention systems that have since been implemented by individual programs, ISRM is currently redesigning OHA's internal SharePoint site and reviewing its function as a document management system. Targeted Implementation Date: February 2020 - Agency-wide project planning completed; June 2020 - updated records policies and procedures for Resource Management – Financial Assets Division implemented; June 2021 - agency-wide implementation completed.
56)	Update the Operational Delegation Authority Hierarchy regarding grants awarded to the LLC's. The Operational Delegation Authority Hierarchy should require the approval of the Board of Trustees, regardless of dollar amount, to ensure there is no conflict of interest in the grant award process.		Board of Trustees: X Not Implemented, N/A	Board of Trustees: OHA does not award grants to LLCs. In May 2019, the Board of Trustees approved: 1) the dissolution of LLCs ---Ho'okele Pono LLC, Hookipaipai, LLC and Hi'ikualono, LLC; and 2) the search and seating of non-OHA employee LLC managers for Hi'ilei Aloha LLC and Hiipaka LLC (dba Waimea Valley). During the FY20-21 budget and budget realignment actions (May and September 2019, respectively), operational winddown activities were projected and the related winddown, dissolution and termination activities were a part of the BOT approved LLC budget for FY20-21.

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				Implementation Date or Targeted Implementation Date: N/A
57)	Ensure that information on the sponsorship review forms are consistent with the grantees formal letter or application. Grantee information received by OHA that is not on the letter or application should be retained in the sponsorship file to ensure that a record of all relevant information is retained.	18-08 Recommendation No.1.a. 18-03 Board Recommendation No. 4.a. 18-03 Board Recommendation No. 4.b.	Board of Trustees: X Partially Implemented	Board of Trustees: On August 1, 2017, the Board approved the appointment of members to an Ad Hoc Committee on Grants and Scholarships to review and address Grants, including Kūlia Initiatives, Sponsorships, and the Trustee Sponsorship and Annual Allowance Fund (TSAAF). This program is still under review by the Ad Hoc Committee Targeted Implementation Date: June 2020
58)	Revise the Operational Authority Delegation Hierarchy to specify the departments or titles required to approve and sign Requests for Check Issuance. Currently, the delegation hierarchy simply states "Appropriate Budget Authority," and OHA was unable to identify for CLA who the "Appropriate Budget Authority" was for disbursements. If necessary, consider creating a budget authority document that identifies the appropriate budget authority by line of business, division, etc.		Financial Services Program (FSP) X Implemented	Financial Services Program (FSP): The Operational Authority Delegation Hierarchy for all approval signatures has been last updated 7/3/18. "Appropriate Budget Authority" is further defined as the manager or director for the program account being charged if different from manager's approval line. Implementation Date: July 2018
59)	Ensure that grants are issued only for the grant types established within the OHA Grants Program Standard Operating Procedures. Disbursements described as "Other" grants should be required to use another procurement method.		Grants Program: X Implemented	Grants Program: The Grants Program has two types of grants- Competitive and Noncompetitive Grants. Noncompetitive grants are initiated as an Administration and/or BOT initiative based on an identified need in the Native Hawaiian community that does not conform to the Competitive Grants Program process. Noncompetitive Grants conform to HRS §10-17 requirements. The Noncompetitive Grants process is included in the current Grants Program SOP. The Grants Program does not have "Other" Grants. Implementation Date: November 2019
60)	Ensure that sponsorships are not awarded for programmatic services. Grants awarded for programmatic services should use other grant methods (e.g., Community Grants Program).	18-03 Board Recommendation No. 4.a. 18-03 Board Recommendation No. 4.b.	Board of Trustees: X Partially Implemented	Board of Trustees: On August 1, 2017, the Board approved the appointment of members to an Ad hoc Committee on Grants and Scholarships to review and address Grants, including Kūlia Initiatives, Sponsorships, and the Trustee Sponsorship and Annual Allowance Fund (TSAAF). Administration is in the process of developing new organization wide Sponsorship processes, including processing of sponsorships formerly identified as "CEO Sponsorships" now known as "Kaiāulu Sponsorships".

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				<p>The new process includes: 1) Board approval of overall Sponsorship biennium budget as an authorization control; 2) Aggregation of all Sponsorships throughout the organization; and 3) A single, consistent central processing function (i.e., Grants Department) regardless of the budget origination point, program or line of business. All sponsorship process activities of planning, solicitation, application, review, recommendation, contracting, monitoring & close out and evaluation will involve other areas of OHA (e.g., planning, marketing, awarding announcement, monitoring, evaluation), but the overall process is to be managed by the Grants Department, resulting in more standardized processing.</p> <p>Targeted Implementation Date: June 2020</p>
61)	Implement a process whereby the accounts used for a Budget Realignment to fund a sponsorship or grant are presented to the BOT for consideration and review.	<p>18-03 Board Recommendation No. 1.e</p> <p>18-03 Adm Recommendation No. 4.b.</p> <p>18-03 Board Recommendation No. 4.c.</p>	<p>Executive Office:</p> <p>X Implemented</p>	<p>Executive Office: On October 11, 2018 (2nd rdg), the Board approved RM #18-12, amendments to the OHA BOT Executive Policy Manual and BOT Operations Manual relating to budget preparation, format and budget reporting requirements (PPB approach). The amendments were aimed at improving fiscal management, transparency, reporting, and accountability as well as to address the 18-03 Audit recommendations 1.d., 1.e., and 1.f. Under the approved amendments, "Administration is delegated authority to approve budget adjustments that fall within the lesser of \$100,000 or 5% between each program. Budget adjustments in and out of grants and sponsorships appropriations are prohibited." Furthermore, under the amendments, the authority of the CEO to approve Grants in an amount up to \$25,000 under paragraph 2.2.d. of the OHA EPM was eliminated, meaning that the CEO will no longer have any authority to approve any Grants regardless of amount without Board approval. The effective date of these approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes into effect on July 1, 2021, the organization operates under the approved amendments.</p> <p>Implementation Date: October 2018</p>



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
62)	Enforce the requirement that sponsorships, and other awards and disbursements, not exceed the dollar limits established by OHA. All appropriate OHA staff (i.e., grants, procurement, and accounting) should be adequately trained to scrutinize the supporting documentation to ensure that amounts are not split to circumvent spending/award limits. Any request that exceeds such spending limits should not be awarded, approved, or paid.		Grants Program: X Implemented	Grants Program: Grant awards conform to a BOT approved budget and require BOT award approval. Given this process, the Grant Program would not contract an amount that exceeded the award amount. Implementation Date: July 2019
63)	Ensure that accounting staff are sufficiently trained to not pay requests for payment that do not contain sufficient supporting documentation. All disbursements should equal the approved requests for payment and supporting invoices. Any exceptions should be returned by accounting to the appropriate OHA staff for correction and resubmission.		Financial Services Program (FSP) X Implemented	Financial Services Program (FSP): Staff has been trained to pre-audit payment requests for sufficient supporting documentation and proper approvals. Any incomplete forms or signatures are given back to the requestor to complete. Implementation Date: June 2008
64)	Require that disbursements not exceed the amount approved on a Purchase Requisition. If it is determined that the amount approved on a Purchase Requisition is not sufficient for the required disbursement, issue a new Purchase Requisition for the full amount of the disbursement and not only for the incremental increase. Approval of Purchase Requisitions is based on the dollar amount; therefore, issuing disbursements based on incremental Purchase Requisitions could be used to circumvent appropriate approval requirements.		Procurement Services Program (PSP): X Not Implemented, N/A	Procurement Services Program (PSP): The Purchase Requisition is "how" programs request that the Procurement Services Program conduct a solicitation for a particular goods, service or construction needed by the program. The cost listed on the Purchase Requisition is only an estimate as an actual cost will not be known until the solicitation is completed. Should the actual cost be higher than stated on the PR once the solicitation is completed, the Procurement Authorization Checklist documents the original amount on the PR and provides for the actual cost to be approved by the LOB and the Budget Analyst. Implementation Date or Targeted Implementation Date: N/A
65)	Disbursements and other financial transactions should not be approved by individuals other than OHA staff and designated on the Operational Authority Delegation Hierarchy. If OHA desires an approval from staff working in the Native Hawaiian Roll Commission (NHRC) regarding a disbursement, there should be an additional approval required of the appropriate staff of NHRC; however, it should not replace the approval signatures required of OHA staff. The Operational Authority Delegation Hierarchy should be updated to include the additional approval signatures required of NHRC staff.		Financial Services Program (FSP) X Not Implemented, N/A	Financial Services Program (FSP): All financial transactions are processed and approved by authorized OHA personnel. The Native Hawaiian Roll Commission (NHRC) was administratively attached to OHA and OHA funded. The NHRC ceased its active operations in 2016, so no associated update to the Operational Authority Delegation Hierarchy is needed. Implementation Date or Targeted Implementation Date: N/A



APPENDIX A - IMPLEMENTATION PLAN FOR 73 OHA RECOMMENDATIONS

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
66)	Ensure that OHA staff and administration are sufficiently trained on the appropriate order of documents that must be approved before purchasing goods or services. CLA observed instances in which a check request was prepared prior to or at the same time as other documents that require approval before requesting payment. Goods and services should not be purchased or paid for prior to obtaining adequate approval for the purchase.		Financial Services Program (FSP) X Implemented	Financial Services Program (FSP): Simultaneous preparation of various documents is acceptable in certain urgent/emergency instances to expedite processing. FS staff are trained to obtain sufficient supporting documentation and proper approvals for all payment requests. Implementation Date: June 2008
67)	Consider implementing a policy that requires all disbursements to be approved via a Request for Check Issuance or Request for Payment on Contract. These documents include information indicating that the approver has certified to the receipt of goods or services, which is an important step for approving all disbursements.		Financial Services Program (FSP) X Not Implemented, Disagree	Financial Services Program (FSP): The FS program disagrees with the recommendation of a policy requiring ALL disbursements be approved by the Check Issuance or Request for Payment on Contract. Other than the monthly recurring invoices (e.g. utilities, rent, etc.), the use of a “form” to request for payment is required. Encumbrances are setup in the beginning of the fiscal year for the recurring fixed expenditures, Program monitors review, verify and sign off on the monthly invoices acknowledging receipt of goods and services. FS staff processes the approved invoices in accordance with established fiscal procedures. Implementation Date or Targeted Implementation Date: N/A
68)	Implement a process to enforce the requirements that (1) the Request for Use of Procurement Card form is completed and appropriately signed before a pCard is used, (2) all receipts and other supporting documentation are retained within the disbursement file, (3) the Statement of Completed Travel form is submitted within the deadline, and (4) all forms are signed and dated. Provide additional staff training regarding the appropriate process for pCard approval, documentation, and use. Ensure that steps are taken to immediately address instances when the policy is not followed. Consider revoking pCard privileges for staff that consistently do not follow policy.		A. Procurement Services Program (PSP): X Partially Implemented B. Financial Services Program: X Implemented	Procurement Services Program (PSP): Addresses item number (3) Statement of Completed Travel Form is submitted within the deadline: OHA initiated the OHA Business Travel Process project team to help develop an efficient travel process for OHA Trustees and staff. Through the project management process, the project team plans to, among other things, address inefficiencies in the current travel process and to provide for clear accountability to the travel policy and procedures. Targeted Implementation Date: June 2020 Financial Services Program (FSP): Current pCard guidelines and procedures specify that cardholder is to obtain a completed Request for Use of Purchasing Card Form before charging, reconcile all charges on account and submit a bi-monthly billing statement supported by receipts and appropriate documentation for payment processing. Cardholder who consistently violates internal guidelines and procedures may be put on a corrective active plan including verbal or written warning, temporary

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
				suspension, revocation of privileges, or other disciplinary action. <i>See</i> OHA’s Purchasing Card Program Internal Guidelines and Procedures. Implementation Date: June 2016
69)	Implement a process to enforce the requirement that the Travel Allowance Authorization form is submitted within the deadline required for in-state and out-of-state travel. Provide additional staff training regarding the required process, and ensure that steps are taken to immediately address instances when the policy is not followed.		Procurement Services Program (PSP): X Partially Implemented	Procurement Services Program (PSP): OHA initiated the OHA Business Travel Process project team to help develop an efficient travel process for OHA Trustees and staff. Through the project management process, the project team plans to, among other things, address inefficiencies in the current travel process and to provide for clear accountability to the travel policy and procedures. Targeted Implementation Date: June 2020
70)	Implement a process whereby leases and long-term rentals are procured using the Exempt Procurement method for contracts. Using contracts for leases and long-term rentals will provide assurance that a contract manager is assigned, the contract has appropriate oversight and monitoring, and the invoice amounts and rates are compared to the rental or lease agreement.		Procurement Services Program (PSP): X Not Implemented, N/A	Procurement Services Program (PSP): Pursuant to HRS§103D-104 of the Hawai’i Public Procurement Code, leases of real property and office rentals are explicitly excluded from the definition of “goods” and it does not fall under the definition of “service.” As such, leases of real property and office rentals do not fall under procurement. Properties which OHA leases and long-term rentals are managed by the Resource Management Land Assets, Commercial Property Program. Implementation Date or Targeted Implementation Date: N/A
71)	The Community Engagement department should retain in the department files the information provided by various OHA staff to prepare the annual report to the Board of Trustees. This information should be retained in accordance with OHA’s standard retention policy to ensure that there is support for the information and numbers reported.		Community Engagement Program: X Implemented	Community Engagement Program: The Community Engagement (CE) program will retain in the Department files the information provided by various OHA staff to prepare the annual report to the Board of Trustees in accordance with OHA’s standard retention policy to ensure that there is support for the information and numbers reported. CE begins to gather information for the annual report in August, submission deadlines for various sections of the report run from September 1 and the final deadline for submissions is October 31. The report is sent for printing in mid-November. Implementation Date: January 2020 for next annual report period fiscal year ended 6/30/2020

Rec No.	CLA Recommendation Description	State Audit Recommendation Response ^{2 3}	Implementation Status	Comments, Including Implementation (or Targeted Implementation) Date
72)	The Community Engagement department should clarify with the grants department regarding whether the reported grant and sponsorship information is based on dollars awarded or disbursed. The report should be updated to clarify the nature of the dollars reported (awarded versus disbursed).		Grants Program: X Implemented	Grants Program: The Grants Program notified Community Engagement that grant and sponsorship information provided for the Annual Report are ‘awarded’ not ‘disbursed’ amounts. Implementation Date: December 2019
73)	Consider including information in OHA's annual report to the BOT that addresses the amount of grant awards disbursed. Currently, the annual report provides only grant awards. Providing disbursed dollars will help the BOT and other readers assess the overall results of the grant programs.		Grants Program: X Not Implemented, Disagree	Grant Program: Contrary to the audit recommendation, providing disbursement amounts for active grants in OHA’s annual report will not support an assessment regarding overall results of grants program. The current grant closeout process provides data on grant performance and actual disbursement amount for each grant. The grants information management system (OHA Foundant Grants Portal), which was launched in July 2019, can provide customized grant disbursement data for any requested grant period. Administration will consider how actual grant expenditures and other information can be reported to the Trustees, Administration, staff and beneficiaries on a quarterly basis. Implementation Date or Targeted Implementation Date: N/A

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

I. Summary of Implementation Plan for 30 LLC Recommendations by LLC Entity¹

		Recommendation No.		
Implementation Status	Quantity	Hi'ilei Aloha LLC	Hi'ipaka LLC	Ho'okipaipai LLC
Implemented	26	1-11,13,16,23,26-29	12,14,15,17,18,19,20,25	
Partially Implemented	2	30	21	
Not Implemented	0			
Not Implemented, N/A	1			22
Not Implemented, Disagree	1	24		
Total	30	20	9	1

¹ LLCs are calendar year entities whose operating year begins on January 1st and ends on December 31st

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

II. Detail of Implementation Plan for 30 LLC Recommendations by Recommendation Number

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
L01	Complete Financial Conflicts of Interest Disclosure Statements annually.	X - Implemented	Created a checklist of tasks to be completed annually at the end of every year (e.g., financial conflicts of interest disclosure) and added this to the list. Implementation Date: January 2020
L02	Retain proof of deliverables for established contracts in the contract file.	X - Implemented	Maintain an individual contract file folder for every contract and added "Proof of Deliverables" verbiage to Check Request forms to confirm receipt of goods and/or services. SOP ADMIN ACCT-009, SOP BUS-004, and CPM 005 have been updated. Implementation Date: January 2020
L03	Implement process to assign contract numbers.	X - Implemented	Created contract log with assigned contract number for all contracts. Added contract number to individual contract files and all forms related to each contract. Implementation Date: January 2020

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
L04	Implement use of Purchase Request form.	X - Implemented	Created a Purchase Request form to be used for all purchases. Budget compliance check is included on the form. Hi'ipaka will use the form only for non-routine purchases and all purchases over \$500. SOP ADMIN-004 has been updated. Implementation Date: January 2020
L05	Document the contract cost or price analysis process to determine reasonableness, allocability and allowability.	X - Implemented	Created Cost & Price Analysis form to be used with all purchases and inserted into the contract file. Hi'ipaka will use the form for non-routine purchases, capital items, and internet purchases. SOP ADMIN-004 has been updated. Implementation Date: January 2020
L06	Update Hi'ilei Aloha's Fiscal Policies and Procedures manual to designate the contract execution and delegation of authority.	X - Implemented	Added section to Fiscal P&P manual on these provisions and added them on forms to be included in every contract file. Implementation Date: January 2020
L07	Document process for contract execution ensuring contract effective date occurs after the execution date.	X - Implemented	Added section to Fiscal P&P (1) requiring contract effective date to be after contract execution date, and (2) recommended process for facilitating

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
			signatures. CPM-005 and SOP BUS-004 have been updated. Implementation Date: January 2020
L08	Train employees on established check issuance process.	X - Implemented	Added this provision in Fiscal P&P and added refresher training to Year End checklist. Implementation Date: January 2020
L09	Ensure complete and appropriate documentation is received to support completing a Request for Check Issuance form.	X - Implemented	Added section to Fiscal P&P requiring that payments may be processed only after receiving a detailed invoice from vendor. CPM and SOP have been updated. Implementation Date: January 2020
L10	Ensure services obtained are fully utilized for the benefit of the organization.	X - Implemented	Added section to Contract File Folder Checklist to document use of vendor's service or product (or explanation of why service or product was not used). Implementation Date: January 2020
L11	Guide and train individuals to ensure that contract payments submitted for payment should	X - Implemented	Added section to Contract Payment Balance Form that payments may never exceed the contract amount. If additional payments are required, staff

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
	never exceed the total contract amount.		must execute a contract amendment. CPM and SOP updated. Implementation Date: January 2020
L12 (Hi'ipaka LLC)	Ensure appropriate contract monitoring is in place between Hi'ipaka and OHA.	X - Implemented	Hi'ipaka is working with OHA to ensure appropriate contract monitoring is in place when applicable. Implementation Date: January 2020
L13	Document consistently the verification of receipt of a product or service.	X - Implemented	Added section to Check Request Form to confirm goods and/or services were received. Implementation Date: January 2020
L14 (Hi'ipaka LLC)	Update and align Hi'ipaka's Standard Operating Procedures and existing Corporate Procedures Manual.	X - Implemented	Aligned CPM-005 and SOP BUS-004 and SOP ADMIN-004. Implementation Date: January 2020
L15 (Hi'ipaka LLC)	Obtain and verify and retain in contract files, vendor submitted contract related documentation (e.g., Certificates of Good Standing, certificates of insurance, contractor's license).	X - Implemented	Implemented a process to include all contract-related documents in hard copy file folder and digital files. Implementation Date: August 2019

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
L16	Ensure appropriate steps are implemented to review contract drafts for accuracy.	X - Implemented	Added instruction to Fiscal P&P that all contracts must contain an effective date and execution dates. Implementation Date: January 2020
L17 (Hi`ipaka LLC)	Ensure changes to contracts are appropriately documented as a written contract amendment.	X - Implemented	This is already the practice for all contracts. Implementation Date: Inception
L18 (Hi`ipaka LLC)	Ensure invoice submitted for contract payment accurately reflects the terms of the contract.	X - Implemented	All contractors are required to include a schedule of payments made to date on their invoice with the outstanding contract balance that will then be verified by the contract monitor before payment is approved. Implementation Date: January 2020
L19 (Hi`ipaka LLC)	Train employees on established check issuance process.	X - Implemented	All employees preparing check request have been trained. Added annual refresher training on Fiscal P&P to Year End checklist. Implementation Date: January 2020
L20 (Hi`ipaka LLC)	Implement review process to ensure information in the general ledger accurately records payment	X - Implemented	Accountant has implemented this recommendation. Implementation Date: January 2020

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
	information, such as payee name, check number, and date.		
L21 (Hi'ipaka LLC)	Consider requesting from the bank, images of the front and back of cancelled check with the monthly bank statements. On a sample basis, use images to compare payee information to the information in the general ledger and ensure Hi'ipaka's check signing policy is in compliance.	X Partially Implemented	Currently receive a copy of the front of the check with the monthly bank statement. Also have access to copies of both front and back of checks upon request. Will obtain sample copies (5% of checks written) on a monthly basis. Targeted Implementation Date: February 2020
L22 (Ho'okipaipai LLC)	Ensure three verbal quotations of rate or price are obtained as required by the Ho'okipaipai Fiscal Policies and Procedures manual.	X Not Implemented, N/A	Not implemented as Ho'okipaipai LLC is in the process of dissolving.
L23	Document in the contract file the basis for non-competitive negotiations when competitive negotiation becomes infeasible.	X - Implemented	Added section to Fiscal P&P that the basis for any non-competitive negotiations must be documented and placed in the contract file folder. Added confirmation of this to Cost & Price Analysis form. Implementation Date: January 2020

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
L24	Consider OHA's procurement staff reviewing of LLC's "loans" and "grants" for compliance with the regulations of HRS 10-17.	X - Not Implemented, Disagree	Hi'ilei Aloha LLC is an independent Hawai'i organized limited liability corporation exempt from federal income tax under section 501(c)(3) and is not subject to the regulations of HRS 10-17 and related compliance. Implementation Date: N/A
L25 (Hi'ipaka LLC)	Implement procedures to ensure completeness of documents required for the disbursement and retaining such documents in the contract file.	X Implemented	Currently retain all contract-related and required documents in contract files. Implementation Date: August 2019
L26	Document and implement a transparent review and approval process when funding support to the benefit of a third-party organization.	X Implemented	Added section to Fiscal P&P that Capacity-Building disbursements with OHA funds for the benefit of a third party (i.e., strategic planning, grant writing, business plan writing, etc.) require adequate and equal consideration of OHA's beneficiaries, with transparent review and approval of requests for capacity-building support. Implementation Date: January 2020
L27	Ensure comprehensive quality review control in place for the	X Implemented	Created Quarterly Report form and initiated review process for OHA quarterly reports:

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
	production of the LLCs quarterly reports to the Board of Trustees (BOT).		<p>a. Review draft & circulate to other LLC executive director(s)</p> <p>b. Address differences in reports</p> <p>c. Identify & correct mathematical errors</p> <p>d. Add footnotes with explanation of any legitimate differences</p> <p>e. Sign off by Hi'ipaka E.D., Hi'ilei accountant, and Hi'ilei COO.</p> <p>Implementation Date: January 2020</p>
L28	Consider adding footnotes or notes to the quarterly reports to the BOT; including reconciliation notes addressing recorded transactions after the quarterly reports provided to the BOT.	X Implemented	<p>Footnote disclaimer is already included in OHA Quarterly Reports per suggestion made by CLA staff earlier this year; next quarter for reporting is third quarter ending September 2019.</p> <p>Implementation Date: January 2020</p>
L29	Ensure strict quality control review process to ensure mathematical errors are identified and corrected prior to finalization.	X Implemented	<p>Initiated process outlined in L27 above; next quarter for reporting is third quarter ending September 2019.</p> <p>Implementation Date: January 2020</p>

APPENDIX B - IMPLEMENTATION PLAN FOR 30 LLC RECOMMENDATIONS

Recommendation No.	Recommendation Summary	Implementation Status	Comments, Including Implementation (or Target Implementation) Date
L30	Consider formatting the quarterly financial reports to mirror the format of the audited financial statements.	X - Partially Implemented	To be implemented upon confirmation from OHA of preferred format. Targeted Implementation Date: No later than June 30, 2020

Individual Contract File folder for each contract will contain:

1. Contract number, contract manager, and delegation of contract execution and/or management from COO/ED to contract manager (if applicable);
2. Purchase Request Form
3. Cost & Price Analysis form with attachments
 - Copies of all quotations
 - Include basis for non-competitive negotiations
4. Certificate of Good Standing, Certificate of Insurance, contractor license, and/or any other vendor certifications that are required.
5. Executed contract (execution date must be prior to effective date).
6. Contract amendments (if any are required).
7. Invoice(s) from vendor (must be detailed)
8. Contract Payment Balance form
9. Check Request Form(s) with proof of deliverables
10. Copy of checks

I. Summary of Responses Addressing 32 Flagged Test Items of Possible Fraud Waste Abuse by Process Area

Type	Items	Amount ¹	Flagged Test Items No.
Grants	5	\$3,948,000	1-5
Competitive Sealed Bid (RFP)	2	\$3,110,752	6,7
Professional Services	3	\$843,496.24	8,9,10
Exempt Purchase	10	\$1,274,162.50	11-20
CEO Sponsorship	5	\$129,999	21-25
Exempt Non-Grants, Small Purchase	7	\$850,797.08	26-32
Total	32	\$10,157,206.82	

II. Detailed Responses Addressing 32 Flagged Test Items of Possible Fraud Waste Abuse

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
1	Contract	Grants	K-11	2726 (12/01/2011-11/30/2013)	I Ola Lāhui, Inc.	\$ 500,000.00	72	Contract monitor no longer employed by OHA and was not interviewed by CLA	Contract Purpose: Community Grant to provide evidence-based health interventions Observations: <ul style="list-style-type: none"> Contractor's Executive Director of contractor and CEO may be acquaintances; CEO in position to review and approve grants recommended by the review 	<ul style="list-style-type: none"> CLA found that "there does not appear to be any financial benefit to an OHA employee." Request for Final Payment on Contract of \$1,000 was found in the files provided to CLA. Contract monitor is no longer employed with OHA.

¹ Based on contract \$ (vs. disbursed \$)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<p>committee before sending to BOT;</p> <ul style="list-style-type: none"> Grant period overlapped with K-25; Backdating of contract K-11; K-11 grant file missing Purchase Requisition for first year and final Request for Payment on Contract for \$1,000 Does not appear to be financial benefit to OHA employee; but there is a possibility of preferential treatment to this grantee; <p>Any mishandling of grant awards or perceived favoritism could pose a risk to OHA of possible fraud, waste, abuse</p>	
2	Contract	Grants	K-25	2887 (07/01/2013-06/30/2015)	I Ola Lāhui, Inc.	\$ 500,000.00	72	Former Grants Manager was interviewed; still at OHA in another role	<p>Contract Purpose: Community Grant for Kūlana Hawai‘i Weight Management Program</p> <p>Observations:</p> <ul style="list-style-type: none"> Contractor’s Executive Director of contractor and CEO may be acquaintances; CEO in position to review and approve grants recommended by the review committee before sending to BOT; Grant periods overlapped with K-11; Purchase Requisition for second year for \$250,000 missing from grant file. 	<ul style="list-style-type: none"> CLA found that "there does not appear to be any financial benefit to an OHA employee." Contract monitor is no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> Does not appear to be financial benefit to OHA employee; but there is a possibility of preferential treatment to this grantee; <p>Any mishandling of grant awards or perceived favoritism could pose a risk to OHA of possible fraud, waste, abuse</p>	
3	Contract	Grants	K-39	2953 (02/01/2014-05/31/2014)	Native Hawaiian Education Association on behalf of World Indigenous Peoples Conference on Education (WIPCE)	\$ 150,000.00	73	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Grant for WIPCE Conference</p> <p>Observations:</p> <ul style="list-style-type: none"> Former OHA CEO was keynote speaker at Grant event; CLA could not determine if Dr. Crabbe received compensation for the speech and if there was any financial interest at stake; CEO makes final decision on recommendations to BOT for Kūlia; Grant file missing: grant application, monitoring and eval reports, Grant Assessment Form, on-site monitoring report, Grant Closeout Report. <p>Potential for personal benefit to the former CEO combined with missing documents are indicators of possible fraud, waste or abuse</p>	<ul style="list-style-type: none"> According to NHEA President (phone call, 1/7/2020): Former OHA CEO was not compensated for his keynote speech. Contract monitor is no longer employed with OHA.
4	Contract	Grants	K-57	3026	Akamai Foundation on behalf of Na‘i Aupuni	\$ 2,598,000.00	73	Contract monitor no longer	<p>Contract Purpose: To facilitate election of delegates, election and referendum monitoring, a governance</p>	



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
				(05/04/2015-08/03/2016)				employed by OHA and was not interviewed by CLA	<p>‘Aha, and a referendum to ratify any recommendation of the delegates arising out of the ‘Aha</p> <p>Observations:</p> <ul style="list-style-type: none"> Potential conflict of interest between Native Hawaiian Roll Commission Executive Director and his wife, who was a board member of Na‘i Aupuni, No disclosure in the grant file of potential conflict of interest Appearance of abuse of OHA’s disbursement process <p>Because all funds were disbursed and the election was canceled, the intended results of the grant were not recognized, which is an indication of waste of funds</p>	
5	Contract	Grants	K-76	2785 (06/15/2012-07/15/2012)	‘Aha Kāne	\$ 200,000.00	75	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Grant for ‘Aha Kāne Conference 2012</p> <p>Observations:</p> <ul style="list-style-type: none"> Grantee was founded by former OHA CEO before he was employed by OHA Documentation shows the former OHA CEO served as an advisory chair to ‘Aha Kāne at time it received grant Grant file contained no disclosure of this information Grant executed day prior to event so funds dispersed after event began 	<ul style="list-style-type: none"> CLA found that "there is no evidence of a personal financial benefit" to the OHA CEO. Contract monitor is no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> Association between former OHA CEO and organization indicate possible conflict of interest in the awarding of this grant <p>There is no evidence of a personal financial benefit to the former OHA CEO</p>	
6	Contract	Competitive Sealed Proposals (RFP)	K-52	3007 (12/11/2014-12/10/2016)	WCIT Architecture	\$ 2,925,752.00	93	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Contract for conceptual master plan and prepare for an RFP to select developer</p> <p>Observations:</p> <ul style="list-style-type: none"> Deliverable(s) not provided to CLA, however, it may exist. Plans may have changed however rendering work performed under contract obsolete. <p>Raises concern for possible waste</p>	<ul style="list-style-type: none"> Conceptual Master Plan was presented in Executive Session to Board on 11/4/2015 and remains confidential. OHA paid approximately \$1.86 million of the total contract. <p>Payment was for work relating to contract deliverables for the conceptual master plan, design guidelines and initial stages of EIS scoping meetings and draft EIS preparation.</p>
7	Contract	Competitive Sealed Proposals (RFP)	K-77	2847 (01/01/2013-09/30/2014)	Absolute Plus Advisors	\$ 185,000.00	94	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Provide investment advisory services</p> <p>Observations:</p> <ul style="list-style-type: none"> None of documents related to RFP were provided to CLA. No Purchase Requisition for original contract provided. Evidence of a deliverable was not provided. Backdating of contract amendment. 	<p>Deliverable identified: ARM Agendas indicate Absolute Plus Advisors Presented at these meetings:</p> <ul style="list-style-type: none"> 1/23/2013 – presented: Summaries of Hawaii Direct Investments and Ending Market Value of 2012, Growth Asset of Sep. 2012, Short Term Liquidity Account 7/10/2013 – presented: Quarter Portfolio Overview 10/2/2013 – presented: Native Hawaiian Trust Fund 2013 Risk Management Evaluation 4/16/2014 – presented: Native Hawaiian Trust Fund 4th Quarter 2013 Performance



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> Invoices approved past expiration of original contract and prior to amendment. <p>Lack of documentation raises concern that this contract was not procured properly, lack of evidence of a deliverable raises concern contract was not managed properly</p>	Review <ul style="list-style-type: none"> 6/4/2014 – presented: Native Hawaiian Trust Fund Annual Review - hard copy of this report found 7/9/2014 – presented: Native Hawaiian Trust Fund 1st Quarter 2014 Performance Review 9/3/2014 – presented: Native Hawaiian Trust Fund 2nd Quarter 2014 Performance Review - hard copy of this report found
8	Contract	Professional Services	K-17	2828 (05/11/2012-08/31/2015)	Mid-Continent Research for Education and Learning	\$ 349,527.00	121	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Kūkulu Hou assessment framework project (Mana Scale)</p> <ul style="list-style-type: none"> No names of selection committee members or a signed affidavit by the selection committee members. No evidence of contract being awarded to 1st ranked contractor. No evidence that contract was reviewed by purchasing agency. Missing purchase requisition for original contract. First contract amendment made effective before execution date. No deliverable found by current OHA staff for vendor's work. Redacted email content from Procurement Manager to CEO's special assistant day before execution. <p>Lack of deliverable combined with other observations raise concern that contract not handled properly and</p>	<p>Deliverable identified: According to OHA staff for project: McRel's work under this contract contributed to Chapters 1-5 and bibliography of the Mana Lāhui Kānaka book. Contractor is named as one of the "Partners and Facilitators" of the book on page 447 of the online version (oha.org/mana) and cited throughout the book as Mid-Continent Research for Education and Learning and "McRel"</p>

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									OHA did not receive benefit for which it paid	
9	Contract	Professional Services	K-55	3022 (04/01/2015-03/31/2017)	Stryker Winer & Yokota Public Relations, Inc.	\$ 293,969.24	122	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Develop an Integrated Marketing Communications Plan</p> <p>Observations:</p> <ul style="list-style-type: none"> Selection committee documentation not included in file. No verification documentation to confirm contract was awarded to first-ranked person. No Procurement Document Checklist. <p>OHA ultimately never used a portion of the product produced by this vendor and paid for by OHA, which is an indication of possible waste</p>	OHA continues to use the integrated communication plan(s) created by Stryker Winer & Yokota Public Relations under this contract.
10	Contract	Professional Services	K-56	3025 (09/07/2014-until services no longer needed)	Reed Smith LLP	\$ 200,000.00	124	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Provide legal services regarding Native Hawaiians</p> <p>Observations:</p> <ul style="list-style-type: none"> Pro-bono work within the year after Ms. Nu‘uhiwa’s departure from OHA, then contracted under Reed Smith -- unsure if this pro-bono work was in exchange for receiving contract. Evidence that Professional Services Committee could not be impartial or remain independent. 	Contract monitor is no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> Documents suggest that the procurement process did not occur in the proper order, suggesting OHA had already made a decision to hire Reed Smith prior to any of the procurement steps being undertaken for FY14-15 Inconsistent documentation in the procurement file. No compliance documents from vendor. 	
11	Contract	Exempt Purchase	K-09	2721 (12/01/2011-06/30/2012)	The Kalaimoku Group LLC	\$ 50,000.00	152	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Public relations and messaging services related to the proposed Kaka‘ako settlement</p> <p>Observations:</p> <ul style="list-style-type: none"> Appears that this contract should not have been executed as exempt contract. Vendor was established in 2011, same year this contract was executed. Effective date was before the time contract was executed by OHA. Invoices dated six weeks apart. Unknown whether OHA paid a fair price for the services, potential indication for waste. Contractor was formed in the same year that the contract was executed and invoices are sequentially numbered, 	Contract monitor is no longer employed with OHA.



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<p>indicates OHA may be (or was) its only customer/client. This could be an indication that the company was formed solely to provide services to OHA.</p> <p>Combined with possible inappropriate use of the exempt contract method, raises question of whether contract was handled properly, which could be an indication of favoritism to vendor.</p>	
12	Contract	Exempt Purchase	K-18	2857 (12/03/2012-09/30/2014)	Native Hawaiian Education Association	\$ 99,600.00	153	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Hold 36 scholarship ‘aha</p> <p>Observations:</p> <ul style="list-style-type: none"> • Appears that this contract should not have been processed as an exempt contract, but instead as a grant or sponsorship • OHA could not provide documentation to support NHEA provided documents or reports required in contract. • Contract executed after effective date. • Questions of whether full scope of contract and amendment was fulfilled. <p>Combination of exempt procurement method and OHA’s inability to provide deliverables are an indication of possible waste and abuse.</p>	<ul style="list-style-type: none"> • NHEA provided a 4/20/2013 Prezi report to OHA detailing the 18 scholarship aha held in FY13 with 3,308 people attending. • Contract monitor is no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
13	Contract	Exempt Purchase	K-20	2879 (06/01/2014-06/30/2016)	Kuauli 'Āina-Based Insights LLC	\$ 435,000.00	154	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Inventorying, digitization, and analysis of the sales and transfers of the former Hawaiian Kingdom Government and Crown Lands</p> <p>Observations:</p> <ul style="list-style-type: none"> • Appears contract should not have been processed as an exempt contract. • Partial evidence showed that Kuauli completed the work required within scope of contract. • Contractor formed in same year contract was executed and the invoices are sequentially numbered indicate that OHA may be (or was) its only customer/client • Petition in support of CEO has listed the name of Kuauli's owner, during the time that work was being performed by Kuauli. • Raises question whether contract was handled properly and could be an indication of possible favoritism to vendor, posing a risk for possible fraud, waste, abuse <p>Exemption method raises question whether OHA paid a fair price for services, an indication of possible waste</p>	Contract monitor is no longer employed with OHA. Administration previously provided information about Contract 2879 and its amendments to the Board.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
14	Contract	Exempt Purchase	K-44	2967 (04/01/2014-07/31/2014)	Rider Levett Bucknall, LTD	\$ 10,000.00	155	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Present management and development framework on the Kaka‘ako Makai parcels</p> <p>Observations:</p> <ul style="list-style-type: none"> • Scope of previous contract with vendor appears duplicative or similar to the scope covered by this contract. • Invoice related to this contract identified the \$10,000 as “additional fees” for a total of \$160,000. • OHA did not provide information about dates of presentation by contractor. • No explanation of why this contract was processed as new and exempt rather than an amendment to the initial contract <p>Additional payment for similar services could be an indication of possible waste</p>	According to staff, Rider Levett Bucknall presented the “management and development framework on Kaka‘ako Makai land parcels” to the OHA Board of Trustees on November 21, 2013
15	Contract	Exempt Purchase	K-47	2979 (05/01/2014-04/30/2016)	David Keanu Sai, Ph.D.	\$ 25,000.00	156	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Providing memorandums and lectures regarding political science perspective under the framework of international law</p> <p>Observations:</p> <ul style="list-style-type: none"> • Possible that this contract should not have been processed as an exempt contract. 	A Sept. 16, 2014 memo from OHA CEO to the OHA Board indicated that “Dr. Sai has met all terms of this contract, upon submission of his memorandum dated, May 27, 2014, titled: <i>Memorandum for Ka Pouhana, CEO of the Office of Hawaiian Affairs regarding Hawaii as an Independent State and the Impact it has on the Office of Hawaiian Affairs.</i> ”

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> OHA did not provide evidence that lectures were requested by OHA or provided by Dr. Sai. Contract was executed by OHA on June 23, 2014, when effective date was May 1, 2014. Letter and memo were dated before the Purchase Order was approved and contract was executed. <p>Use of procurement exemption raises the question whether this contract was handled properly and could be an indication of possible favoritism to this particular vendor</p>	
16	Contract	Exempt Purchase	K-54	3019 (01/05/2015 – until services no longer needed)	McCorriston Miller Mukai MacKinnon LLP	\$ 150,000.00	157	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Legal defense of OHA in <i>Ka Piko O Waimea v. OHA</i></p> <p>Observations:</p> <ul style="list-style-type: none"> Processed as an exempt contract when it does not appear to qualify as an exempt procurement. <p>Exempt procurement method removes ability to ensure contracts are awarded fairly and best value is obtained, and raises concerns of favoritism or conflicts of interest</p>	<p>This contract pertained to the lawsuit captioned, <i>Ka Piko O Waimea v. Office of Hawaiian Affairs</i>. Insurance defense counsel is provided consistent with OHA's applicable insurance policy providing coverage for the lawsuit. The law firm was listed on the Choice of Counsel Endorsement to the policy and selected therefrom to provide legal representation and defense of OHA.</p> <p>HAR §3-120-4, Ex. A, No. 5. exempts the purchase of insurance, to include insurance broker services. OHA's insurance broker helps the agency obtain appropriate insurance coverage for OHA's assets and activities. For OHA's POL/EPL policy, the insurance carrier has an approved panel of counsel and/or the agency can obtain a Choice of Counsel endorsement.</p>

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
17	Contract	Exempt Purchase	K-69	3072 (08/13/2015- until services no longer needed)	McCorriston Miller Mukai MacKinnon LLP	\$ 250,000.00	157	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Legal defense of OHA <i>Akina, et al. v. State of Hawaii, et al.</i></p> <p>Observations:</p> <ul style="list-style-type: none"> Processed as an exempt contract when it does not appear to qualify as an exempt procurement. <p>Exempt procurement method removes ability to ensure contracts are awarded fairly and best value is obtained, and raises concerns of favoritism or conflicts of interest</p>	<p>Under this contract, Contractor represented and defended OHA in the lawsuit captioned <i>Akina et al. v. The State of Hawai'i et al.</i>, bearing Case No. 1:15-cv-00322, filed in the United States District Court for the District of Hawai'i.</p> <p>The Contractor was selected because it was on the Choice of Counsel Endorsement to the policy, had performed satisfactory in the past, possessed the requisite qualifications, legal expertise, and capacity to render the services required to OHA and was familiar with the history and background of OHA.</p> <p>HAR § 3-120-4, Ex. A, No. 5. exempts the purchase of insurance, to include insurance broker services. OHA's insurance broker helps the agency obtain appropriate insurance coverage for OHA's assets and activities. For OHA's POL/EPL policy, the insurance carrier has an approved panel of counsel and/or the agency can obtain a Choice of Counsel endorsement.</p>
18	Contract	Exempt Purchase	K-70	3073 (08/27/2015- until services no longer needed)	McCorriston Miller Mukai MacKinnon LLP	\$ 179,500.00	157	Contract monitor no longer employed by OHA and was not interviewed by CLA	<p>Contract Purpose: Legal Representation of OHA for mediation and litigation regarding Mauna Kea</p> <p>Observations:</p> <ul style="list-style-type: none"> Processed as an exempt contract when it does not appear to qualify as an exempt procurement. <p>Exempt procurement method removes ability to ensure contracts are awarded</p>	<p>On August 27, 2015, pursuant to HRS 92-5(a)(4), the Board met in Executive Session to consult with its attorney re: questions and issues pertaining to the board's powers, duties, privileges, immunities, and liabilities regarding the Board of Land and Natural Resources Rules for Mauna Kea. The disclosure of executive session minutes is subject to review and approval by the OHA Board counsel. Nevertheless, the Board discussed with its counsel, its powers, duties, privileges and liabilities regarding the State of</p>



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									fairly and best value is obtained, and raises concerns of favoritism or conflicts of interest	Hawaii's proposed rules relating to Mauna Kea. Following this meeting, the McCorriston law firm was engaged to provide legal services to OHA, including but not limited to, a mediated effort to resolve existing disputes between OHA, the State of Hawaii, the University of Hawai'i and other interested parties relating to Mauna Kea.
19	Contract	Exempt Purchase	K-73	3101 (01/15/2016-07/08/2016)	Ayda Aukahi Austin Seabury	\$ 30,062.50	158	Contract monitor no longer employed by OHA and was not interviewed by CLA	Contract Purpose: Transcription and facilitation services Observations: <ul style="list-style-type: none"> Appears that should not have been processed as an exempt contract. Two payments made required Ms. Seabury to provide specific deliverables, which OHA did not provide -- no evidence that Seabury completed the work. Contract was executed after the effective date. Based on timing of interviews in the contract, it appears services were supposed to begin prior to when contract was executed. OHA did not receive competitive bids so it's unknown whether OHA paid a fair price because an exemption was used 	Deliverable located: 23 transcribed (including translating Hawaiian to English) interviews (totaling 1,400 pages) of individuals and at least one group discussion were submitted to OHA. Ms. Seabury's work under this contact contributed to Chapter 4 of Mana Lāhui Kānaka book.



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									Combined with lack of deliverables led to red flag for possible fraud, waste, or abuse	
20	Contract	Exempt Purchase	K-75	3110 (03/08/2016-06/30/2016)	Raedeem M. Keahiolalo LLC	\$ 45,000.00	159	Contract monitor no longer employed by OHA and was not interviewed by CLA	Contract Purpose: Provide writing and editing services to the Kūkulu Hou Assessment Project Observations: <ul style="list-style-type: none"> Appears that contract should not have been processed as an exempt contract. OHA did not provide evidence of deliverables required by contract.	Deliverable located: Ms. Keahiolalo’s work under this contract related to the editing (three full passes of line-by-line editing) of the Mana Lāhui Kānaka book. She is given editing credit on the cover of the book for her work under this contract.
21	Disbursements	CEO Sponsorships	D-09	26307 (04/20/2012)	University of Hawai‘i, Office of Research Services	\$ 30,000.00	173	CEO no longer employed by OHA and was not interviewed by CLA	Disbursement Purpose: Sponsor the GEAR UP Hawai‘i Public Awareness Campaign Observations: <ul style="list-style-type: none"> CEO sponsorship awards seem to have been split to avoid restrictions on maximum amount of CEO sponsorships. Split into two components; \$24,950 for grants in aid and \$5,050 for services on a fee basis. Raises the question of whether it was handled properly, which could be an indication of possible abuse of the grant award process to benefit the grantee.	The grantee was University of Hawaii, which is a state entity. The grant arguably should have gone through the procurement process as an exempt contract with another state entity under §103D-102(b)(3).

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
22	Disbursements	CEO Sponsorships	D-19	27638 (01/03/2013)	Supporting the Language of Kauaʻi	\$ 25,000.00	174	CEO no longer employed by OHA and was not interviewed by CLA	<p>Disbursement Purpose: To help cover operational start-up costs</p> <p>Observations:</p> <ul style="list-style-type: none"> Confidential business plan was not provided by OHA. Notes within the procurement document indicate that it was a "rush" request. Lack of documentation to support that the confidential business plan was properly reviewed and approved <p>Raises question of whether it was handled properly, which could be an indication of possible abuse of the grant award process to benefit the grantee</p>	<ul style="list-style-type: none"> OHA Board approved Action Item BOT #07-05, which approved and authorized the formation of a limited liability company, as subsidiary of Hiʻilei Aloha LLC, to acquire the assets and operate Makaweli Poi Mill. BOT #07-05 indicates the purpose of purchasing the assets of the poi mill was "to preserve and promote Hawaiian culture and create economic opportunities for Native Hawaiians by encouraging taro farming and the production of high quality poi." The OHA Board received updates on poi mill operations from Hiʻipoi on May 3, 2012 and August 2, 2012. From 2008 to 2012, poi mill operations netted a loss of almost \$450,000, according to OHA Board meeting minutes. On May 15, 2012, OHA announced in a press release that it would "transition ownership and management" of the mill to a "Kauaʻi community organization". Over the next two days (May 16 and 17), OHA held a Board and Board community meetings on Kauai, during which the poi mill was a major topic of discussion with the community. On Dec. 26, 2012, OHA issued a press release stating that the agency was "transferring Makaweli Poi" to Supporting the Language of Kauai Inc (SLK). The Request for Check Issuance was submitted the same day as the press release and marked "rush"

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
										<p>as noted by CLA. The press release stated that "OHA had previously been working with Ka Piko o Waimea on the transfer of Makaweli Poi since May, and recently began accepting business proposals from other nonprofit community groups."</p> <p>The press release said that ultimately OHA accepted the business plan of SLK, and would transfer the poi mill assets by the beginning of 2013 and would also "provide seed money to help with start-up costs" to SLK.</p>
23	Disbursements	CEO Sponsorships	D-30	30149 (05/19/2014)	Smithsonian National Museum of the American Indian	\$ 25,000.00	174	CEO no longer employed by OHA and was not interviewed by CLA	<p>Disbursement Purpose: Sponsorship of Living Aloha Event honoring Sen. Daniel K. Inouye, May 2014</p> <p>Observations:</p> <ul style="list-style-type: none"> OHA forms were not completed in chronological order. <p>Duplicates of three documents in the file, indicating a simultaneous procurement and disbursement process was taking place.</p>	Individuals with knowledge about this disbursement are no longer employed with OHA.
24	Disbursements	CEO Sponsorships	D-31	30190 (05/27/2014)	The Nature Conservancy	\$ 24,999.00	175	CEO no longer employed by OHA and was not interviewed by CLA	<p>Disbursement Purpose: Sponsorship of the Marine Fellowship Program</p> <p>Observations:</p> <ul style="list-style-type: none"> OHA knew the purpose of the sponsorship was to support a programmatic service. CEO Sponsorships were intended to be used for one-day 	

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<p>events. Sponsorship should have been submitted under a grant process for programmatic services, such as Community Grants or Kūlia Grants</p> <p>Sponsorship raises the question of whether it was handled properly, which could be an indication of possible abuse of the grant award process to benefit the grantee.</p>	
25	Disbursements	CEO Sponsorships	D-43	33539 (04/21/2016)	The Edith Kanakaʻole Foundation	\$ 25,000.00	176	CEO no longer employed by OHA and was not interviewed by CLA	<p>Disbursement Purpose: To support research towards Kanawai o Mauna a Wākea stewardship</p> <p>Observations:</p> <ul style="list-style-type: none"> Email indicated that the grant award was a rush at the request of the CEO. Appears that the CFO approved the Request for Check Issuance before Purchase Requisition was approved. Grant file was missing a formal funding request letter or application and Procurement Document Checklist, required by Grants SOP and Fiscal Procedures Manual, and a copy of the Purchase Order. CEO rushing the award may have resulted in circumventing the Grants Program Standard Operating Procedure. 	Individuals with knowledge about this disbursement are no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									Sponsorship raises question of whether it was handled properly, could be an indication of possible favoritism to the grantee.	
26	Disbursements	Exempt Non-Grants Small Purchase	D-02	28535 (06/17/2013)	David R. Sanborn	\$ 5,000.00	193	Contract monitor no longer employed by OHA and was not interviewed by CLA	Disbursement Purpose: Develop a Native Hawaiian Organization consultation policy development handbook Observations: <ul style="list-style-type: none"> Contractor was paid entire amount he invoiced OHA OHA could not locate deliverable document. Possible waste.	Individuals with knowledge about this disbursement are no longer employed with OHA.
27	Disbursements	Exempt Non-Grants Small Purchase	D-04	25498 (11/30/2011)	ABW Holdings, LLC	\$ 150,000.00	193	Individuals with knowledge about this disbursement are no longer employed by OHA and were not interviewed by CLA	Disbursement Purpose: To pay for a lease guaranty OHA had signed on behalf of Kauhale LLC, which defaulted on its commercial lease at the Waikiki Beach Walk Observations: <ul style="list-style-type: none"> \$150,000 was split into two separate Purchase Requisitions No evidence that legal counsel reviewed the disbursement before the payment was issued Disbursement did not contain vendor's invoice or evidence that indicated that Kauhale defaulted on its lease. Not sufficient transparency because disbursement lacked a single PR for the total 	<ul style="list-style-type: none"> CLA was provided Action Item ARM/BAE #06-09, which was approved with five votes by the OHA Board in open session on 10/05/06. In response to CLA's question of "why OHA was involved in guarantying commercial leases for a non-profit business," ARM/BAE #06-09 explains "OHA's economic development agenda includes stimulating Native Hawaiian entrepreneurship and expanding profitability and sales for Native Hawaiian artisans and producers by building substantial marketing opportunities [...] This action proposes that OHA facilitates small business development and growth by helping Native Hawaiian owned businesses locate in [...] prime



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<p>\$150,000, and there was no Procurement Document Checklist (although not required)..</p> <p>Combined with fact that OHA did not retain copy of vendor invoice or file an explanation as to why it was in the business of providing a lease guaranty, these factors could be an indication of possible waste or abuse.</p>	<p>retail space at the Waikiki Beach Walk [...] With OHA's [lease] guarantee, these businesses are able to secure a lease at discounted lease rates, which would have otherwise been inaccessible to these firms on their own."</p> <ul style="list-style-type: none">• Board action on 10/05/06 approved a lease guarantee not to exceed \$250,000.• File sent to CLA contained a Procurement Package Checklist <p>Request for Check Issuance Form for \$150,000 was initiated by Corp Counsel and signed by Corp Counsel, indicating that legal counsel did in fact "review the disbursement before the payment was issued."</p>
28	Disbursements	Exempt Non-Grants Small Purchase	D-22	28442 (05/31/2013)	Hu'ena Power, Inc.	\$ 600,000.00	194	N/A	<p>Disbursement Purpose: Investment Purchase</p> <p>Observations:</p> <ul style="list-style-type: none">• BOT Agenda that indicates there was BOT Action in Executive Session.• OHA did not give the copy of the Action Item because it was in Executive Session and confidential.• No evidence of public vote by BOT that approved the investment.• Public Record shows that Hu'ena Power was not selected by HELCO to develop geothermal stations and as a	<p>OHA Action Item ARM 13-02 entitled "Consideration by the Board of Trustees of an investment in Hu'ena Power Consortium ("HPC")" was placed on the 4/18/13 OHA Board of Trustees meeting agenda in Executive Session and remains confidential.</p>



APPENDIX C – OHA ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (32)

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<p>result OHA did not recover its \$600,000 investment in the venture.</p> <p>Highly risky investment with no return, loss of initial investment led to red flag for waste of funds and possibility of fraud.</p>	
29	Disbursements	Exempt Non-Grants Small Purchase	D-33	28949 (09/09/2013)	The Kalaimoku Group, LLC	\$ 28,115.17	195	Individuals with knowledge about this disbursement are no longer employed by OHA and were not interviewed by CLA	<p>Disbursement Purpose: Produce Native Hawaiian Roll Commission Concert Series, August 31, 2013</p> <p>Observations:</p> <ul style="list-style-type: none"> • Several inconsistencies re: dates of procurement documents. Invoice for the concert production was dated 19 days before the concert, with no explanation provided by OHA. • Purchase order was issued by OHA and dated nine days after the concert with no explanation for why it was created after services were rendered. • Check was issued same day as OHA prepared the Purchase Order, but the request for Check Issuance was dated three days before the Purchase Order was created. • CLA determined that this disbursement did not qualify as an exempt procurement 	Individuals with knowledge about this disbursement are no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									Indicators that procurement was not handled properly which could indicate possible favoritism to this vendor	
30	Disbursements	Exempt Non-Grants Small Purchase	D-34	30921 (10/28/2014)	Hi‘ilei Aloha LLC	\$ 50,000.00	196	Individuals with knowledge about this disbursement are no longer employed by OHA and were not interviewed by CLA	<p>Disbursement Purpose: To hire a grant writer for Hi‘ilei Aloha</p> <p>Observations:</p> <ul style="list-style-type: none"> No documentation that the grant writer position was advertised or filled. OHA did not provide any documentation to show that position was advertised or filled. OHA was unable to demonstrate the purpose of the disbursement met its intended use. <p>Indicator for possible fraud, waste or abuse.</p>	
31	Disbursements	Exempt Non-Grants Small Purchase	D-47	30659 (08/29/2014)	Kualoa Ranch Hawaii, Inc.	\$ 9,198.58	196	Individuals with knowledge about this disbursement are no longer employed by OHA and were not interviewed by CLA	<p>Disbursement Purpose: To rent facilities to entertain staff and their families at a tourist attraction</p> <p>Observations:</p> <ul style="list-style-type: none"> Used to rent facilities to entertain OHA staff and families, indication of possible use of public funds for entertainment and could be considered wasteful. HRS 103D may broadly apply because it prohibits unethical use of state funds. 	Individuals with knowledge about this disbursement are no longer employed with OHA.

#	Category	Type	CLA Sample #	OHA Contract # / Check #	Vendor/Contractor/Grantee	Contract Amount with Amendments	Report Page	Contract Monitor	Contract Purpose Summarized CLA Observations	Notes
									<ul style="list-style-type: none"> HRS 84 fair treatment statute may apply; CLA interpreted the statute to mean that no OHA employee can use their position to grant unwarranted privileges to others. <p>Indicators of possible waste include lack of documentation to support that the activities undertaken qualified as an exempt disbursement.</p>	
32	Disbursements	Exempt Non-Grants Small Purchase	D-48	28834 (08/14/2013)	Wet ‘N’ Wild Hawaii	\$ 8,483.33	197	<p>Individuals with knowledge about this disbursement are no longer employed by OHA and were not interviewed by CLA</p>	<p>Disbursement Purpose: To entertain OHA staff and their families at a water theme park</p> <p>Observations:</p> <ul style="list-style-type: none"> Used to rent facilities to entertain OHA staff and families, indication of possible use of public funds for entertainment and could be considered wasteful. HRS 103D may broadly apply because it prohibits unethical use of state funds. HRS 84 fair treatment statute may apply; CLA interpreted the statute to mean that no OHA employee can use their position to grant unwarranted privileges to others. <p>Indicators of possible waste include lack of documentation to support that the activities undertaken qualified as an exempt disbursement.</p>	Individuals with knowledge about this disbursement are no longer employed with OHA.

DRAFT

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

I. Summary of Responses Addressing 6 Flagged Test Items of Possible Fraud Waste Abuse by Process Area

Type	Total Items	Total \$	Response No.
Contracts	2	\$11,960	1, 2
Disbursements	4	\$103,367	3,4,5,6
Total	6	\$115,327	

II. Detailed Responses Addressing 6 Flagged Test Items of Possible Fraud Waste Abuse

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
1	Contract	Hi'ilei Aloha Contracts	LK-26		Peter Hanohano, Jr.	\$ 1,960.00	245
<p>CLA Observation (Summarized): A \$500 payment was issued to vendor as a stipend that was not included in contract. Travel costs exceeded contract amount by \$100.68</p>							
<p>LLC Management: The contract manager for this contract is no longer a Hi'ilei employee. Peter Hanohano, Ph.D., was one of Hi'ilei's capacity-building managers and had recently left Hi'ilei's employment. Capacity-Building had a full schedule of workshops to conduct on various islands. Because of that, Peter offered to help, and Hi'ilei agreed to cover his travel costs. A contract was written based on estimated travel costs, which turned out to be \$100 more than estimated. Hi'ilei also provided Peter a \$500 stipend for his time. He spent several days</p>							

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
teaching workshops and traveling on his own time. It would have cost much more to use a consultant. If Peter did not assist, some of the workshops would had to have been canceled, which would inconvenience Hi'ilei clients and OHA beneficiaries.							
2	Contract	Hi'ilei Aloha Contracts	LK-28		HAHCBED Hi Alliance	\$ 10,000.00	245
CLA Observation (Summarized): Payments to vendor exceeded contract amount by \$406 for out-of-pocket expenses that were invoiced to Hiilei Aloha but for which no receipt was provided							
LLC Management: The contract manager for this contract is no longer a Hi'ilei employee. The Department of Hawaiian Home Lands (DHHL) contracted with Hi'ilei to do convention planning and to provide capacity-building services to homestead associations. Some of those services were contracted to Hawai'i Alliance for Community Based Economic Development (HACBED), a well-known nonprofit organization that focuses on community economic development. HACBED had been one of DHHL staff's preferred vendors. When services were contracted out, capacity-building staff did not require vendors to attach copies of receipts as long as the services were performed and verified. All services under this contract were performed and verified.							
3	Disbursements	Hi'ilei Aloha Disbursements	LD-03	003687	Lehua Poi Company	\$ 20,000.00	270

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
<p>CLA Observation (Summarized): Purpose of disbursement is questionable since Hiilei Aloha was not involved with poi mill operations and Hiipoi had already transferred poi mill on 12/31/12. No indication in Hiilei Aloha's Fiscal Policies and Procedures manual that its purpose is to make loans to 3rd parties. \$20,000 loan was not repaid and eventually written off in Oct. 2015. Raises question of whether this disbursement adhered to mission and goals of Hiilei Aloha, which could indicate possible waste of funds. In addition, lack of documentation surrounding transaction and method of how handled are possible indicators of fraud, waste, abuse.</p>							
<p>LLC Management : This and the next three transactions relate to Hi'ipoi LLC and Makaweli Poi Mill.</p> <p>CLA questions whether this disbursement adhered to Hi'ilei's mission and goals. It absolutely was in line with Hi'ilei's mission to preserve Hawaiian culture and provide educational opportunities as outlined in detail below. CLA states the disbursement is questionable because Hi'ilei was not involved with poi mill operations. This is incorrect. Hi'ilei was very involved with poi mill operations from 2010 forward. Hi'ilei provided capacity-building assistance, grant writing assistance, and technical assistance onsite plus marketing, sales, and delivery support on O'ahu.</p> <p>Following is the background information on reasons for acquiring the Poi Mill and details about Hi'ilei's mission.</p> <p>In 2006, the owner of Makaweli Poi Mill (John Aana) approached OHA and asked OHA to buy the mill because he wanted to devote all of his time to taro farming. He agreed to double his taro production to help the poi mill become self-sustainable and profit-making. After much discussion, OHA Trustees agreed to buy the Poi Mill in 2006 with all Trustees voting to keep it in operation for the cultural and economic benefit of the westside Kaua'i community. This would preserve the making of Makaweli-style poi, which is thicker and more tart than other poi varieties, and is favored by Niihauans who live on the west side. There would also be economic benefit to the taro farmers of Waimea and Makaweli valleys. It was contemplated that the Poi Mill and surrounding taro lo'i would serve as education projects for students and the community at large to learn Hawaiian culture and the practice of planting and harvesting taro and making Makaweli-style poi. All of these points are discussed at length in the Business Plan that was prepared to support the purchase of Makaweli Poi Mill.</p>							

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
							<p>OHA Trustees approved purchasing the mill from Aana for \$185,000 and gave him a consulting contract in the amount of \$25,000 for the first year to help the mill succeed. Trustees created a nonprofit organization, Hi'ipoi LLC, to take ownership of the mill and manage it. Trustees formed another nonprofit organization, Hi'ilei Aloha LLC, as the parent company of Hi'ipoi.</p> <p>The mission of the parent company, Hi'ilei Aloha LLC, is:</p> <ul style="list-style-type: none"> • To study the history and culture of the Hawaiian people, including ancestral lifestyles, traditions, customs, practices, values and beliefs including, by way of example, agricultural, farming, language, religion, economy, trade, and social practices. • To educate the Hawaiian people and all people on the history and culture of the Hawaiian people, including through educational models, demonstrations, employment opportunities, and scientific studies. • To educate the Hawaiian people and all people as to the plants, land, and water resources, and other wildlife and ecosystems endemic to the Hawaiian Islands along with their role in Hawaiian history, civilization and culture. • To educate, train, assist, and prepare Hawaiians for leadership in business and community affairs. <p>The mission of Hi'ipoi LLC was:</p> <ul style="list-style-type: none"> • To preserve, protect, enhance, develop and promote Hawaiian culture, customs and practices through the production of poi and/or other taro products and by supporting and encouraging the farming of taro in Makaweli Valley and surrounding communities. • To create educational and business opportunities for Hawaiians related to taro farming and production of poi and other taro products. <p>The Poi Mill struggled financially from the beginning of OHA's acquisition of it. Aana did not double his taro production as committed to, and there were not enough poi sales to become self-sustaining as projected in the Business Plan. Hi'ipoi LLC constantly requested more</p>

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
							<p>funds from OHA to sustain operations. The financial struggles are documented in many reports given to OHA and Trustees. At one point, Trustees instructed Hi'ipoi managers not to come back and ask for more funding.</p> <p>Within a few years, OHA ended up putting more than \$500,000 into the Mill to keep it operating. Upon close review of site management at the Mill, Hi'ipoi learned that Aana was undermining OHA's acquisition by redirecting the staff and questioning decisions made by Hi'ipoi LLC managers. Aana blamed the financial struggles on OHA for hiring a full-time executive director, incurring accounting costs for fiscal reporting, purchasing insurance, and incurring other costs that he did not have as a mom-and-pop operation.</p> <p>Knowing that Trustees would not approve additional funding and that OHA could not successfully manage the Mill from off-island, Hi'ipoi LLC managers looked at exit strategies to transfer ownership of the Mill to a community-based nonprofit organization on Kaua'i. The Trustees' original goals of purchasing the Mill still remained in place: to support cultural practices and education and to keep the Mill operational as an economic and cultural resource for the westside Kaua'i community.</p> <p>When Hi'ipoi LLC managers announced that it would be transferring ownership of the Mill to a community-based organization, Aana and the poi mill's onsite manager (Brynna Storch) objected, stating that OHA had an obligation to continue funding the mill and make it successful. Later they agreed to a transfer in ownership provided that they were allowed to form their own nonprofit organization to take over the mill. They asked Hi'ipoi managers to give them \$1,000 to form their organization (Ka Piko). The Managers approved the expense and directed Ka Piko to submit a Business Plan for review.</p> <p>After six months of requests for Ka Piko's business plan, but not receiving it, Hi'ipoi managers decided to look for another community organization to acquire the Mill. A call went out for proposals, and Supporting the Language of Kaua'i (SLK) submitted a Business Plan with their proposal. SLK is the nonprofit arm of Kawaikini Public Charter School located on the grounds of Kaua'i Community College. SLK intended to contract with a Waimea business owner (Nākulu Arquette) to run the Mill. Arquette had many years of experience of growing taro, making poi, and running a successful snack business. Part of the profits of the Mill would go to SLK for scholarships for its students.</p>

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
<p>Hi'ipoi managers selected SLK as the community-based organization to take over the Mill. When they informed Ka Piko that they were proceeding to work with another community organization because Ka Piko had not produced a Business Plan, members of Ka Piko became enraged. They started a hostile media and community campaign against OHA, Hi'ilei, Hi'ipoi, and the managers. They undermined the success of the mill, calling for a boycott by taro farmers and employees, and spreading lies in the community about OHA, Hi'ilei, Hi'ipoi, SLK and Arquette. They eventually sued OHA, Hi'ilei Aloha LLC, and Hi'ipoi LLC, and lost the lawsuit.</p> <p>Through all of this, the goal still remained to help the Poi Mill survive and preserve it as a resource for the community as initially directed by OHA Trustees. Hi'ilei's capacity-building program helped the poi mill under SLK and Arquette many times the same way Hi'ilei helped any Native Hawaiian business or nonprofit organization that requested assistance. Under SLK/Arquette, the poi mill still continued to struggle financially and was still in danger of closing. Arquette eventually asked OHA for a loan, which the LLC Managers approved. The hostility from Ka Piko continued. The mill continued to struggle and eventually Arquette was not able to repay the loan. The LLC Managers approved write-off of the loan.</p> <p>Although the Mill was struggling financially, Arquette kept the mill running while he looked for someone else to take over. The Mill was producing poi, purchasing taro from farmers, and continuing the practice of making thick, tart Makaweli-style poi. OHA Trustees' original goal of preserving the Mill as a cultural and economic resource for the community was being achieved in spite of all the hostility.</p>							
4	Disbursements	Hi'ilei Aloha Disbursements	LD-05	004597	Supporting the Language of Kaua'i, Inc. (SLK)	\$ 60,000.00	270
<p>CLA Observation (Summarized): Lehua Poi Co. is an independent organization separate from Hiilei Aloha and OHA, yet Hiilei Aloha is providing it funding to stay in operation and subsidize its losses. Raises question of whether this disbursement adhered to mission and goals of</p>							

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
							<p>Hiilei Aloha, which could be an indication of possible waster of funds. In addition, lack of documentation surrounding transaction and method of how handled are possible indicators of fraud, waste, abuse.</p> <p>LLC Management : CLA states that assistance to SLK was outside of Hi‘ilei Aloha’s mission. But this is incorrect. It is absolutely part of Hi‘ilei’s mission to preserve Hawaiian culture and provide educational opportunities as outlined in detail above. In addition, Hi‘ilei had a responsibility to find solutions to growing losses of sub-entity Hi‘ipoi with the knowledge of OHA Trustees’ initial goal to preserve the Mill as a cultural and economic resource for the community and admonition not to come back and ask for more funding.</p> <p>Arquette decided to stop managing the mill for SLK because of mounting financial losses and continual hostility from Ka Piko. Arquette looked for buyers of the business at \$125,000 to pay off his debts, including the above loan. Several buyers expressed an interest in the Mill but could not come up with financing.</p> <p>SLK identified a former taro farmer and current educator (Kaina Makua) who wanted to take over the mill, but he did not have the funds to buy it. Makua was an ideal candidate to run the mill because he was from the community, was an experienced taro farmer, had a Master’s degree in education, and had a strong background in Hawaiian language and culture. With his experience and knowledge, he had a Business Plan to help the Mill become self-sustaining by using both nonprofit cultural approaches and for-profit business approaches.</p> <p>SLK asked OHA and Hi‘ipoi LLC for financial assistance to help transfer management of the Mill from Arquette to Makua. This would cover some of Arquette’s losses and provide Makua with start-up funds. As part of its capacity-building program, Hi‘ilei provided the funding. The goal was still to keep the Mill open and preserve it as a resource for the community as initially directed by OHA Trustees. The Mill was turned over to Makua without any exchange of funds between Arquette and Makua.</p> <p>Once Makua took over management of the Mill, Hi‘ilei continued to provide capacity-building assistance to the Mill by helping with grant writing, strategic planning, and training their in-house grant writer. Their grant writer became very successful, writing grants jointly at first with Hi‘ilei staff and eventually identifying grant opportunities and writing grant applications on her own.</p>

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
5	Disbursements	Hi'ilei Aloha Disbursements	LD-22	004494	Commercial Dehydrator Systems, Inc.	\$ 13,367.00	270
<p>CLA Observation (Summarized): \$13,367 purchase of commercial dehydrator system for poi mill made four days prior to Hiipoi's transfer of poi mill. According to Hiilei Aloha, purchase of dehydrator was a verbal agreement between Dr. Crabbe and Lehua Poi Company during negotiations to transfer poi mill. Raises question of whether the disbursement adhered to the mission and goals of Hiilei Aloha which could be an indication of possible waste of funds.</p>							
<p>LLC Management: CLA states that the purchase of a commercial dehydrator system for the Mill was outside of Hi'ilei Aloha's mission. But this is incorrect. It is absolutely part of Hi'ilei's mission to preserve Hawaiian culture, provide educational opportunities, and assist and prepare Native Hawaiians for leadership in business, as outlined in detail above.</p> <p>In addition, OHA Trustees approved funding for Hi'ilei's capacity-building program to help Native Hawaiian nonprofit organizations and businesses succeed. The mission of Hi'ilei's capacity-building program is to "identify, promote, develop, and support culturally-appropriate, sustainable opportunities that benefit Native Hawaiians."</p> <p>In order for the poi mill to be successful, it needed to sell more products other than poi and sell those products on islands other than Kaua'i. The population of Kaua'i was not big enough to sustain the poi mill only on sales of poi. Because the goal was still OHA Trustees' original goal of keeping the Mill open and preserving it as a cultural and economic resource for the community, LLC Managers stayed involved to help the Mill succeed. One of the ways to help was to purchase a dehydrator so the Mill could expand its product line by making taro flour. If Hi'ipoi still owned the Mill, OHA or Hi'ilei would have assisted in ways like this without hesitation.</p> <p>Hi'ilei had already assisted the poi mill over the years by helping to develop, package, and sell new products such as Taro Chunks and kūlolo. Hi'ilei explored bottling options with Kōloa Rum to package poi as a baby food. Hi'ilei brought in the Agriculture Incubator</p>							

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
<p>Program at the UH College of Tropical Agriculture (CTAHR) to help analyze the business and provide advice. Hi'ilei helped the mill obtain clients on O'ahu, which included all of the Foodland stores and Times Supermarkets and other potentially big clients such as Young's Market. Hi'ilei helped the Poi Mill deliver its products on O'ahu by picking up shipments at Aloha Air Cargo and delivering to 20+ stops around the island.</p>							
6	Disbursements	Hi'ipoi ¹ Disbursements	LD-21	001058	Supporting the Language of Kaua'i, Inc.	\$ 10,000.00	280
<p>CLA Observation (Summarized): SLK is an independent organization separate from Hiilei Aloha and OHA, yet Hiilei Aloha continued to fund the operation of poi mill after it was transferred. Because there were no policies or procedures for Hiipoi, CLA is unable to determine a process was established for awarding grants to support poi production. Further, appears grant was actually funded by OHA. There was no documentation to support that the grant was reviewed and approved through OHA's standard grant process (including HRS § 10-7 and OHA Grants SOP), which indicates that this payment may have been structured to avoid OHA's grant policies and procedures by using Hiipoi as a conduit to make grant payments to SLK. Lack of documentation surrounding transaction, method in which transaction was handled and possible personal relationships between Dr. Crabbe, Mr. Perry and Mr Arquette are possible red flags of fraud, waste, abuse.</p>							
<p>LLC Management : CLA implies that SLK's status as an independent organization separate from OHA and Hi'ilei would make this grant inappropriate. However, that is incorrect. CLA overlooks OHA's mission to better the conditions of Native Hawaiians; Hi'ilei's mission to preserve and educate on Hawaiian cultural practices; and the capacity-building program's mission to help Native Hawaiian businesses as</p>							

¹ Dissolved in 2017.

APPENDIX D – LLCs ADDRESSING POSSIBLE FRAUD WASTE ABUSE FLAGGED TEST ITEMS (6)

#	Category	Type	CLA Sample #	LLC Contract # / Check #	Vendor, Contractor, Grantee	Contract Amount with Amendments	Report Page - Start
							<p>outlined in detail above. This disbursement to SLK was for the same purposes: to help the Mill survive and preserve it as a cultural and economic resource for the community, as initially directed by OHA Trustees when the Mill was first acquired.</p> <p>If the relationship between Crabbe, Perry, and Arquette is only that they know each other in the Hawaiian community and sit on the same nonprofit board(s), that displays a lack of knowledge and needs to be reconsidered. In the small community of Hawai'i, many people know each other and many people sit on the same boards. The Hawaiian community is even smaller, with a population of less than 300,000 living in Hawai'i. People are bound to know each other. That alone should not be a basis for presuming a conflict of interest, fraud, waste, or abuse. There should be evidence before inflammatory statements such as this are made.</p> <p><u>IN SUMMARY</u>, it is important to note that the poi mill is finally successful. With the resources that OHA, Hi'ipoi, and Hi'ilei provided to SLK, Arquette, and Makua, the poi mill is finally self- sustaining. With Makua's nonprofit cultural model and for-profit business model, the Poi Mill is finally succeeding.</p> <p>OHA Trustees' original goal has been achieved: preservation of the Mill as a cultural and economic resource for the westside Kaua'i community.</p> <p>If Hi'ipoi LLC had retained ownership of the Mill, OHA and Hi'ilei would have put all of these resources into the Mill, without hesitation, to make it successful. The fact that ownership was under SLK, a nonprofit community-based organization, does not remove OHA's responsibility to better the conditions of Native Hawaiians, nor does it change the mission of Hi'ilei Aloha LLC to help preserve Hawaiian culture and practices; to educate Native Hawaiians and other people on Hawaiian culture and practices; to educate, train, assist and prepare Hawaiians for leadership in business and community affairs; and to help Native Hawaiian businesses succeed.</p> <p>OHA, Hi'ilei Aloha LLC, and Hi'ipoi LLC should be commended for enduring the struggles of owning a Poi Mill, a difficult business anywhere, and persevering to find a methodology that would work. It took courage to constantly consider other possibilities in the face of hostility. Today the Mill is surviving and has been preserved as a cultural and economic resource for the community.</p>

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
1	6	<p>Corporate Counsel: The primary responsibility to identify and disclose conflicts of interest will remain with the individual staff involved in decision-making. A certification by the contract signator, will be included as part of the standard OHA contract signature line, to attest that he/she has no conflicts of interests related to the contract. An additional step to screen for potential conflicts during the processing of contracts by staff in OHA Grants, Procurement, and Corporate Counsel, will utilize a list of publicly disclosed entities from the Hawai'i State Ethics Commission Short Form Disclosures of Financial Interests.</p> <p>Targeted Implementation Date: June 2020</p>		
2A	23A	<p>Procurement Services Program (PSP): Effective 2016, the Procurement Services Program contract file is comprised of three sections: 1) all solicitation documents, including the appointment of the evaluation committee, evaluation documents, and copy of recommendation to award; 2) the executed contract documents; 3) all original proposals and any other documents relevant to the RFP process. The solicitation section includes all seven items noted by the CLA recommendation required for an RFP. To maintain the integrity of the contract file, Procurement does not permit original proposals to be loaned out for any type of review. Only copies of the proposals submitted are loaned out for reviewing purposes. Currently, one hard copy of each proposal is maintained in the contract file. Procurement plans to scan all solicitation documents for efficient document retrieval. The entire procurement contract file is retained throughout the term/life of the</p>		

¹ Reported no later than April 30th

² Reported no later than July 31st

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>contract. Once the contract has expired, the contract file comprised of the three parts is archived according to OHA's records retention policy. This process will be included in the current draft of the Procurement Services Program SOP which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
2B	26A	<p>Procurement Services Program (PSP): Effective 2016, all procurement contract documents are uniformly organized into the procurement contract file with three dividers. The three dividers create six sections as follows: 1) Solicitation document (other than IFB Or RFP); 2) Primary contract, supplemental and completed PAC forms; 3) Supplemental contracts and completed Procurement Authorization Checklist (PAC) forms; 4) PO and all PO revisions; 5) internal communications; and 6) external communications. The procurement contract files for the IFB and RFP have two sections: 1) Solicitation, approval forms, and documents; and 2) the Final IFB and RFP. This process will be included in the current draft of the PSP's SOPs which is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
3	28	<p>Procurement Services Program (PSP): It is the responsibility of the Procurement Services Program to ensure compliance with the State Procurement Laws for purchases of more than \$2,500. The Procurement Manager reviews and signs for approval of the source selection on the PAC form. The Procurement Document Checklist is no longer used. The Procurement Services</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>Program submits to Corporate Counsel the procurement contract file for review and approval of a contract as to form.</p> <p>This process has been included in the current draft of the PSP's SOP, which is pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
4	29	<p>Financial Services Program (FSP): Processed check payments are being sent directly to vendors via mail or in person. While the current fiscal procedures allow for checks to be released to the requestors for delivery to vendors/grantees, with the control over the practice the signature of receipt (by the requestor) as indicated on the check transmittal; procedures to be updated to discontinue this practice.</p> <p>Targeted Implementation Date: June 2020</p>		
5	31	<p>Executive Office, Organization Wide, Contract Management: Once a good or service has been procured through the PSP, the Program (e.g. Land, Community Engagement, Research) is responsible for contract administration. PSP is not responsible for maintaining a record of the deliverables submitted by the vendor or for keeping a record of the deliverable in the contract file. The Program communicates and works directly with the contractor or vendor to ensure the deliverables are met, received, and/or otherwise maintained. An organization wide process for contract administration will be developed and implemented that complements and is integrated with OHA's Oracle Fusion processes.</p> <p>Targeted Implementation Date: June 2020</p>		
6A	32A	Procurement Services Program (PSP):		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>This is an exception to the normal practice. Only in rare occasions, and in instances concerning emergencies, will contracts with an effective date that precedes the execution date be reviewed for consideration by Corporate Counsel. A memo to file will be included with the contract to document the reason for Corporate Counsel's granting of the exception, consistent with state practice (Comptroller's Memorandum no. 2009-14).</p> <p>Targeted Implementation Date: June 2020</p>		
6B	34A	<p>Procurement Services Program (PSP): A Program's request to extend and/or add funds to an existing contract must be submitted in writing to the Procurement Services Program. The Procurement Specialist will request justification in writing for the amendment, and it will be retained in the contract file under Section 5: "Internal Communications of the Procurement Services Program (PSP)." However, justification for the amendment will not be drafted into the contract amendment.</p> <p>The PSP SOP is pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
7A	35A	<p>Executive Office, Organization Wide, Contract Management: Once a good or service has been procured through the PSP, the Program (e.g. Land, Community Engagement, Research) is responsible for contract administration. PSP is not responsible for maintaining a record of the deliverables submitted by the vendor or for keeping a record of the deliverable in the contract file. The Program communicates and works directly with the contractor or vendor to ensure the deliverables are met, received, and/or otherwise maintained. An organization wide process for contract administration will be developed and</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		implemented that complements and is integrated with OHA's Oracle Fusion processes. Targeted Implementation Date: June 2020		
7B	68A	Procurement Services Program (PSP): Addresses item number (3) Statement of Completed Travel Form is submitted within the deadline: OHA initiated the OHA Business Travel Process project team to help develop an efficient travel process for OHA Trustees and staff. Through the project management process, the project team plans to, among other things, address inefficiencies in the current travel process and to provide for clear accountability to the travel policy and procedures. Targeted Implementation Date: June 2020		
8	36	Procurement Services Program (PSP): Effective 2016, the Procurement Services Program retains the approved review and selection committee members' names in the procurement contract file. The following documents that evidence completion of an appropriate selection process are kept in Section 1 of the procurement contract file: (1) Memorandum to CEO to appoint the Selection Committee, (2) evidence that the Procurement Officer ensured the impartiality and independence of committee members, (3) the Selection Committee individual scoring sheets, (4) the Selection Committee Scoring Matrix, and (5) Memorandum to CEO recommending the top three ranked candidates with the CEO's approval. The approval memos and evaluation conducted by the Review committee are kept in a separate file with the corresponding fiscal year's Statement of Qualifications and Notice of Interest. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, which is		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System</p> <p>Targeted Implementation Date: June 2020</p>		
9	38	<p>With this guidance from HSEC, if during the contracts or grants process, OHA staff becomes aware that a former OHA employee is working for a prospective vendor, contractor, or grantee, then OHA staff should inform Corporate Counsel. Corporate Counsel can confirm with Human Resources the separation date of the former employee and follow-up with the former OHA employee or his/her current employer on the former OHA employee's role or responsibilities with respect to the contract or grant being considered by OHA. Corporate Counsel can make a determination on whether OHA or the vendor, contractor, or grantee can proceed further. If there are any questions, Corporate Counsel or the former OHA employee can contact HSEC for guidance.</p> <p>Targeted Implementation Date: June 2020</p>		
10	40	<p>Procurement Services Program (PSP): Currently, to process a procurement request from solicitation to an executed contract requires the PAC form to be completed. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. The PAC form includes: the PR number and relevant information; approval for solicitation method; compliance documents; and approvals as required by program managers, directors, CFO, COO and/or CEO.</p> <p>This process has been included in the current draft of the Procurement Services Program Standard Operating Procedures, which is</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020¹)	Q4 (JUNE 2020²)
		<p>pending review and approval. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
11	43	<p>Procurement Services Program (PSP): The Procurement Services Program currently requires a “Procurement Authorization Checklist” (PAC) form to be completed in order to process a procurement request from solicitation to an executed contract. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. If an exemption is applicable, procurement staff provides citation to the exemption with an explanation on the PAC form. The PAC form is then submitted to the PSP Manager for approval. The PAC form includes: the PR number and relevant information; approval for solicitation method; compliance documents; and approvals by program managers, directors, CFO, COO and CEO. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
12	45	<p>Procurement Services Program (PSP): Upon notice of a possible procurement violation, the Procurement Manager will gather information by requesting that the program complete the “Procurement Inquiry Form.” The Procurement Manager will use the information provided on the Procurement Inquiry Form to determine if a violation has occurred. If a violation has occurred, the Procurement Manager will request that the</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>program complete Form SPO-016, Report of Procurement Violations: Finding and Corrective Actions and/or Request for After-The-Fact Payment Approval. Upon receipt of Form SPO-016 from the program, the Procurement Manager will review for completeness and submit to the HOPA and CPO for review and approval. All Procurement violations will be reported to SPO. This process will be included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
13A	47A	<p>Resource Financial Management Assets: Financial Services Program (FSP) and Procurement Services Program (PSP): The updated FSP and PSP SOP is pending further revisions reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
13B	47B	Same as 47A		
14	50	<p>Procurement Services Program (PSP): The Procurement Services Program currently requires a “Procurement Authorization Checklist” (PAC) form to be completed in order to process a procurement request from solicitation to an executed contract. The PAC form documents the procurement process on a single form and provides a useful tool to effectively inventory the required compliance documents and approvals for procurement processing. If an exemption is applicable, procurement staff provides citation to the exemption with an explanation on the PAC form. The PAC form is then submitted to the PSP Manager for approval.</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>This process has been included in the current draft of the Procurement Services Program Standard Operating Procedures, pending review and adoption. Further revisions will be forthcoming to reflect automation of our processes and advancements achieved with the Oracle Fusion System.</p> <p>Targeted Implementation Date: June 2020</p>		
15	55	<p>Records Management Program: OHA Administration has initiated the Records Management Redesign Project, which will effect a systematic, agency-wide review and update to OHA's records management policies and procedures that is tailored to the unique records produced by each OHA program, starting with programs in our Resource Management – Financial Assets Division. In addition to digital document retention systems that have since been implemented by individual programs, ISRM is currently redesigning OHA's internal SharePoint site and reviewing its function as a document management system.</p> <p>Targeted Implementation Date: February 2020 - Agency-wide project planning completed; June 2020 - updated records policies and procedures for Resource Management – Financial Assets Division implemented; June 2021 - agency-wide implementation completed.</p>		
16	57	<p>Board of Trustees: On August 1, 2017, the Board approved the appointment of members to an Ad Hoc Committee on Grants and Scholarships to review and address Grants, including Kūlia Initiatives, Sponsorships, and the Trustee Sponsorship and Annual Allowance Fund (TSAAF). This program is still under review by the Ad Hoc Committee</p> <p>Targeted Implementation Date: June 2020</p>		
17	60	<p>Board of Trustees: On August 1, 2017, the Board approved the appointment of members</p>		

OHA PARTIALLY IMPLEMENTED (18)				
ITEM No	REC No	SUMMARY	Q3 (MARCH 2020 ¹)	Q4 (JUNE 2020 ²)
		<p>to an Ad hoc Committee on Grants and Scholarships to review and address Grants, including Kūlia Initiatives, Sponsorships, and the Trustee Sponsorship and Annual Allowance Fund (TSAAF).</p> <p>Administration is in the process of developing new organization wide Sponsorship processes, including processing of sponsorships formerly identified as "CEO Sponsorships" now known as "Kaiāulu Sponsorships". The new process includes:</p> <p>1) Board approval of overall Sponsorship biennium budget as an authorization control;</p> <p>2) Aggregation of all Sponsorships throughout the organization; and 3) A single, consistent central processing function (i.e., Grants Department) regardless of the budget origination point, program or line of business. All sponsorship process activities of planning, solicitation, application, review, recommendation, contracting, monitoring & close out and evaluation will involve other areas of OHA (e.g., planning, marketing, awarding announcement, monitoring, evaluation), but the overall process is to be managed by the Grants Department, resulting in more standardized processing.</p> <p>Targeted Implementation Date: June 2020</p>		
18	69	<p>Procurement Services Program (PSP): OHA initiated the OHA Business Travel Process project team to help develop an efficient travel process for OHA Trustees and staff. Through the project management process, the project team plans to, among other things, address inefficiencies in the current travel process and to provide for clear accountability to the travel policy and procedures.</p> <p>Targeted Implementation Date: June 2020</p>		

LLC PARTIALLY IMPLEMENTED (2) – APPENDIX B				
ITEM NO	REC NO	SUMMARY	Q3 (MARCH 2020)	Q4 (JUNE 2020)
1 (HI'ILEI ALOHA LLC)	L-30	<p>Consider formatting the quarterly financial reports to mirror the format of the audited financial statements.</p> <p>To be implemented upon confirmation from OHA of preferred format.</p> <p>Targeted Implementation Date: No later than June 30, 2020</p>		
2 (HI'IPAKA LLC)	L-21	<p>Consider requesting from the bank, images of the front and back of cancelled check with the monthly bank statements.</p> <p>On a sample basis, use images to compare payee information to the information in the general ledger and ensure Hi'ipaka's check signing policy is in compliance.</p> <p>Currently receive a copy of the front of the check with the monthly bank statement. Also have access to copies of both front and back of checks upon request. Will obtain sample copies (5% of checks written) on a monthly basis.</p> <p>Targeted Implementation Date: February 2020</p>		

PHONE (808) 594-1888

FAX (808) 594-1938



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**
560 N. NIMITZ HWY., SUITE 200
HONOLULU, HAWAII 96817

March 28, 2019

VIA E-MAIL: lao.auditors@hawaii.gov
and U.S. MAIL, FIRST CLASS

Mr. Leslie H. Kondo, State Auditor
Office of the Auditor
State of Hawaii
Kekuanao'a Building
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Re: Response to the Formal Request for Information on Status of Implementation of Audit
Recommendations (Report No. 18-03)¹

Dear Mr. Kondo,

The Office of Hawaiian Affairs' ("OHA") Trustees and Ka Pouhana (Chief Executive Officer) is pleased to respond to your letter dated March 1, 2019 requesting an update on the status of audit recommendations made in Report No. 18-03, issued in February 2018, and offer the following comments as well as our specific responses relating to each recommendation in the attached forms. OHA is pleased to inform you that we have made substantial progress in addressing concerns identified in Report No. 18-03, fully implementing seven and partially implementing 32 of the 39 recommendations. We understand that we still have much work to do to. However, OHA remains committed to making necessary improvements to our overall administration of funds that we disburse to the Native Hawaiian community and to providing increased transparency and accountability to our beneficiaries.

I. Background

OHA notes the objectives of the audit reported in Report No. 18-03 was to: 1) Evaluate OHA policies and actions regarding use of its Fiscal Reserve, Grants, CEO Sponsorships, and Trustee Allowances; 2) Review and report on the status of OHA's implementation of our [auditors] 2013 audit recommendations; and 3) Make recommendations as appropriate.

¹ Report No. 18-03, February 2018, Audit of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawaii, <http://files.hawaii.gov/auditor/Reports/2018/18-03.pdf>

In addressing the recommendations and formulating our responses, OHA engaged in the following review and engagement activities: 1) Reviewed the requirements of Hawaii Revised Statutes, Chapter 10. Office of Hawaiian Affairs, § 10-3, § 10-4 and particularly § 10-17. Grants; conditions and qualifications; 2) Reviewed Reports No 18-03 and related Report No. 18-08, issued in June 2018²; 3) Reviewed current and updated standard operating procedures; and 4) Engaged in discussions with Grants Department management regarding the changes in processes implemented since the issuance of Reports No. 18-03 and 18-08.

II. Permitted Interaction Group

In January 2019, the Board, in accordance with HAWAII REVISED STATUTES, CHAPTER 92, PUBLIC AGENCY MEETINGS AND RECORDS, §92-2.5 (b) Permitted interactions of members, approved the formation of a Permitted Interaction Group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. The PIG anticipates formulating and reporting on recommendation(s) for a governance framework that includes, but not limited to: 1) Statutory, board and organization policies, procedures and other supporting documents; 2) Monitoring mechanism of governance practices (e.g., compliance); and 3) Accountability mechanisms for non-compliant behavior and practices. The recommendations from the PIG, Board action and implementation (e.g., reporting) is expected to be completed no later than June 30, 2019.

III. Quality Assurance Function³

As part of OHA's response to the recommendations of Report 18.03, we wanted to apprise the Office of the Auditor that OHA designed and established an organization wide quality assurance (QA) function. Quality control can be defined as "part of quality management focused on fulfilling quality requirements." While quality assurance relates to how a process is performed or how a product is made, quality controls are more the inspection aspect of quality management. An alternate definition is "the operational techniques and activities used to fulfill requirements for quality." Auditing is part of the quality assurance function. It is important to ensure quality because it is used to compare actual conditions with requirements and to report those results to management. Such a QA function is being designed to focus on business functions and processes, including, but not limited to: process design (e.g., controls, efficiencies); risk assessments of processes, processors, practices; policy alignment; procedures documentation (e.g., level of granularity, users, systems); auditing actual practice against documented procedure, etc.

The QA function will be implemented via a Senior Internal Auditor (SIA) position that is anticipated to be launched in the new fiscal year beginning July 1, 2019 and included in the FY 20-21 Biennium Budget. The Grants Department⁴ (formerly known as the Transitional Assistance

² Report No. 18-08, June 2018, Audit of the Office of Hawaiian Affairs' Competitive grants and Report on the Implementation of 2013 Audit Recommendations, A Report to the Governor and the Legislature of the State of Hawaii, <http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf>

³ ASQ, <https://asq.org/quality-resources/quality-assurance-vs-control#qa>, retrieved 1/5/2019

⁴ Throughout this document, the terms "Grants Department" and "Transitional Assistance Program", if used, refers to the same functional OHA unit.

Program in Report No. 18-08) is the first area or business function in OHA that will apply QA function processes via the SIA position. An implementation plan and roll out of the QA function beyond the Grants Department, in the OHA organization, will be detailed after outcomes from the Grants Department implementation are analyzed and other organization wide design activities completed by the SIA.

IV. Summary Internal Control Framework & Implementation

Framing OHA's responses in Appendix A is its overall internal control framework⁵ for the organization modeled after the COSO framework.

What Does COSO Stand For?

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a model for evaluating internal controls. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.



Figure 1. COSO Framework

What Is The COSO Framework?

The COSO model defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations”

In an “effective” internal control system, the following five components work to support the achievement of an entity’s mission, strategies and related business objectives.

1. *Control Environment*

- Integrity and Ethical Values
- Commitment to Competence
- Board of Directors and Audit Committee
- Management’s Philosophy and Operating Style

⁵ <https://info.knowledgeleader.com/bid/161685/what-are-the-five-components-of-the-coso-framework>, retrieved 2/24/2019

- Organizational Structure
- Assignment of Authority and Responsibility
- Human Resource Policies and Procedures

2. *Risk Assessment*

- Company-wide Objectives
- Process-level Objectives
- Risk Identification and Analysis
- Managing Change

3. *Control Activities*

- Policies and Procedures
- Security (Application and Network)
- Application Change Management
- Business Continuity/Backups
- Outsourcing

4. *Information and Communication*

- Quality of Information
- Effectiveness of Communication

5. *Monitoring*

- Ongoing Monitoring
- Separate Evaluations
- Reporting Deficiencies

These components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organization. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down and across the company. The entire system of internal control is monitored continuously and problems are addressed timely.

OHA's Trustees and Administration are in the process of designing and implementing an internal control framework using the COSO framework as an exemplar to be completed no later than June 30, 2019.

V. Updates re: Grants Processes

In addition to the status of the implementation of audit recommendations in Report No. 18-03, OHA would like to provide you with the following updates related to the Grants processes, which address previous audit recommendations, improvements in the control environment and process efficiencies:

1. Completed Standard Operating Procedures;
2. In the process of implementing an information system to track grant status and project deliverables, including retaining copies of e-mails, correspondence, performance reports and evaluations and alerts monitoring staff when reports due; can monitor grant staff performance, assists grants management staff in tracking delinquent annual and final reports to ensure grant deliverables are received; and flags the approval of new awards to grantees that miss deliverable.⁶ Upgrades to and implementation of enhanced functionality to the existing information system (i.e., Foundant Grants Database) is in process and projected to be fully implemented no later than June 30, 2019 for the new cycle (e.g., Kūlia, Community, 'Ahahui); and,

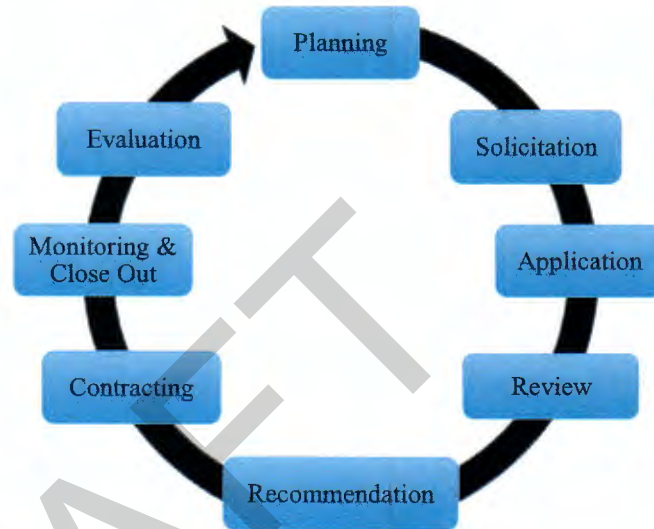


Figure 2. Grants Process Phases

3. Implementation and application of the QA function, as described above, to the Grants processes.

Responses included in Attachment A are reflective of the above process activities and plans.

VI. Summary of the Implementation of Audit Recommendations in Report No. 18-03

A summary of the implementation of audit recommendations is noted in the table below and details are included in Appendix A.

⁶ Report No. 13-07 Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations, A Report to the Governor and the Legislature of the State of Hawaii, September 2013, <http://files.hawaii.gov/auditor/Reports/2013/13-07.pdf>

Audit Recommendation Status	Implemented	Partially Implemented	Total
Board of Trustees	1e, 2a, 2b, 2c, 2d, 4c,	1a, 1b, 1c, 1d, 1f, 1g, 3a, 3b, 3c, 3d, 3e, 3f, 4a, 4b, 4d, 5a, 5b, 5c, 5d, 5e, 5f	27
# of recs	6	21	27
Administration	4b	1a, 1b, 2a, 2b, 3a, 3b, 4a, 5a, 5b, 5c, 5d	12
# of recs	1	11	12
Total	7	32	39

VII. Conclusion

Again, we are pleased to provide this update on OHA's progress in implementing the recommendations contained in Report No. 18-03 and hope our continuing commitment to address audit recommendations and working with your office is evident in our work and responses. We look forward to providing an update to our implementation of these recommendations in another year.

If there are any questions or desire to discuss these matters further, please do not hesitate to contact Dr. Crabbe via e-mail at kamanaoc@oha.org or telephone at 594-1892.

Me ka ha'aha'a,

Colette Y. Machado

Colette Y. Machado
Chair, Board of Trustees

Kamana'opono Crabbe

Kamana'opono Crabbe, Ph.D.
Ka Pouhana, Chief Executive Office

CM/KC:rg

Attachment A: Status of Implementation of Audit Recommendation Report No. 18-03 – 52 pages

Attachment B: List of Available Sources and References

Attachment B: List of Available Sources and References

Description	
1.	Trustee Bylaws
2.	Board of Trustees Executive Policy Manual
3.	Board of Trustees Operations Manual
4.	RM 18-01 Action Item (January 2018): Amendment to BOT Exec Policy Manual 3.5.e and 3.5.f
5.	BOT 18-01 Action Item (February 2018): Approval for OHA to impose moratorium on use of Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships
6.	RM 18-03 Action Item (February 2018): Moratorium on Fiscal Reserve Spending
7.	BOT 18-03 Action Item (July 2018): Approve all updates and amendments to BOT Bylaws with the exception of the Re-Designation of all references in Bylaws from "Administrator" to "Chief Executive Officer" which will be considered separately
8.	RM 18-12 Action Item (September 2018): Move to update budget preparation, format and reporting requirements by approving amendments to EPM and BOT Operations Manual, excluding aments on Fiscal Transparency 3.4.k through 3.4.l in Attach A and C
9.	RM 17-07 Action Item (June 2017): OHA Biennium Budget for the Fiscal Biennium Periods 2017-2018 (FY 18) and 2018-2019 (FY 19)
10.	On March 29, 2017, the Board approved the creation of a working and implementation advisory committee to address and complete various Financial Sustainability Plan (FSP) activities.
11.	Standard Operating Procedures and Appendices for the Grants Department
12.	Kulia Grants Guidelines and Process
13.	Training and communication records re: Ethics, HRS Chapter 92, Chapter 10 and Fiduciary Duties for Board of Trustees, Administration and Management
14.	Audited financial statements 2004 to 2017 on website – www.oha.org
15.	Annual reports 2001 to 2018 on website – www.oha.org

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.a.

OHA Board of Trustees should, in general, require trustees and trustee staff to attend regular training that includes, but is not limited to:

- i. Fiduciary duties and other responsibilities of trustees;
- ii. State Ethics Code, Chapter 84, HRS;
- iii. Sunshine Law, part I of Chapter 92, HRS; and
- iv. Uniform Information Practices Act (Modified), Chapter 92F, HRS.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

OHA Board of Trustees
Recommendation No. 1.a. (Continuation Page)

Regular training for new Trustees and Administration has been an on-going practice with the most recent training occurring in December 2018, shortly after the Trustee Investiture (two new Trustees) and the start of the new Chief Operating Officer. The new trustees met with the BOT and in-house counsel for training regarding OHA's mandates and duties under HRS Chapter 10; the various HRS statutes specifically applicable to the OHA; and the open meeting requirements under HRS Chapter 92 for public boards.

On December 27, 2018, Board and Committee leadership aides were provided training on HRS Chapter 92, the recent statutory amendments that affect their job responsibilities as to agendas, meeting minutes, and board packets, and handling public records requests under HRS Chapter 92F.

On January 10, 2019, the new Trustees to the Board attended HSEC provided training on the State Ethics Code.

On a periodic basis and most recently on July 24, 2018 and March 5, 2019, HR sends an email to all OHA, informing Trustees and employees about available State Ethics training, the HSEC's monthly newsletter, *The High Road*, and ethics related information. HR informed new employees of the upcoming Ethics training schedule and helps new employees register for Ethics training. OHA employees know that they can contact their supervisor or HSEC directly if they have questions.

Managers meet on a monthly basis to discuss operations and program updates, including Ethics updates and education.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.b.

OHA Board of Trustees should, in general, ensure that OHA policies and procedures, applicable to trustees and the Administration, align and are consistent with OHA's mission, trustees' fiduciary duties, and State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Board of Trustees**Recommendation No. 1.b. (Continuation Page)**

The BOT Executive Policy Manual (EPM) is currently being reviewed to include all previously Board approved amendments; reformatted for ease of use, reference and page replacement as future amendments are approved by the Board; and updated for alignment with fiduciary duties and state laws.

In January 2019, the Board, in accordance with HRS §92-2.5 (b), approved the formation of a Governance Permitted Interaction Group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. This Governance PIG anticipates formulating and reporting on recommendation(s) for a governance framework that includes, but not limited to: 1) Statutory, board and organization policies, procedures and other supporting documents; 2) Monitoring mechanism of governance practices (e.g., compliance); and 3) Accountability mechanisms for non-compliant behavior and practices. The recommendations from the PIG, Board action and implementation (e.g., reporting) is expected to be completed no later than June 30, 2019.

Trustee staff and Administration frequently consult HSEC, Office of Information Practices (OIP), and State Procurement Office (SPO) for guidance when questions arise and to ensure policies and procedures comply with State law.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.c.

OHA Board of Trustees should, in general, develop a clearly defined process by which trustees must hold each other individually accountable for actions that are inconsistent with their collective fiduciary duties and responsibilities to trust beneficiaries and for violations of State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.d.

OHA Board of Trustees should, in general, provide greater transparency into OHA's administration of trust assets, including OHA's fiscal year budgets and actual expenditures, specific information regarding the Grants, Sponsorships, and other funding awarded by OHA, OHA's investment portfolio holdings and returns, and expenditures by trustees using Trustee Allowances. Consider posting such information on OHA's website or some other similarly accessible public portal.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:	
-------------------------------	--

OHA Board of Trustees
Recommendation No. 1.d. (Continuation Pages)

OHA currently posts its audited Financial Statements (2004 thru 2017) and Annual Reports (2001 thru 2018) on its website at www.oha.org. The Annual Reports identify the Community and 'Ahahui Grants and Sponsorships that were awarded by OHA as well as OHA's unaudited financial statements. The 2017 and 2018 Annual Reports contain a budget summary outlining the budget and spending limit for those fiscal years. The solicitation and related information to apply for Community, Kulia and 'Ahahui Grants are also accessible on OHA's website.

Where biennium budget and budget alignment requests are submitted to and approved by the Board through budget action items, and quarterly updates about OHA's investment portfolio are presented to the Board in open meetings, the action items with budget information and investment update documents that are a part of the board packet and/or meeting minutes, when reasonably available, are posted on OHA's website on the Board or Committee web-pages, and may be made available to the public upon request.

In a proactive response to the concerns raised in Report 18-03, the BOT took the significant action of placing a moratorium on the TSAAF and CEO-initiated Sponsorships on February 27, 2018 via Action Item BOT #18-01. The Ad Hoc Committee on Grants and Sponsorships convened, with the assistance of support staff, to review existing policies, review external guidelines, and discuss a proposed revised trustee allowance policy.

In its September 20, 2018 Report presented to the BOT on October 2, 2018, the Ad Hoc Committee made specific recommendations that included: renaming the TSAAF to Trustee Protocol Allowance (TPA) to match statutory language HRS Sec. 10.9; to revert to the original purposes of the Trustee allowance - establishing a communication network and promoting broader understanding and participation in the resolution of Native Hawaiian issues; set the TPA at \$7,200 per Trustee; make the TPA a reimbursable fund; specify allowable and disallowable expenses; establish an appeal process for determinations by Administration that an expenditure is disallowed; and posting of the quarterly report of expenditures to OHA's public website. The draft TPA was reviewed and commented on by the Executive Director of the HSEC, who appreciated OHA's commitment to promoting the highest ethical standards.

The BOT had discussions on the draft TPA at its October 11, 2018 meeting, and the matter was referred to the RM Committee for further review and action. The Ad hoc Committee on Grants and Sponsorships will request that the RM Committee place an action item relating to the TPA on agenda for discussion and approval by the Committee and referral to the Board. If the TPA is approved, Trustee expenditures will be posted quarterly on OHA's website.

In January 2019, the Board, in accordance with HRS § 92-2.5 (b), approved the formation of a Governance Permitted Interaction Group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. The Governance PIG anticipates formulating and reporting on recommendation(s) for a governance framework that includes, but not limited to: 1) Statutory, board and organization policies, procedures and other supporting documents; 2) Monitoring mechanism of governance practices (e.g., compliance); and 3) Accountability mechanisms for non-compliant behavior and practices. The recommendations from the PIG, Board action and implementation (e.g., reporting) is expected to be completed no later than June 30, 2019.

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.e.

OHA Board of Trustees should, in general, consider requiring board approval of all Grants, Sponsorships, and other funding awarded by OHA and/or that use Native Hawaiian Trust Fund assets.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:	
<div style="font-size: 100px; opacity: 0.1; transform: rotate(-30deg); pointer-events: none;">DRAFT</div>	

OHA Board of Trustees
Recommendation No. 1.e. (Continuation Page)

On February 27, 2018, the Board approved BOT #18-01 which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships and approved RM #18-03 which placed a moratorium on the use of Fiscal Reserve funds. Both moratoriums are in effect until policies amendments are approved by the BOT.

On July 26, 2018, the Board approved the Kūlia Grants Guidelines and Process that requires Board approval of Kūlia grant applicants upon recommendation from the Joint RM/BAE Committee.

On October 11, 2018 (2nd rdg), the Board approved RM #18-12, amendments to the OHA BOT Executive Policy Manual and BOT Operations Manual relating to budget preparation, format and budget reporting requirements (PPB approach). The amendments were aimed at improving fiscal management, transparency, reporting, and accountability as well as to address the 18-03 Audit recommendations 1.d., 1.e., and 1.f. Under the approved amendments, "Administration is delegated authority to approve budget adjustments that fall within the lesser of \$100,000 or 5% between each program. Budget adjustments in and out of grants and sponsorships appropriations are prohibited." Furthermore, under the amendments, the authority of the CEO to approve Grants in an amount up to \$25,000 under paragraph 2.2.d. of the OHA EPM was eliminated, meaning that the CEO will no longer have any authority to approve any Grants regardless of amount without Board approval. The effective date of these approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes into effect on July 1, 2021, the CEO is delegated authority to approve Grants Program funding up to \$25,000, except for "CEO-initiated Sponsorships", now known as Kaiāulu Sponsorships", which is currently under moratorium. Grant requests over \$25,000 require Board approval.

These amendments will increase transparency and accountability to our beneficiaries and the public by requiring these important fiscal decisions to be made in public board meetings subject to the state Sunshine Law.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.f.

OHA Board of Trustees should, in general, require the Administration to develop a master list of all OHA Grants, Sponsorships, and other funding awarded, including the name of the individual, group, or organization receiving the funds, the amount of the award, and the approving or granting entity within OHA (such as the board, CEO, or line of business).

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 1.g.

OHA Board of Trustees should, in general, consider developing policies regarding the maximum number and maximum total dollar amounts of Grants, Sponsorships, and other funding awarded to the same individual, group, or organization during a fiscal year or other determined period.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 2.a.

OHA Board of Trustees should, with respect to Kūlia Initiatives, determine and clearly define the purpose of Kūlia Initiatives.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 2.b.

OHA Board of Trustees should, with respect to Kūlia Initiatives, review, update, and amend policies related to Kūlia Initiatives, as needed, to align with the defined purposes of Kūlia Initiatives. Such policies and procedures should clearly describe the types of spending for which Kūlia Initiatives are appropriate (as opposed to the purposes of other OHA funding support mechanisms, such as Community and ‘Ahahui Grants).

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:	
<div style="font-size: 100px; opacity: 0.1; transform: rotate(-30deg); pointer-events: none;">DRAFT</div>	

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 2.c.

OHA Board of Trustees should, with respect to Kūlia Initiatives, consider including in OHA's annual budget a board-determined amount to fund Kūlia Initiatives.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 2.d.

OHA Board of Trustees should, with respect to Kūlia Initiatives, ensure that the purpose and use of Kūlia Initiatives aligns and is consistent with: (a) OHA's mission; (b) OHA's policies and procedures; (c) trustee's fiduciary duties; and (d) State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Board of Trustees
Recommendation No. 2.d. (Continuation Page)

of non-profit status and a copy of organization bylaws or other policy related to conduct of business and conflict of interest, including nepotism.

The Kūlia Grants Guidelines and Process document also includes the process activities: planning, solicitation, application, review, recommendation, awarding and contracting, monitoring and close out (including post award reporting) and evaluation; have been designed, documented and implemented. The Kūlia Grants Guidelines and Process were specifically drafted to address the Auditor's recommendations and to comply with OHA's mandate and grant making authority under HRS Chapter 10.

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.a.

OHA Board of Trustees should, with respect to the Fiscal Reserve, determine and clearly define the purpose of the Fiscal Reserve, considering the original intent of the reserve, as well as the board's current intent for maintaining a reserve.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.b.

OHA Board of Trustees should, with respect to the Fiscal Reserve, review, update, and amend policies and procedures related to the Fiscal Reserve, including OHA's Spending Policy and Fiscal Reserve Guidelines, as needed, to align with the defined purpose of the Fiscal Reserve. Such policies and procedures should clearly describe the circumstances in and purposes for which the Fiscal Reserve can be used.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:	
<div style="font-size: 100px; opacity: 0.1; transform: rotate(-30deg); pointer-events: none;">DRAFT</div>	

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.c.

OHA Board of Trustees should, with respect to the Fiscal Reserve, clarify and clearly define the purpose of the 5 percent spending limit, and determine whether it is necessary to establish a withdrawal rate limit to ensure the health and sustainability of the Native Hawaiian Trust Fund.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.d.

OHA Board of Trustees should, with respect to the Fiscal Reserve, work with the administration, including OHA's Investment Management staff, to determine and obtain the financial information necessary for the board to assess the short- and long-term impacts to the Native Hawaiian Trust Fund when considering use of the Fiscal Reserve.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.e.

OHA Board of Trustees should, with respect to the Fiscal Reserve, for each action item considering use of the Fiscal Reserve, ensure the Administration clearly includes the specific information as required by the Fiscal Reserve Guidelines and necessary for the board's decision-making.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 3.f.

OHA Board of Trustees should, with respect to the Fiscal Reserve, ensure that the purpose and use of the Fiscal Reserve aligns and is consistent with: (a) OHA's mission; (b) OHA's policies and procedures; (c) trustees' fiduciary duties; and (d) State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 4.a.

OHA Board of Trustees should, with respect to CEO Sponsorships, determine and clearly define the purpose of CEO Sponsorships.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	---	---	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 4.b.

OHA Board of Trustees should, with respect to CEO Sponsorships, review, update, and amend policies and procedures related to CEO Sponsorships, as needed, to align with the defined purpose of CEO Sponsorships. Such policies and procedures should clearly describe the circumstances in and purposes for which CEO Sponsorships can be used.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 4.c.

OHA Board of Trustees should, with respect to CEO Sponsorships, consider restricting the Administration's ability to independently adjust the fiscal year budget, once approved by the board, to fund or otherwise support CEO Sponsorships.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Board of Trustees
Recommendation No. 4.c. (Continuation Page)

CEO is delegated authority to approve Grants Program funding up to \$25,000, except for "CEO-initiated Sponsorships", now known as Kaiāulu Sponsorships", which is currently under moratorium. Grant requests over \$25,000 require Board approval.

These amendments will increase transparency and accountability to our beneficiaries and the public by requiring these important fiscal decisions to be made in public board meetings subject to the state Sunshine Law.

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 4.d.

OHA Board of Trustees should, with respect to CEO Sponsorships, ensure that the purpose and use of CEO Sponsorships aligns and is consistent with: (a) OHA's mission; (b) OHA's policies and procedures; (c) trustees' fiduciary duties; and (d) State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Board of Trustees
Recommendation No. 4.d. (Continuation Page)

approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes into effect on July 1, 2021, the CEO is delegated authority to approve Grants Program funding up to \$25,000, except for "CEO-initiated Sponsorships", now known as Kaiāulu Sponsorships", which is currently under moratorium. Grant requests over \$25,000 require Board approval.

These amendments will increase transparency and accountability to our beneficiaries and the public by requiring these important fiscal decisions to be made in public board meetings subject to the state Sunshine Law.

Administration is in the process of developing new organization-wide Sponsorship processes, including processing of sponsorships formerly identified as "CEO Sponsorships" now known as "Kaiāulu Sponsorships". The new process includes: 1) Board approval of overall Sponsorship biennium budget as an authorization control; 2) Aggregation of all Sponsorships throughout the organization; and 3) A single, consistent central processing function (i.e., Grants Department) regardless of the budget origination point, program or line of business. All sponsorship process activities of planning, solicitation, application, review, recommendation, contracting, monitoring & close out and evaluation will involve other areas of OHA (e.g., planning, marketing, awarding announcement, monitoring, evaluation), but the overall process is to be managed by the Grants Department, resulting in more standardized processing.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.a.

OHA Board of Trustees should, with respect to Trustee Allowances, amend the Trustee Allowances policy to restrict the use of Trustee Allowances to expenses incurred by trustees relating to their communication with beneficiaries and the public, as was the original purpose of the Trustee Allowances, and reduce the Trustee Allowances to an amount determined by the board to be reasonably necessary for that purpose.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:	
<div style="font-size: 100px; opacity: 0.1; transform: rotate(-30deg); pointer-events: none;">DRAFT</div>	

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.b.

OHA Board of Trustees should, with respect to Trustee Allowances, prohibit the use of Trustee Allowances to provide financial support, direct or otherwise, to individuals, groups, or organizations. Require requests for financial support by individuals, groups, or organizations to be approved by the board and funded through a program other than Trustee Allowances.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.c.

OHA Board of Trustees should, with respect to Trustee Allowances, work with the Administration to more clearly define procedures related to the use and administration of Trustee Allowances.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.d.

OHA Board of Trustees should, with respect to Trustee Allowances, require trustees to seek reimbursement of expenses; do not disburse the total amount of Trustee Allowances to trustees at the beginning of the fiscal year or otherwise advance any funds to trustees.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.e.

OHA Board of Trustees should, with respect to Trustee Allowances, review and amend, as needed, the sanctions established in the Code of Conduct for violations of Trustee Allowance policies and procedures and establish a process to ensure enforcement of sanctions to appropriately address such violations.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

OHA Board of Trustees
Recommendation No. 5.e. (Continuation Page)

If the Board approves the TPA, the small working group of Trustee staff and in-house counsel will propose amendments, if appropriate, to the BOT Code of Conduct as it relates to violations of the TPA

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Board of Trustees
Recommendation No. 5.f.

OHA Board of Trustees should, with respect to Trustee Allowances, ensure that the purpose and use of Trustee Allowances aligns and is consistent with: (a) OHA's mission; (b) OHA's policies and procedures; (c) trustees' fiduciary duties; and (d) State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 1.a.

OHA Administration should, in general, require the Administration to attend regular training that includes, but is not limited to:

- i. Fiduciary duties and other responsibilities of trustees;
- ii. State Ethics Code, Chapter 84, HRS;
- iii. Sunshine Law, part I of Chapter 92, HRS; and
- iv. Uniform Information Practices Act (Modified), Chapter 92F, HRS.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion:	
-------------------------------	--

OHA Administration
Recommendation No. 1.a. (Continuation Page)

On a periodic basis and most recently on July 24, 2018 and March 5, 2019, HR sends an email to all OHA, informing Trustees and employees about available State Ethics training, the HSEC's monthly newsletter, *The High Road*, and ethics related information. HR informed new employees of the upcoming Ethics training schedule and helps new employees register for Ethics training. OHA employees know that they can contact their supervisor or HSEC directly if they have questions.

Managers meet on a monthly basis to discuss operations and program updates, including Ethics updates and education.

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 1.b.

OHA Administration should, in general, support trustees in performing their fiduciary duties and other responsibilities by, among other things, providing financial documents and other information in a timely manner as requested by individual trustees.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Administration
Recommendation No. 1.b. (Continuation Page)

are prohibited." Furthermore, under the amendments, the authority of the CEO to approve Grants in an amount up to \$25,000 under paragraph 2.2.d. of the OHA EPM was eliminated, meaning that the CEO will no longer have any authority to approve any Grants regardless of amount without Board approval. The effective date of these approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes into effect on July 1, 2021, the CEO is delegated authority to approve Grants Program funding up to \$25,000, except for "CEO-initiated Sponsorships", now known as Kaiāulu Sponsorships", which is currently under moratorium. Grant requests over \$25,000 require Board approval.

These amendments will increase transparency and accountability to our beneficiaries and the public by requiring these important fiscal decisions to be made in public board meetings subject to the state Sunshine Law.

OHA is currently implementing Phase 1 of Oracle Fusion upgrade for the following modules: Financials, Contract Management, PeopleSoft (HR), Timecard Entry, and PR Processing to coincide with the biennium budget cycle. Improved efficiencies in processing, management, and reporting for strategic planning and decision-making are expected.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 2.a.

OHA Administration should, with respect to Kūlia Initiatives, ensure that the board and the Administration adhere to and comply with the board-adopted policies and procedures for Kūlia Initiatives.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 2.b.

OHA Administration should, with respect to Kūlia Initiatives, ensure that OHA's use of Kūlia Initiatives aligns and is consistent with: (a) OHA's mission; (b) OHA's policies and procedures; (c) trustees' fiduciary duties; and (d) State laws.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

OHA Administration
Recommendation No. 2.b. (Continuation Page)

beneficiaries to be served; describe the proposed project purpose and plan including: program objectives, activities or tasks, program timeline, staffing, and anticipated results and outcomes; explain why the request is being submitted as a Kūlia Grants request and not through the Community Grants Program; provide a list of applicable licenses or permits required for the proposed activities or services and the status in applying for each license or permit; provide a detailed program budget that identifies the costs to be supported with OHA funding; organizations must certify that they possess sufficient funds available to achieve effective operations of activities for the purpose for which the grant is sought; applicants must make available to OHA all records relating to operations and programs for which Kūlia Grants funding is sought; certify that board members have no material conflicts of interest and that they serve without compensation; provide support documents regarding IRS letter of determination of non-profit status and a copy of organization bylaws or other policy related to conduct of business and conflict of interest, including nepotism.

In the current cycle of Kūlia grants process activities, the planning, solicitation, application and review process activities have been completed. The remaining process activities---recommendation, awarding and contracting---are scheduled to be completed no later than June 30, 2019. The monitoring and close out (including post award reporting) and evaluation process activities are also in place to be effected over the period of the Board approved award/contract.

The Joint RM/BAE Committee has scheduled a workshop on the recommendations for Kūlia Grants on March 20, 2019. The Joint RM/BAE Committee is expected to then discuss and vote on the recommendations for Kūlia Grants on March 27, 2019. The BOT is expected to then vote to approve the Kūlia Grants recommendation on March 28, 2019.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 3.a.

OHA Administration should, with respect to the Fiscal Reserve, ensure each proposed use of the Fiscal Reserve is consistent with the Fiscal Reserve Guidelines and the board-stated purpose of the Fiscal Reserve.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 3.b.

OHA Administration should, with respect to the Fiscal Reserve, for each requested use of the Fiscal Reserve, provide the board with specific information and recommendations as to whether the board's or the Administration's proposed use of the Fiscal Reserve is consistent with the Fiscal Reserve Guidelines and the purpose of the Fiscal Reserve. Such information may include, but is not limited to, specific financial information regarding the Native Hawaiian Trust Fund balance, projected revenue for the fiscal year, and impact to the Native Hawaiian Trust Fund resulting from the requested use of the Fiscal Reserve.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 4.a.

OHA Administration should, with respect to CEO Sponsorships, adhere to Grants Staff recommendations regarding the Administration's requests to fund CEO Sponsorships.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 4.b.

OHA Administration should, with respect to CEO Sponsorships, if the Administration is allowed to adjust the budget to fund Sponsorships, obtain board approval before doing so, and provide the board with specific information about the proposed funding request to inform trustees' decision-making.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

OHA Administration
Recommendation No. 4.b. (Continuation Page)

was eliminated, meaning that the CEO will no longer have any authority to approve any Grants regardless of amount without Board approval. The effective date of these approved amendments is deferred until submission of the FY2022-2023 Biennium Budget to allow Administration sufficient time for process implementation. Thus, starting July 1, 2021, the Board policies will require Board approval for all Grants and Sponsorships. Currently, and until the new policy goes in effect on July 1, 2021, the CEO is delegated authority to approve Grants Program funding up to \$25,000, except for "CEO-initiated Sponsorships", now known as "Kaiāulu Sponsorships", which is currently under moratorium. Grant requests over \$25,000 require Board approval.

These amendments will increase transparency and accountability to our beneficiaries and the public by requiring these important fiscal decisions to be made in public board meetings subject to the state Sunshine Law.

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 5.a.

OHA Administration should, with respect to Trustee Allowances, monitor and review trustees' use of Trustee Allowances and ensure expenditures using Trustee Allowances comply with the Trustee Allowances policy.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 5.b.

OHA Administration should, with respect to Trustee Allowances, establish procedures to more clearly define the Administration's role and procedures for administering and monitoring the use of Trustee Allowances.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 5.c.

OHA Administration should, with respect to Trustee Allowances, report to the board the specific expenditures approved and reimbursed to each trustee using Trustee Allowances.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated: _____

Estimated Date of Completion: _____

DRAFT

Status of Implementation of Audit Recommendation
Report No. 18-03

OHA Administration
Recommendation No. 5.d.

OHA Administration should, with respect to Trustee Allowances, create a formal appeal process for trustees to request a second determination of whether they are entitled to reimbursement of expenses using Trustee Allowances, for instance, through staff whose regular duties do not involve review and approval of Trustee Allowances.

Status (Select One):

<input type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
--------------------------------------	--	--	--	---

Detailed Response:

Dated:

Estimated Date of Completion:

DRAFT

PHONE (808) 594-1888

FAX (808) 594-1938



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**
560 N. NIMITZ HWY., SUITE 200
HONOLULU, HAWAII 96817

August 30, 2019

VIA E-MAIL: lao.auditors@hawaii.gov
and U.S. MAIL, FIRST CLASS

Mr. Leslie H. Kondo, State Auditor
Office of the Auditor
State of Hawaii
Kekuanao'a Building
465 S. King Street, Room 500
Honolulu, HI 96813-2917

Re: Response to the Formal Request for Information on Status of Implementation of
Audit Recommendations (Report No. 18-08)¹

Dear Mr. Kondo,

The Office of Hawaiian Affairs' ("OHA") Trustees and Ka Pouhana Kūikawā (Interim Chief Executive Officer) are pleased to respond to your letter dated July 31, 2019, requesting an update on the status of audit recommendations made in Report No. 18-08, issued in June 2018, and offer the following comments as well as our specific responses relating to each recommendation in the attached forms.

We understand the audit of OHA was conducted pursuant to Sections 10-14.55 and 23-7.5, Hawai'i Revised Statutes (HRS). Section 10-14.55 requires the Office of the Auditor to conduct an audit of the OHA at least every four years. Section 23-7.5 requires the Auditor to report to the Legislature, annually, on each audit recommendation more than one year old that has not been implemented by the audited agency. For this audit, the objectives were to: (1) Evaluate OHA policies and actions regarding use of its Fiscal Reserve, Grants, and Trustee Allowances; (2) Report on the status of OHA's implementation of our recommendations contained in Report No. 13-07, *Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations*; and (3) Make recommendations as appropriate.

¹ Report No. 18-08, June 2018, **Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations**, <http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf>

We further understand that the evaluation of OHA's use of Fiscal Reserve, non-competitive grants (Kūlia Initiatives and CEO Sponsorships), and Trustee Allowances was reported in Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, issued in February 2018. Part 1 of Report No. 18-08 evaluated OHA's competitive grants, 'Ahahui Grants and Community Grants, which addressed the first audit objective. Part 2 of Report No. 18-08 reported on OHA's implementation of the 2013 audit recommendations.

OHA is pleased to inform you that we have made substantial progress in addressing concerns identified in Report No. 18-08, fully implementing all 11 recommendations. Supporting our responses in Attachment A are Standard Operating Procedures which have been updated, implemented and refined by the Grants Department; and are available upon request for your review.

As we noted in our March 2019 correspondence re: Report No. 18-03, we understand that we still have much work to do to and the OHA has been intently working to align policy, procedure and practice from governance to operational matters. OHA continues to make necessary improvements to our overall administration of funds that we disburse to the Native Hawaiian community and to providing increased transparency and accountability to our beneficiaries. We look forward to providing an update to our implementation of these recommendations in another year.

If there are any questions or desire to discuss these matters further, please do not hesitate to contact Dr. Hussey via e-mail at sylviah@oha.org or telephone at 594-1973.

Me ka ha'aha'a,



Colette Y. Machado
Chair, Board of Trustees



Sylvia M. Hussey, Ed.D.
Ka Pouhana Kuikawa, Interim Chief Executive
Office

:SH

cc: Ke Kaupoku o Ke Ke'ena Kuleana Hawai'i
Lisa Watkins-Victorino, Ka Pou Nui Kūikawā
Gloria Li, Ka Pou Kihi Kanaloa Wai Kūikawā
Raina Gushiken, Ka Paepae Puka

Attachment A: Status of Implementation of Audit Recommendation Report No. 18-08 – 11 pages

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 1.a.

OHA should improve its **overall administration and reporting of grants** by ensuring that all grants are awarded and administered consistent with the requirements set forth in Section 10-17, HRS.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion:	July 1, 2019
Responsible Department: Grants Program (formerly Transitional Assistance Program)	
<p>The Grants Program standard operating procedures were revised and implemented to ensure that grants are consistently monitored and evaluated.</p> <p>The grant agreement was revised to incorporate mandated performance requirements. The grant agreement certifies grantee's compliance with HRS 10-17 pertaining to applicable federal, state, and county laws, as well as licenses and permits required to conduct grant activities and/or provide grant services.</p> <p>Program reports and monitoring forms were revised to ensure that performance requirements and grant deficiencies are documented, and identified corrective action is implemented.</p> <p>The grants information management system has been developed to ensure that grants are monitored and evaluated on a consistent basis. The system has been implemented for 'Ahahui grants and will be implemented for all new grants.</p> <p>The system:</p> <ul style="list-style-type: none"> a. Electronically tracks pre-award, award and post-award documents; b. Verifies submission of and retains system emails and required grant documents; and c. Provides 'real time' status updates to verify that grantee reports, grant assessments and monitoring have been completed and submitted. <p>Grant solicitations were revised to include a Board Governance Certification form. The form certifies that the grant applicant is in compliance with HRS 10-17(c)(2) pertaining to Board compensation and has policies that govern conflict of interest/ nepotism for Board Members and employees.</p>	

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 1.b.

OHA should improve its **overall administration and reporting of grants** by developing and documenting a process to ensure a complete list of grants is properly maintained and reported. As part of this process, OHA should consider establishing a master list of all grants, and reconciling TAP's grant records against the grant records of fiscal and other OHA divisions.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	---	--

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion:	July 1, 2019
Responsible Department: Grants Program (formerly Transitional Assistance Program)	
<p>The grants information management system has been developed and implemented that electronically tracks all Grants Program grants and can provide a master list of grants.</p> <p>Tracking By Program. Reports can be generated by specific grant program process areas, i.e., 2018-2019 'Ahahui Grants Round 2, 2019 Kulia Grants, and 2020-2021 Community Grants.</p> <p>Tracking By Phases. Reports can also be generated for all phases of a grant lifecycle:</p> <ul style="list-style-type: none"> a. Pre-Award: applications submitted/ineligible/denied, email notifications, application evaluations/scores. b. Award: email notifications, grant agreements, support documentation-insurance certificates. c. Post-Award: email notifications, reports (progress, monitoring and closeout) with specific report data such as date due/date submitted/submitter name, and award amount/payments made (amount expended)/award balance. <p>Tracking By Categories. Reports can also be generated by specific categories, i.e., organization name, island, strategic priority, grants awarded, grants closed, etc.</p> <p>The Grants Program is able to provide the master list of grants or a specific report to other OHA divisions for reconciliation and reporting, as needed.</p>	

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 2.a.

OHA should improve its administration of 'Ahahui Grants by monitoring, tracking, and documenting grantees' compliance with grant agreement terms and conditions, submission of required grant documents, and achievement of applicable performance measures for use in future grant application reviews and award decisions.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019
<p>Responsible Department: Grants Program (formerly Transitional Assistance Program)</p> <p>The Grants Program standard operating procedures for 'Ahahui grants were revised and implemented to ensure that 'Ahahui grant events are consistently monitored and assessed to determine if expected results were achieved.</p> <p>The grants information management system has been developed to ensure that grants are monitored and assessed on a consistent basis. The system has been implemented for 'Ahahui grants. The system:</p> <ul style="list-style-type: none"> a. Electronically tracks 'Ahahui grant pre-award, award and post-award documents; b. Verifies submission of and retains system emails and required grant documents (grant agreements, support documents, OHA Staff Attendance Reports, Grantee Final Reports, and Grant Monitor Closeout Reports, expenditure reports, and payment information); and c. Provides 'real time' status updates to verify that grantee reports, program assessments and monitoring have been completed and submitted. This includes system generated automatic reminders and past due notifications for reports that are emailed to the grantee, grant monitor and assigned Grants Program staff. <p>The Grant Monitor Closeout Report now includes a final assessment and determination if an event should be funded in the future and a determination if an organization should be funded for future events.</p>

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 2.b.

OHA should improve its administration of 'Ahahui Grants by formally evaluating the information gathered from grantee final reports and OHA staff attendance reports to determine whether events met criteria and should be funded in the future.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion:	July 1, 2019
<p>Responsible Department: Grants Program (formerly Transitional Assistance Program)</p> <p>The OHA Staff Attendance Report and Grant Monitor Closeout Report forms were revised to include an assessment component to determine if an event meets 'Ahahui program criteria.</p> <p>The OHA Staff Attendance Report includes an assessment by the grant monitor if the event should be funded in the future.</p> <p>Information from the OHA Staff Attendance Report and the grantee Final Report is incorporated into a formal evaluation on the Grant Monitor Closeout Report.</p> <p>The Grant Monitor Closeout Report now includes a final assessment and determination if an event should be funded in the future and a determination if an organization should be funded for future events.</p>	

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 2.c.

OHA should improve its administration of 'Ahahui Grants by requiring OHA personnel to attend 'Ahahui Grant-funded events to monitor and evaluate the events to ensure grants are used consistent with the purpose and intent of the grant, and achieved the expected results; and ensuring that staff reports are submitted by the established deadline.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019

Responsible Department: Grants Program (formerly Transitional Assistance Program)

The Grants Program requires OHA personnel to attend 'Ahahui events and to monitor and assess events to ensure that grants are used consistent with the purpose and intent of the grant and that the grant has achieved expected results. The OHA Staff Attendance Report to be completed by the grant monitor includes assessment fields for community engagement, OHA recognition, and impact and benefit to Native Hawaiians, as well as a final assessment component regarding funding the event in the future.

The Grants Program, in coordination with OHA Community Outreach Program staff, ensures that events are attended. Staff event attendance is tracked via a form that identifies primary and secondary event monitors. If the primary monitor is unable to attend the event, the secondary monitor will attend the event.

The grants information management system generates an email notification to the grantee seven (7) days before the Final Report is due and another email notification to the grantee the day after the report is due, if a report has not been submitted in the system. Assigned Grants Program staff receive the same notices and can follow-up with the grantee, as needed. The system also generates an email notification to the grant monitor that the OHA Staff Attendance Report or Grant Closeout Report is due in seven (7) days and another email notification one day after the due date, if the report was not submitted. The Grants Manager and assigned staff also receive the notifications and can follow-up with the Grant Monitor, as needed.

The Grants Manager and assigned staff are also able to check the grants information management system dashboards in 'real time' to determine if reports have been submitted on a timely basis by the grantee and staff.

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 2.d.

OHA should improve its administration of 'Ahahui Grants by clarifying and documenting the responsibilities and processes for monitoring and evaluating all 'Ahahui Grants, and updating existing policies and procedures as necessary.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	---	--

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019

Responsible Department: Grants Program (formerly Transitional Assistance Program)

The Grants Program standard operating procedures for 'Ahahui grants were revised and implemented to clarify and document responsibilities and processes for monitoring and evaluating all 'Ahahui Grants.

The Grants Program is responsible for ensuring that 'Ahahui grants are monitored and assessed and that reports are submitted.

The Grants Program coordinates with Community Outreach Program staff to attend and monitor 'Ahahui events. If Community Outreach Program staff are unable to attend an event, Grants Program staff will attend and monitor the event.

Grant monitors that attend the events are required to submit an OHA Staff Attendance Report. The Grants Program will follow-up with staff if the reports are not submitted, and if needed, program managers, to ensure submission of the reports.

The Grants Program is responsible to ensure that the grantee submits the Final Report.

The Grants Program is responsible for submission of the Grant Monitor Closeout Report.

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 2.e.

OHA should improve its administration of 'Ahahui Grants by implementing a formal, documented system to ensure that grant files are complete and contain all necessary documents, including grantee final reports and OHA staff attendance reports, such as a checklist for each grant.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019

Responsible Department: Grants Program (formerly Transitional Assistance Program)

Electronic Files: The grants information management system has been developed and implemented to ensure that 'Ahahui grant files are complete. All mandated reports for each grant are on a dashboard, which serves as a checklist for each grant. The system electronic file includes system emails and all grant documents (e.g., grant agreements, support documents, OHA Staff Attendance Reports, grantee Final Reports, and Grant Monitor Closeout Reports, expenditure reports, and payment information). The system emails include auto generated emails and emails from Grants Program staff to the grantees.

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 3.a.

OHA should improve its administration of **Community Grants** by monitoring, tracking, and documenting grantees' compliance with grant agreement terms and conditions, submission of required grant documents, and achievement of applicable performance measures for use in future grant application reviews and award discussions.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019
<p>Responsible Department: Grants Program (formerly Transitional Assistance Program)</p> <p>The Grants Program standard operating procedures were revised and implemented to ensure that grants are consistently monitored and assessed.</p> <p>Grants Program reports and monitoring forms were revised to ensure that performance requirements and grant deficiencies are documented and corrective action identified by the Grants Program is implemented by the grantee. The Grantee Closeout Report was revised and includes a final assessment component to determine if the grantee is recommended for future funding.</p> <p>The grants information management system has been developed to ensure that grants are monitored and assessed on a consistent basis. The grants monitoring process will be implemented for the 2020-21 Community Grants that begin on October 1, 2019 (contract inception date). The system will:</p> <ul style="list-style-type: none"> a. Electronically track grant monitoring and program evaluation documents; b. Verify the submission and retention of system emails and required grant documents (grant agreements, support documents, grant amendments, grantee progress reports, expenditure and final reports, payment information, Grant Assessments, On-site Monitoring Reports and Grantee Closeout Reports); and c. Provide 'real time' status updates to verify that grantee reports, program assessments and monitoring have been completed and submitted. <p>The Grants Program will document compliance with grant agreement terms, conditions and performance measures and will be able to generate a list of grants that have not been recommended for future funding. The grant agreement template includes a provision stating that noncompliance with any conditions of the agreement may result in the grantee being deemed ineligible for OHA funding for a period of three (3) years.</p>

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 3.b.

OHA should improve its administration of **Community Grants** by monitoring the scheduling and performance of on-site visits to ensure that visits are conducted annually and results are communicated to grantees in a timely manner.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion:	July 1, 2019
<p>Responsible Department: Grants Program (formerly Transitional Assistance Program)</p> <p>The Grants Program will monitor Community Grants to ensure that site visits are scheduled and completed and that results are communicated to grantees on a timely basis.</p> <p>Site visits will be scheduled on an annual basis, as needed. Risk criteria considered for annual or on-going site visits include, but are not limited to: failure to meet minimum performance expectations on over half of the critical performance indicators; large grants that have multiple program service areas; and grantees unable to meet compliance requirements.</p> <p>The Grants Program conducts weekly staff meetings and will incorporate tracking of site visits. Site visits and On-Site Monitoring Reports will be tracked for completion by the Grants Manager and assigned staff.</p> <p>The Grant Monitor will be required to email the On-site Monitoring Report via the grants information management system to the grantees. The Grants Manager and assigned staff will be copied on the email.</p> <p>The Grants Manager and assigned staff can access the grants information management system dashboard to obtain 'real time' status updates for On-site Monitoring Reports and verification that the reports were emailed to grantees.</p> <p>Quarterly Grant Assessment Reports for each grant are completed by Grants Program staff to meet the annual evaluation requirement of HRS 10-17(d)(2). The Grant Assessment Reports are based on a review of grantee Quarterly Progress and Expenditure Reports and ongoing desktop monitoring and communications with the grantees.</p>	

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 3.c.

OHA should improve its administration of **Community Grants** by clarifying and documenting the responsibilities and processes for monitoring and evaluating all Community Grants, and updating existing policies and procedures as necessary.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	---	--

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion:	July 1, 2019
<p>Responsible Department: Grants Program (formerly Transitional Assistance Program)</p> <p>The Grants Program standard operating procedures have been updated to clarify and document responsibilities and processes for monitoring and evaluating Community Grants.</p> <p>The purpose of the Grants Program grant monitoring and assessment process is to determine if a grant has achieved its expected results. The Grants Program is responsible for monitoring and providing grant assessments throughout the post-award grant period. The Grants Program Closeout Report is the final grant assessment component.</p> <p>The purpose of the Program Improvement Program grant evaluation process is to improve grant making for impact and accountability.</p>	

Status of Implementation of Audit Recommendation
Report No. 18-08

Recommendation No. 3.d.

OHA should improve its administration of **Community Grants** by implementing a formal, documented system to ensure that grant files are complete and contain all necessary documents, including on-site monitoring reports, such as a checklist for each grant.

Status (Select One):

<input checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
---	--	--	--	---

Detailed Response:

Dated: 8/20/19

Estimated Date of Completion: July 1, 2019

Responsible Department: Grants Program (formerly Transitional Assistance Program)

Electronic Files: The grants information management system has been developed to ensure that Community Grant grant files are complete. All mandated reports for each grant will be on a dashboard, which serves as a checklist for each grant. The system electronic file will include system emails and all grant documents (grant agreements, support documents, grant amendments, grantee progress reports, expenditure and final reports, payment information, Grant Assessments, On-site Monitoring Reports and Grantee Closeout Reports). The system emails include auto generated emails and emails from Grants Program staff to the grantees.