

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND
UNIFORM GUIDANCE

Year Ended June 30, 2022



**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI'I**

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STATE OF HAWAI'I**

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PART I

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai'i

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Office of Hawaiian Affairs (OHA), State of Hawai'i, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements, and have issued our report thereon dated March 29, 2023. Our report includes a reference to another auditor who audited the financial statements of Hi'ilei Aloha LLC, as described in our report on OHA's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OHA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OHA's internal control. Accordingly, we do not express an opinion on the effectiveness of OHA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii

March 29, 2023

PART II

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NATIVE HAWAIIAN LOAN FUND FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND
NATIVE HAWAIIAN LOAN FUND FINANCIAL STATEMENTS**

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai'i

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Office of Hawaiian Affairs (OHA), State of Hawai'i's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of OHA's major federal programs for the year ended June 30, 2022. OHA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, OHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OHA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to

provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of OHA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to OHA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OHA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about OHA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding OHA's compliance with the compliance requirements referred to above and performing such other procedures we considered necessary in the circumstances.
- obtain an understanding of OHA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of OHA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Native Hawaiian Revolving Loan Fund Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA as of and for the year ended June 30, 2022, and the related notes to the financial statements which collectively comprise OHA's basic financial statements. We issued our report thereon dated March 29, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. The accompanying Native Hawaiian Revolving Loan Fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards and the Native Hawaiian Revolving Loan Fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The information marked as "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

N&K CPAs, Inc.

Honolulu, Hawaii

March 29, 2023

PART III
FINANCIAL INFORMATION

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Transportation			
Pass-through Department of Transportation - State of Hawai'i			
Highway Planning and Construction Cluster			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20358600	\$ <u>172,126</u>
Total Highway Planning and Construction Cluster			<u>172,126</u>
Total Department of Transportation			<u>172,126</u>
Department of Health and Human Services			
Native American Programs	93.612	N/A	
Native Hawaiian Revolving Loan Program			<u>2,325,983</u>
Total Department of Health and Human Services			<u>2,325,983</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,498,109</u>

The accompanying notes are an integral part of this schedule.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of OHA under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of OHA, it is not intended to and does not present the financial position, changes in financial position, or cash flows of OHA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported in accordance with the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

OHA has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - NATIVE HAWAIIAN REVOLVING LOAN PROGRAM

The Native Hawaiian Revolving Loan Program is administered directly by OHA and balances and transactions related to this program are included in OHA's basic financial statements. Loans issued during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2022 was \$7,180,436.

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
BALANCE SHEET
June 30, 2022

ASSETS

ASSETS

Cash held in banks	\$	6,303,141
Cash held by investment managers		122,713
Prepaid expenses and other		5,813
Interest and dividends receivable		45,485
Notes receivable, net of allowance for doubtful accounts		6,407,886
Investments		<u>11,927,431</u>
Total assets	\$	<u><u>24,812,469</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued liabilities	\$	105,310
Due to other funds		<u>87,919</u>
Total liabilities		<u>193,229</u>

FUND BALANCE

Restricted		
Beneficiary advocacy		82,337
Long-term portion of notes receivable		5,492,027
Native Hawaiian loan program		<u>19,044,876</u>
Total fund balance		<u>24,619,240</u>
Total liabilities and fund balance	\$	<u><u>24,812,469</u></u>

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
Year Ended June 30, 2022

REVENUES

Loan interest income	\$	441,436
Net change in fair value of investment securities		(657,654)
Other revenue		<u>4,097</u>
Total revenues		<u>(212,121)</u>

EXPENDITURES

Salaries and fringe benefits		316,207
Services		296,435
Bad debt expense		86,928
Rent		34,953
Investment manager fee		26,724
Legal services		890
Other expenses		<u>80,647</u>
Total expenditures		<u>842,784</u>

NET CHANGE IN FUND BALANCE (1,054,905)

FUND BALANCE, BEGINNING OF YEAR 25,674,145

FUND BALANCE, END OF YEAR \$ 24,619,240

**Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
STATEMENT OF CASH FLOWS (UNAUDITED)
Year Ended June 30, 2022**

Cash flows from operating activities	
Net change in fund balance	\$ (1,054,905)
Adjustments to reconcile net change in fund balance to net cash used in operating activities:	
Bad debt expense	86,928
Net change in fair value of investment securities	657,654
Amortization of discount on investment securities	(12,813)
(Increase) decrease in:	
Interest and dividends receivable	14,770
Prepaid expenses and other	(313)
Increase (decrease) in:	
Accounts payable	62,128
Due to other funds	<u>82,852</u>
Net cash used in operating activities	<u>(163,699)</u>
Cash flows from investing activities	
Purchase of investments	(4,130,435)
Proceeds from maturities of investments	3,675,000
Notes receivable issued	(1,483,203)
Proceeds from repayment of notes receivable	<u>1,172,464</u>
Net cash used in investing activities	<u>(766,174)</u>
NET DECREASE IN CASH	(929,873)
Cash at beginning of year	<u>7,355,727</u>
Cash at end of year	\$ <u><u>6,425,854</u></u>
Cash consists of:	
Cash held in banks	\$ 6,303,141
Cash held by investment manager	<u>122,713</u>
	\$ <u><u>6,425,854</u></u>

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? ___ yes no
 Significant deficiency(ies) identified? ___ yes none reported

Noncompliance material to financial statements noted? ___ yes no

Federal Awards

Internal control over major federal programs:
 Material weakness(es) identified? ___ yes no
 Significant deficiency(ies) identified? ___ yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes no

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program
93.612	Native American Programs

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes ___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Office of Hawaiian Affairs, State of Hawai'i
STATUS REPORT
Year Ended June 30, 2022

No prior audit findings which apply under the current criteria of the Uniform Guidance were noted.