

Office of Hawaiian Affairs

State of Hawai‘i

Single Audit and Independent Auditors’ Reports

For the Year Ended June 30, 2023



**Office of Hawaiian Affairs, State of Hawai‘i
Single Audit and Independent Auditors’ Reports**

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**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***

Independent Auditors' Report

To the Board of Trustees
of the Office of Hawaiian Affairs, State of Hawai'i
Honolulu, 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, 2023, 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, 2024.

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 OHA'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.

To the Board of Trustees
of the Office of Hawaiian Affairs, State of Hawai'i
Honolulu, Hawai'i
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OHA's financial statements are free of 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.

The PwC Group, LLP

Santa Ana, California
March 29, 2024



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

Independent Auditors' Report

To the Board of Trustees
of the Office of Hawaiian Affairs, State of Hawai'i
Honolulu, 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 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, 2023. OHA's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, OHA complied, in all material respects, with the 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, 2023.

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 Auditors' 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.

Auditors' 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 judgment 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 as 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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.

To the Board of Trustees
of the Office of Hawaiian Affairs, State of Hawai'i
Honolulu, Hawai'i
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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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be significant deficiencies.

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.

Government Auditing Standards requires the auditor to perform limited procedures on OHA's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. OHA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the 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, 2023, and the related notes to the financial statements which collectively comprise OHA's basic financial statements. We issued our report thereon dated March 29, 2024, 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 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.



Santa Ana, California
March 29, 2024

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Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Transportation			
<i>Highway Planning and Construction Cluster</i>			
<i>Pass-through Department of Transportation - State of Hawai'i</i>			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20358600	\$ 208,563
Total Federal Transit Cluster			<u>208,563</u>
Total U.S. Department of Transportation			<u>208,563</u>
Department of Health and Human Services			
<i>Native American Programs</i>			
Native Hawaiian Revolving Loan Program	93.612	N/A	3,483,250
Total U.S. Department of Health and Human Services			<u>3,483,250</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,691,813</u></u>

Office of Hawaiian Affairs, State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Note 1 – Basis of Presentation

The financial reporting entity consists of the primary government, the Office of Hawaiian Affairs, State of Hawai‘i (“OHA”), organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The Board of Trustees acts as the governing body and is able to impose its will on the following organizations establishing financial accountability:

- Hi‘ilei. Aloha LLC

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the Federal Fund of OHA. OHA utilizes the modified accrual basis of accounting for the Federal Fund. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of OHA’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of OHA. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of Hawaii Department of Transportation, are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of OHA.

Indirect Cost Rate

OHA did not elect to use the 10% de minimis cost rate.

Note 3 – 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, 2023 was \$7,802,644.

**NATIVE HAWAIIAN REVOLVING LOAN FUND
FINANCIAL STATEMENTS**

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Office of Hawaiian Affairs, State of Hawai'i
Balance Sheet
Native Hawaiian Revolving Loan Fund
June 30, 2023

ASSETS

Cash held in bank	\$	4,432,935
Cash held by investment managers		69,831
Interest and dividends receivable		52,018
Notes receivable, net of allowance for doubtful accounts		7,802,644
Investments		12,028,696
Total assets	\$	24,386,124

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable and accrued liabilities	\$	42,258
Due to other funds		246
Total liabilities		42,504

Fund balance:

Restricted		
Support services		143,001
Long-term portion of notes receivable		6,696,453
Native Hawaiian loan programs		17,504,166
Total fund balance		24,343,620
Total liabilities and fund balance	\$	24,386,124

Office of Hawaiian Affairs, State of Hawai‘i
Statement of Revenues, Expenditures, and Changes in Fund Balance
Native Hawaiian Revolving Loan Fund
For the Year Ended June 30, 2023

REVENUES:

Loan interest income	\$	503,086
Net change in fair value of investment securities		(93,563)
Other revenue		15,440
Total revenues		<u>424,963</u>

EXPENDITURES:

Salaries and fringe benefits		406,296
Services		307,027
Bad debt recovery		(109,837)
Rent		35,894
Investment manager fee		19,552
Legal services		9,405
Other expenses		32,246
Total expenditures		<u>700,583</u>

NET CHANGES IN FUND BALANCE (275,620)

FUND BALANCE:

Beginning of year		<u>24,619,240</u>
End of year	\$	<u><u>24,343,620</u></u>

Office of Hawaiian Affairs, State of Hawai‘i
Statement of Cash Flows
Native Hawaiian Revolving Loan Fund
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Net change in fund balance	\$ (275,620)
Adjustments to reconcile net change in fund balance to net cash used in operating activities:	
Bad debt recovery	(109,837)
Net change in fair value of investment securities	86,161
Amortization of discount on investment securities	16,574
Change in:	
Interest and dividends receivable	(6,533)
Prepaid expenses and other	5,813
Change in:	
Accounts payable	(63,052)
Due to other funds	(87,673)
Net cash (used in) operating activities	(434,167)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(1,329,000)
Proceeds from maturities of investments	1,125,000
Notes receivable issued	(2,782,667)
Proceeds from repayment of notes receivable	1,497,746
Net cash (used in) investing activities	(1,488,921)

Net (decrease) in cash and cash equivalents (1,923,088)

CASH AND CASH EQUIVALENTS:

Beginning of year	6,425,854
End of year	\$ 4,502,766

CASH AND CASH EQUIVALENTS:

Cash held in banks	\$ 4,432,935
Cash held by investment manager	69,831
Total cash and cash equivalents	\$ 4,502,766

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Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Types of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **None Reported**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **2023-001**

Type of auditors’ 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**

Identification of major federal programs:

Assistance Listing Numbers	Major Federal Program or Cluster	Federal Expenditures
93.612	Native Hawaiian Revolving Loan Program	\$ 3,483,250
	Total Expenditures of All Major Federal Programs	\$ 3,483,250
	Total Expenditures of Federal Awards	\$ 3,691,813
	Percent of Total Expenditures of Federal Awards	94.35%

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

Auditee qualified as a low-risk auditee in accordance with 2 CFR 200.520? **Yes**

Office of Hawaiian Affairs, State of Hawai'i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement

No current year findings were reported.

B. Prior Year Findings – Financial Statement

No prior year findings were reported.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2023-001 - Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number:	93.612
Assistance Listing Title:	Native Hawaiian Revolving Loan Program
Federal Agency:	Department of Health and Human Services
Pass-Through Entity:	N/A
Federal Award Number and Award Year:	N/A

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (“SAM”) Exclusions maintained by the General Services Administration and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

In accordance with *OMB Uniform Guidance*, entities under the program, including subrecipients of a state, must follow the procurement standards in 2 CFR sections § 200.318 through § 200.327, including ensuring that the procurement method used for the contracts are appropriate based on the dollar amount and conditions specified in 2 CFR section 200.320.

C.F.R. § 200.319 prescribes that all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320. Further, the non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period.

Condition:

During our audit, we noted that there was no supporting document to indicate that OHA verified the vendors in SAM to ensure that the vendors were not suspended or debarred from federally funded programs before the contract was entered into.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2023-001 - Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Significant Deficiency) (Continued)

Cause:

OHA does not have policies and processes in place to check and ensure the suspension and debarment review process for vendors that provide goods or services to OHA’s programs prior to entering into a contract.

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred prior to the contract being awarded, OHA could be contracting with vendors that are prohibited from working on federally funded projects.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommended OHA to include SAM check in its internal control policies and procedures to incorporate the suspension and debarment verification requirements prior to awarding contracts.

Views of Responsible Officials:

Management concurs the finding. Refer to the separate management’s corrective action plan.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No prior year findings were reported.

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