

**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, 2020



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

TABLE OF CONTENTS

	<u>Page</u>
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 <i>Government Auditing Standards</i>	5 - 6
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	8 - 10
PART III	
FINANCIAL INFORMATION	
Schedule of Expenditures of Federal Awards	12
Notes to the Schedule of Expenditures of Federal Awards	13
Native Hawaiian Revolving Loan Fund Financial Statements	
Balance Sheet	14
Statement of Revenues, Expenditures, and Change in Fund Balance	15
Statement of Cash Flows (Unaudited)	16

OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI'I

TABLE OF CONTENTS

	<u>Page</u>
PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS	18 - 19
PART V CORRECTIVE ACTION PLAN	21 - 22
PART VI SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
Status Report	24

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, 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, 2020, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements, and have issued our report thereon dated March 23, 2021. 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 includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by that other auditor. However, this report, insofar as it relates to the results of the other auditor, is based solely on the report of the other auditor.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompany schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

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 and those of the other auditor 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 23, 2021

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

We have audited the Office of Hawaiian Affairs (OHA), State of Hawai‘i’s compliance with the types of compliance requirements described 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, 2020. OHA’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions applicable to its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of OHA’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OHA’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OHA's compliance.

Opinion on Each Major Federal Program

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, 2020.

Report on Internal Control over Compliance

Management of OHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OHA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OHA's 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 combination of deficiencies, in internal control over compliance, such that there is 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2020, and the related notes to the financial statements which collectively comprise OHA's basic financial statements. We issued our report thereon dated March 23, 2021, 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. That information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, that information is 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 23, 2021

PART III
FINANCIAL INFORMATION

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA 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>243,389</u>
Total Highway Planning and Construction Cluster			<u>243,389</u>
Total Department of Transportation			<u>243,389</u>
Department of Health and Human Services			
Native American Programs			
Native Hawaiian Revolving Loan Program	93.612	N/A	<u>2,272,478</u>
Total Department of Health and Human Services			<u>2,272,478</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,515,867</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, 2020

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, 2020. 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, 2020 was \$7,102,870.

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
BALANCE SHEET
June 30, 2020

ASSETS

ASSETS

Cash held in banks	\$	5,003,333
Cash held by investment managers		319,756
Interest and dividends receivable		101,867
Notes receivable, net of allowance for doubtful accounts		5,770,613
Investments		14,255,496
Due from other funds		<u>148</u>
Total assets	\$	<u><u>25,451,213</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	<u>45,556</u>
Total liabilities		<u>45,556</u>

FUND BALANCE

Restricted		
Beneficiary advocacy		82,355
Long-term portion of notes receivable		4,879,877
Native Hawaiian loan program		<u>20,443,425</u>
Total fund balance		<u>25,405,657</u>
Total liabilities and fund balance	\$	<u><u>25,451,213</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, 2020

REVENUES

Loan interest income	\$	598,770
Investment earnings		294,959
Other revenue		<u>36,187</u>
Total revenues		<u>929,916</u>

EXPENDITURES

Salaries and fringe benefits		405,923
Services		235,241
Bad debt expense		99,749
Investment manager fee		35,935
Rent		31,585
Travel		5,877
Legal services		3,190
Other expenses		<u>10,638</u>
Total expenditures		<u>828,138</u>

NET CHANGE IN FUND BALANCE 101,778

FUND BALANCE AT JULY 1, 2019, AS PREVIOUSLY REPORTED		25,367,533
Prior period adjustment		<u>(63,654)</u>
FUND BALANCE AT JULY 1, 2019, AS RESTATED		25,303,879
FUND BALANCE AT JUNE 30, 2020	\$	<u><u>25,405,657</u></u>

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
STATEMENT OF CASH FLOWS (UNAUDITED)
Year Ended June 30, 2020

Cash flows from operating activities	
Net change in fund balance	\$ 101,778
Adjustments to reconcile net change in fund balance to net cash used in operating activities:	
Bad debt expense	99,749
Net change in fair value of investment securities	(294,959)
Amortization of discount on investment securities	(17,506)
Increase in:	
Interest and dividends receivable	3,315
Prepaid expenses	2,620
Due from other funds	(148)
Increase in:	
Accounts payable	(19,073)
Due to other funds	(48,084)
Net cash used in operating activities	<u>(172,308)</u>
Cash flows from investing activities	
Purchase of investments	(5,304,632)
Proceeds from maturities of investments	5,244,878
Notes receivable issued	(1,444,337)
Proceeds from repayment of notes receivable	<u>1,729,932</u>
Net cash provided by investing activities	<u>225,841</u>
NET INCREASE IN CASH	53,533
Cash at beginning of year	<u>5,269,556</u>
Cash at end of year	\$ <u>5,323,089</u>
Cash consists of:	
Cash in banks	\$ 5,003,333
Cash held by investment manager	<u>319,756</u>
	\$ <u>5,323,089</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, 2020

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:

CFDA 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

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Ref No.</u>	Internal Control Findings
2020-001	Reconciliation of the General Ledger to Financial Statements (Significant Deficiency)

Criteria: Financial statements should be prepared based on the books and records of OHA.

Condition: During the current year audit, it was noted that the fund balance of the Federal Grant Fund as of July 1, 2019 did not agree to OHA's financial statements as of and for the fiscal year ended June 30, 2019.

Cause: Subsequent to year end a journal entry was recorded in the Federal Grant Fund as of June 30, 2019.

Effect: Policies and procedures related to OHA's financial statement closing process did not prevent or detect this error. Net assets as of July 1, 2019 have been restated and have been decreased by \$63,654 as a result of this error.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's to the general ledger.

Views of Responsible Officials and Planned Corrective Action:

OHA management agrees with the finding and the recommendation. See Part V Correction Action Plan.

PART V
CORRECTIVE ACTION PLAN



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HWY., SUITE 200
HONOLULU, HAWAII 96817

March 23, 2021

The Honorable Michelle Sauve
Acting Commissioner
Administration for Native Americans
U.S. Department of Health & Human Services
Mary E. Switzer Memorial Building
330 C Street, SW
Washington, DC 20201

VIA: E-Mail

Re: Corrective Action Plan

Dear Acting Commissioner Sauve,

The Office of Hawaiian Affairs (OHA) respectfully submits the following corrective action plan for the sole financial statement finding as listed on the Schedule of Findings and Questioned Costs dated June 30, 2020:

Name and Address of Independent Public Accounting Firm: N&K CPAs, Inc., 999 Bishop Street, Suite 2200, Honolulu, HI 96813

Audit Period: July 1, 2019 to June 30, 2020

Finding: Financial Statement, Internal Control Finding, Significant Deficiency

Ref No. 2020-001: Reconciliation of the General Ledger to Financial Statements

Recommendation: We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's general ledger.

Views of Responsible Officials and Planned Corrective Action: OHA management agrees with the finding and the recommendation and provides additional contextual information. A loan schedule was prepared for the Native Hawaiian Revolving Loan Fund (NHRLF) as of June 30, 2019. This loan schedule included incorrect maturity dates that overstated interest income by \$63,654 over 71 accounts. A corrected loan schedule

Administration for Native Americans
Office of Hawaiian Affairs
Corrective Action Plan, Sole Finding 2020-001
March 23, 2021
Page 2

was subsequently submitted, and the adjustment was made in June 30, 2019 on the NHRLF general ledger. However, the external auditors did not receive this adjustment and it was not reflected on the NHRLF audited financial statements. A reconciliation of the general ledger to the audited financial statements was not performed that would have caught the omission.

Management considers this an isolated incident. There are explanations as to how this incident occurred; however, at the end of the day, management takes responsibility of this oversight and it will not happen again.

If there are any questions, please feel free to reach out via e-mail (sylviah@oha.org) or via phone 808-594-1973.

Sincerely,



Sylvia M. Hussey, Ed.D.
Ka Pouhana, Chief Executive Officer

SH:sh

PART VI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Office of Hawaiian Affairs, State of Hawai'i
STATUS REPORT
Year Ended June 30, 2020

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