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**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. Nimitz Highway
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May 30, 2018

**VIA E-MAIL: lao.auditors@hawaii.gov
and U.S. MAIL, FIRST CLASS**

Mr. Leslie H. Kondo
Office of the Auditor
State of Hawai'i
Kekūanaō'a Building
465 S. King Street, Room 500
Honolulu, Hawaii 96813

**RE: Audit of the Office of Hawaiian Affairs' Competitive Grants and
Report on the Implementation of 2013 Audit Recommendations**

Dear Mr. Kondo:

The Office of Hawaiian Affairs ("OHA") has received your draft "Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, Report No. 18-08" and offers the following comments.

OHA thanks you for recognizing in the report that "[t]he amount of grants that OHA budgets for each year is significant." The more than \$21.5 million that OHA released into the community in FY 15 and FY 16 (*see* Report No. 18-08 at 7), the years covered by this audit, substantially contributed to improving the lives of Native Hawaiians. These grants were awarded to more than 260 programs and events, that among other things, helped low-income Native Hawaiians rent and own homes;

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provided reading and math assistance to at-risk youth; trained Native Hawaiians to obtain higher-wage employment; and helped manage lo'i and fishponds to feed Hawaiian communities.

We appreciate that you also acknowledge that our community and events grants, the subject of this audit, are "well-managed" and that our grants program has made progress in addressing concerns identified in the 2013 state audit, fully or partially implementing all but one of the 23 recommendations from the previous report.

However, we recognize that this audit intended to identify areas of improvement so that we can better fulfill our mandate of bettering the conditions of Native Hawaiians. We fully understand that the daunting challenges our beneficiaries face – as well as our sweeping mandate – require our commitment to continuous improvement and progress.

Auditor's Recommendations to Further Improve Monitoring and Evaluation of OHA's Competitive Grants to Fulfill its Fiduciary Duties to Beneficiaries

As part of an agency-wide directive, OHA's Lines of Businesses and their respective programs were tasked with updating all operational documents by June 30, 2018 for administrative approval. As part of this process, OHA's Transitional Assistance Program ("TAP") recognized the need to continually improve the grants processes, and it has already begun to make the appropriate changes recommended by the Auditor.

Community Grants

It is worthy to note that the 60 Community Grants OHA administered during FY 15 and FY 16 totaled more than \$7 million and, among other things, helped thousands of beneficiaries through statewide services in the following areas: affordable home ownership and rental assistance; employment training and job placement; healthier lifestyle choices through diet and exercise to better manage obesity and chronic disease; increased access to prenatal services; tutoring and enrichment activities to improve proficiency in math and reading; and community opportunities to engage in cultural practices and pae 'āina sustainability.

The Auditor reviewed a sampling of nine Community Grants that were administered by OHA during FY 15 and FY 16. *See Exhibit 6, Report No. 18-08.* As noted by the Auditor, OHA's Community Grants are predominately well-managed. "TAP complied with its policies and procedures for planning, solicitation, application, review, and recommendation phases of the Community Grants cycle, and predominantly met the monitoring and evaluation requirements with limited exceptions." *See Report No. 18-08 at 15.*

Those limited exceptions included the observations that: 1) two of the nine Community Grants did not conduct site visits; and 2) for the two of seven grants for which site visits were performed, the monitoring reports were not sent to the grantees. TAP currently uses a Grants Tracking System database that maintains key information about each grant application and grant award that includes basic grant information, payments, reports, and standardized performance measures data. This database is used to track the 'Ahahui Grants, Community Grants, and Kūlia Initiatives. TAP also created a grant file checklist in its standard operating procedures as a guide for grants specialists to include all correspondence, and monitoring and evaluation reports in the hard-copy grant files. The Auditor noted that these actions constituted full implementation of Recommendation 16 from the 2013 Audit. *See Report No. 18-08 at 29.* Site visit dates and monitoring report dates are recorded as part of the Grants Tracking System. Each grant had at least one site visit over the two-year grant term (Fiscal Biennium ("FB") 2014-2015 and FB 2016-2017).

For one of the grantees in FY 15 that the audit found not to have had a site visit, OHA instead provided much needed technical assistance and support through a series of one-on-one meetings with the grantee as fiscal sponsor and with the community group implementing the program. The grantee had unforeseen internal organizational issues that needed to be addressed by the grant monitor through these one-on-one meetings; thus, OHA staff provided an even more thorough review than that ordinarily provided by an on-site visit. These technical support meetings were noted by the grant monitor in the grant files under correspondence and site visit reporting.

For the second grantee found not to have had a site visit, TAP staff explained that several attempts were made to coordinate a site visit with the grantee but scheduling was

made difficult due to the isolated location of the project. A site visit was scheduled for a Sunday but the grant monitor became ill and the trip had to be cancelled.

Where monitoring reports were not sent to two of the seven grantees for which site visits were performed, this discrepancy could not be explained as TAP underwent significant personnel changes in the past few years.

The Auditor recommends improved monitoring, tracking, and documenting of grantees' compliance with grant terms and conditions and grantees' achievement of applicable performance measures for use in future grant application reviews and award decisions. OHA has already addressed the Auditor's concerns by establishing a Grants Tracking System, as described above, to report on the progress of the granting process as well as the progress of individual grantees. OHA has also procured a grants management system that allows for more comprehensive tracking, monitoring, and evaluating of outcomes.

The Auditor further noted that all nine Community Grants completed grant Closeout Reports that require OHA to assess the extent to which the grantee met its outputs and outcomes, the significant accomplishments of the grant, and whether the grantee complied with OHA's requirements. *See Report No. 18-08 at 17.*

'Ahahui Grants

'Ahahui Grants help to fund one-time community events, up to \$10,000, through a competitive grants process. The 62 'Ahahui Grants provided by OHA totaled \$400,000 and supported events that offered Hawaiians opportunities to: participate in cultural programming; attend community health days; and access education and employment resources through college and career fairs. These events included the East Maui Taro Festival, the Prince Lot Hula Festival, and Nā Wahine o Ke Kai, the women's canoe race from Moloka'i to O'ahu.

The Auditor reviewed a sampling of ten 'Ahahui Grants that were awarded in FY 15 and FY 16. The Auditor noted that two of the ten grants did not have any attendance reports. The Auditor found that the monitoring and evaluation mandated under Haw.

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Rev. Stat. § 10-17 were not consistently conducted for 'Ahahui Grants. *See* Report No. 18-08 at 11.

However, OHA monitors its grants by requiring each grantee to submit a final narrative and expenditure report, summarizing the event to ensure that the event was held as awarded. OHA staff from TAP and/or OHA's Community Engagement ("CE") Line of Business also attend events as appropriate and reasonable. OHA will assess improving coordination between TAP and CE and requiring OHA attendance at all 'Ahahui Grant-funded events to further improve its monitoring of 'Ahahui Grants.

As to evaluation of 'Ahahui grants, during the Audit review, TAP informed the Auditor that it recently implemented for FY 18 a standard Closeout Report similar to that required for Community Grants. The 'Ahahui Closeout Report Form that must be completed for each event by the grants staff includes an assessment of whether the event outcomes intended by the grantee were met; the reporting of any highlights or significant accomplishments of the event; and an evaluation of the grantee's organizational capacity to manage the event. This Closeout Report provides for an overall assessment of the event and of the grantee.

Furthermore, TAP informed the Auditor that it duly considers a grantee's prior year performance when discussing grant application reviews and recommendations for award. This may include reviewing an event's Final Report from a prior year, discussing with an OHA staff who attended a prior year's event, or reviewing the OHA staff Attendance Reports. TAP informed the Auditor that it is considering the addition of a check box and comment feature to its Grants Tracking System to record whether a grant was closed out in good standing as a way to further improve its evaluation of Community and 'Ahahui grants.

OHA recognizes the importance of continually reviewing its processes to dually ensure compliance and consistency with State laws, including Haw. Rev. Stat. §10-17, and to fulfill its fiduciary duties in serving the myriad of needs of its beneficiaries. OHA is currently revising its grant solicitation and application requirements and procedures for the next grant cycle to include the Auditor recommendations.

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OHA Continues its Work on Improving its Policies and Procedures and Will Make Recommendations for Board and/or Administration Approval

The Board of Trustees' Ad hoc Committee on Grants and Sponsorships is continuing its assessment of OHA's existing grant making programs and intends to provide recommendations shortly to the Board regarding the grants the Auditor referred to in Report No. 18-03 as Kūlia Initiatives. Consistent with its scope, the Ad hoc Committee also intends to assess and make recommendations for improvement relative to Sponsorships, the Trustee Sponsorship and Allowance Fund, and the competitive Grants addressed in this subject audit, one program at a time.

Recently, OHA's Lines of Businesses and their respective programs were tasked with revising their standard operating procedures ("SOPs") as part of an agency-wide directive to have all operational documents updated by June 30, 2018 and thereafter approved by Administration. OHA is already considering the Auditor's recommendations as part of this agency-wide update of SOPs. Furthermore, any policy amendments that are recommended by the Ad hoc Committee on Grants and Sponsorships and subsequently adopted by the Board will be incorporated into the programmatic SOPs where appropriate.

OHA created a comprehensive data warehouse with key information pertaining to all grants awarded in FY 13 through FY 17. This data warehouse is updated annually and made electronically available to the Board through OHA's intranet site. In addition, OHA will continue to report on the grants it awards for each fiscal year as part of the OHA Annual Report.

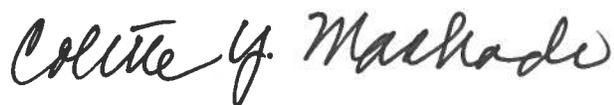
Finally, OHA has procured a grants management system that would allow for more comprehensive monitoring, tracking, and reporting of grant status and grant outcomes.

Collectively, these efforts will help to fully implement the 2013 and current recommendations made by the Auditor and will enable OHA, the Board of Trustees, and Administration to make better informed decisions.

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In closing, OHA remains committed to improving the overall administration and reporting of funds that it disburses to the Native Hawaiian community and to providing increased transparency and accountability to its beneficiaries. Mahalo for the opportunity to provide comments on this report, and we look forward to continuing our progress with improving our Community and 'Ahahui Grants programs.

'O wau iho nō,

A handwritten signature in black ink that reads "Colette Y. Machado". The signature is written in a cursive, flowing style.

Colette Y. Machado, Trustee
Chairperson, Board of Trustees

cc: OHA Board of Trustees
OHA Ka Pouhana, Chief Executive Officer