

**Committee on Resource Management**Trustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair***Members***Trustee Leina'ala Ahu Isa, *At-Large*Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brendon Kalei'aina Lee, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII  
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE  
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

**DATE:** Tuesday, March 22, 2022**TIME:** 1:30 p.m.**PLACE:** Virtual Meeting viewable at [www.oha.org/livestream](http://www.oha.org/livestream) OR

Listen by phone: (213) 338-8477,

Webinar ID: 854 5448 2431

**Due to COVID-19, the OHA Board of Trustees and its standing committees will hold virtual meetings until further notice. Pursuant to Governor Ige's January 26, 2022, Emergency Proclamation Related to COVID-19 (Omicron Variant), there will be no in-person location for this meeting that is open to the general public. The virtual meeting can be viewed and observed via livestream on OHA's website at [www.oha.org/livestream](http://www.oha.org/livestream) or can be listened to by phone via the phone number and Webinar ID listed at the beginning of this agenda.**

**AGENDA**

**I. Call to Order****II. Public Testimony on Items Listed on the Agenda\***

(Please see page 2 on how to submit written testimony or provide oral testimony online.

Oral testimony by telephone/landline **will not** be accepted)**III. Approval of Minutes**

None

**IV. Unfinished Business**

None

**V. New Business**

A. Presentation by Auditors: DRAFT Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021, Dwayne Takeno, Principal & Charles Goodin, Senior Manager, N&K CPAs, Inc.

B. ACTION ITEM RM #22-04: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

C. Presentation by Administration: State Auditor Report No. 22-04: Follow-Up on Recommendations from Report No. 18-03, Audit of the Office of Hawaiian Affairs, March 2022

**VI. Announcements****VII. Adjournment**

If you require an auxiliary aid or accommodation due to a disability, please contact Everett Ohta at telephone number (808) 594-1988 or by email at: [everetto@oha.org](mailto:everetto@oha.org) no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72 hours prior to the meeting and posted to OHA's website at: [www.oha.org/rm](http://www.oha.org/rm).



**STATE OF HAWAII'  
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In the event that the livestream or the audiovisual connection is interrupted and cannot be restored, the meeting may continue as an audio-only meeting through the phone and Webinar ID listed at the beginning of this agenda. Meeting recordings are available upon request to [BOTmeetings@oha.org](mailto:BOTmeetings@oha.org) until the written meeting minutes are posted to OHA's website.

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

**\* Public Testimony on Items Listed on the Agenda must be limited to matters listed on the meeting agenda.**

Hawai'i Revised Statutes, Chapter 92, Public Agency Meetings and Records, prohibits Board members from discussing or taking action on matters not listed on the meeting agenda.

Testimony can be provided to the OHA Board of Trustees either as: (1) **written testimony emailed** at least 24 hours prior to the scheduled meeting, (2) **written testimony mailed** and received at least two business days prior to the scheduled meeting, or (3) live, **oral testimony online** during the virtual meeting.

- (1) Persons wishing to provide **written testimony** on items listed on the agenda should submit testimony via **email** to [BOTmeetings@oha.org](mailto:BOTmeetings@oha.org) at least **24 hours prior** to the scheduled meeting or via **postal mail** to Office of Hawaiian Affairs, Attn: Meeting Testimony, 560 N. Nimitz Hwy., Suite 200, Honolulu, HI 96817 **to be received at least two business days prior** to the scheduled meeting. Any testimony received after these deadlines will be 'late' testimony and will be distributed to the Board members after the scheduled meeting. **Due to COVID-19 office closure and limited in-office staffing, please do not fax or hand-deliver written testimony.**
- (2) Persons wishing to provide **oral testimony online** during the virtual meeting must first register at:  
[https://us06web.zoom.us/webinar/register/WN\\_0FZ\\_zKPwSUiTVcqic\\_A0w](https://us06web.zoom.us/webinar/register/WN_0FZ_zKPwSUiTVcqic_A0w)

You need to register if you would like to orally testify. Once you have completed your registration, a confirmation email will be sent to you with a link to join the virtual meeting, along with further instructions on how to provide oral testimony during the virtual meeting. The registration page will close once the Public Testimony or Community Concerns agenda items have concluded.

To provide oral testimony online, you will need:


- (1) a computer or mobile device to connect to the virtual meeting;
- (2) internet access; and
- (3) a microphone to provide oral testimony.

Oral testimony online will be limited to five (5) minutes.

Oral testimony by telephone/landline **will not** be accepted at this time.

Once your oral testimony is completed, you will be asked to disconnect from the meeting. If you do not sign off on your own, support staff will remove you from the Zoom meeting. You can continue to view the remainder of the meeting on the livestream or by telephone, as provided at the beginning of this agenda.

Please visit OHA's website for more detailed information on how to submit Public Testimony OR Community Concerns at: <https://www.oha.org/how-to-submit-testimony-for-oha-bot-meetings/>.

  
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 Trustee John Waihe'e, IV, Chair  
 Committee on Resource Management

03/15/2022

\_\_\_\_\_  
 Date

March 22, 2022 - Continued



**Committee on Resource Management**Trustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair***Members***Trustee Leina'ala Ahu Isa, *At-Large*Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brendon Kalei'aina Lee, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee Mililani Trask, *Hawai'i Island*

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

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2021

DRAFT



**N&K CPAs, Inc.**

ACCOUNTANTS|CONSULTANTS

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

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**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

To the Board of Trustees of the Office of Hawaiian Affairs

It is my pleasure to present to you, the Financial Statements and Report of Independent Certified Public Accountants of the Office of Hawaiian Affairs (OHA) for the fiscal year ended June 30, 2021. This report has been prepared by *ka Paia Kanaloa Wai*, Resource Management Division. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with OHA. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of OHA as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of OHA's financial affairs has been included.

The report includes the independent auditors' report, management's discussion and analysis, basic financial statements and notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

### **THE REPORTING ENTITY**

OHA was established by the 1979 Hawai'i State Legislature under the provisions of Chapter 10, Hawai'i Revised Statutes (Act 196). In 1980, the Hawai'i State Legislature approved Act 273, which, in addition to Act 196, initiated the appropriate process to organize and fund the entity. OHA's mission is to *mālama* (protect) Hawai'i's people and environmental resources and OHA'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 Lāhui, recognized nationally and internationally.

GASB Statement No. 14, *The Financial Reporting Entity*, establishes standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of OHA as the primary government, as well as other organizations for which the primary government is financially responsible as component units.

### **BOARD CHANGES, LAND & COMMERCIAL PROPERTIES**

In December 2020, Board leadership reorganized, and Administration supported, the work of two Board authorized land and commercial property Permitted Interaction Groups (PIG), by the end of the fiscal year, to investigate: 1) the development of land and commercial property policies and strategies relating to the Development of OHA's Na Lama Kukui (NLK) and Kakaako Makai properties (January 2021); 2) and recommend a short list of eligible entities for selection of a development consultant; land and commercial property policies and the development and implementation of a request for proposal for a community planner (April 2021).

**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

In September 2021, Administration completed the Board authorized purchase of two properties, one at 500 N. Nimitz Highway and the other at 501 Sumner Street. Both properties are adjacent to Nā Lama Kukui, the OHA headquarters at 560 N. Nimitz Highway. The Board of Trustees voted to purchase the properties for \$47 million. OHA's acquisition of these commercial properties represents a long-term investment that is expected to generate more than \$1 million per year in net income as well as provide a larger presence in the Iwilei area. All funds generated by OHA are directed toward the betterment of conditions for Native Hawaiians and spending is guided by OHA's strategic plan and related investment and spending policies. 500 N. Nimitz currently houses popular national retail chains Ross Dress for Less, Long's (CVS Pharmacy) and PetSmart. 501 Sumner Street is an industrial property that also houses a host of small businesses. The purchase follows OHA's 15-year strategic plan which calls for increasing the value of investments and the value from financial, commercial, and land resources.

The Board's land and commercial property PIGs continued after 6/30/2021 and resulted in the following three, to investigate: 3) the initial steps in the first phase of work for the development of Kaka'ako Makai (November 2021); 4) the activation of Kaka'ako Makai Site A (January 2022) and 5) the activation of Kaka'ako Makai Site E (March 2022).

In March 2022, Administration also completed the Board authorized refinancing of NLK that was scheduled for maturity in September 2022.

#### **LIMITED LIABILITY COMPANIES**

OHA is the sole member of two limited liability companies, Hi'ilei Aloha LLC (Hi'ilei) and Ho'okele Pono LLC (Ho'okele Pono). Hi'ilei is the sole member of two limited liability companies Hi'ipaka LLC (Hi'ipaka) and Hi'ikualono LLC (Hi'ikualono). Ho'okele Pono is the sole member of a single limited liability company Ho'okipaipai LLC (Ho'okipaipai). Based on its relationship with OHA, the LLCs are considered to be a component unit of OHA for financial reporting purposes.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi'ilei to permit persons who are not OHA executives to serve as managers (Managers) of Hi'ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi'ipaka to amend the Operating Agreement of Hi'ipaka permitting persons who are not OHA executives to serve as managers of Hi'ipaka; 2) Dissolution of Hi'ikualono; and 3) Dissolution of Ho'okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center (PTAC) grant to Ho'okipaipai, including the dissolution of Ho'okipaipai prior to the dissolution of Ho'okele Pono. Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities.

In March 2020, OHA executives as LLC Managers worked with Hi'ilei and Ho'okele Pono operating management to address the impacts of COVID-19 and various government-imposed directives, while completing winddown activities, to effect the May 2019 BOT directives described above.



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**June 30, 2021**

Hi'ipaka's operations have been affected by the outbreak of COVID-19 which was declared a pandemic by the World Health Organization in March 2020. The virus caused unprecedented disruptions in the global economy and severely disrupted the Hawaii tourism industry, which is a significant source of Hi'ipaka's revenue. In response to national and statewide shelter-in-place guidelines, Hi'ipaka suspended customer oriented operations for several months in 2020, laid off employees, and operated with a substantially reduced personnel base to maintain basic operations during the State's shelter-in-place mandate. Hi'ipaka re-opened after the State's shelter-in-place mandate was lifted, however the State's tourism industry has not fully recovered which continues to negatively impact Hi'ipaka's daily visitor count.

Hi'ipaka was able to fund operating losses in 2020 from cash savings, cost containment efforts, additional grants and donations, and a loan under the Paycheck Protection Program in the amount of \$694,335. Hi'ipaka expects to resume more normal operations in 2021, once the pandemic is contained through widespread vaccinations. Hi'ilei has not been directly impacted by the COVID-19 pandemic. Management believes that Hi'ilei and Hi'ipaka have sufficient financial resources to remain in business throughout 2021.

Winddown activities included, but was not limited to: interactions with the State of Hawaii Attorney General's office for dissolution activities; review of monthly financial statements and related operational winddown funding; audits and filing of Form 990s; physical office closure, related business lease terminations and transfer of records and work sites; business records transition and retention; transfer of artifacts; filing of final PTAC reports; continuing other grantor reporting requirements; securing of location for on-going operations and continuity of business records; creditor settlements; employee/employment separation; and other related business transitions.

As LLC business operations are calendar year based, most of calendar years 2020 and 2021, OHA LLC Managers focused on COVID-19 responses and winddown activities. New non-OHA executives as Managers ("Community LLC Managers") were approved by the Board in February 2021 and began effective April 1, 2021. As a result, common governance structure and financial obligations, regardless of the LLC Managers, the financial results of Ho'okele Pono and Hi'ilei and its member owned LLCs through December 31, 2020 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2021.

## **ORGANIZATIONAL STRUCTURE - FINANCIAL REPORTING**

On June 30, 2021, the Board of Trustees ("BOT" or "Board") approved the OHA Biennium Budget for the Fiscal Biennium Periods 2021-2022 (FY 22) and 2022-2023 (FY 23) which reflected an organizational operating structure that was designed to enable the implementation of strategies and tactics to achieve outcomes outlined in Strategic Plan 2020-2035 and related implementation plans. Administration began with designing a business model, backwards mapping to include: vision; mission and mandate; strategic foundations; strategic outcomes; strategic directions; strategies; tactics; functions; functional classifications and roles; knowledge, aspirations, skills, attitudes and behaviors; and reorganization design principles, elements and considerations.

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With a business model designed, Administration then examined the existing “AS IS” organization (e.g., positions, functions, roles, costs); mapped Chapter 10 purposes, mandates and requirements to functional roles and responsibilities; crossmapped functional roles and responsibilities to policy oriented operating framework and related responsibilities; created a functional organization chart; applied reorganization design principles, elements and considerations; created positional organization charts, including positions, reporting and management structures; and identified change elements (e.g., position impacts, compensation impacts, separation costs).

The Board further directed Administration to complete the reorganization by December 30, 2021. The information below (e.g., names of operating units) therefore refers to the organizational structure (before the impacts of the reorganization) of June 30, 2021 and will be updated for the June 30, 2022 period.

A division, for financial reporting purposes is a combination of resources and activities designed to achieve an objective or objectives. OHA prepares biennial budgets and records expenditures separately for each of its divisions. The three division titles below correspond to the financial reporting structure, aggregated and displayed as Governmental Activities; and descriptions of a few of the aggregated programs under each of the Division titles is provided for clarity and improved understanding.

Division Title	Division Objectives
<b>1. Board of Trustees</b> <i>Board of Trustees, Board of Trustees Staff</i>	To work for the betterment of all Hawaiians by setting policy and strategies in response to the concerns and interest of the beneficiaries, in order to ensure the well being of Native Hawaiians; to protect their rights and entitlements in their homeland; to assist them to achieve self-determination and self-governance; and to nurture and honor their culture.
<b>2. Support Services</b> <i>Chief Executive Officer, Chief Operating Officer, Kaka'ako Makai, Na Lama Kukui, Corporate Counsel, Travel Services, Human Resources, Program Improvement, Systems Office, Operations Management, Chief Financial Officer, Land &amp; Property Management, Palaeua Cultural Preserve, Wao Kele o Puna, Investments, Information Systems, Procurement, Community Relations, Digital Media, Communications, Land Assets Director, Commercial Property, Legacy and Programmatic Lands, Land Assets Facilities, Ho`omana, Kekaha Armory, Kukaniloko, Pahua Heiau, Waialua Courthouse</i>	To work for the betterment of all Hawaiians by providing leadership, guidance, direction, and executive oversight. OHA seeks to excel among Hawai'i's organizations in managing resources, as well as applying technology to streamline processes, and fully integrate all aspects of information sharing and program support, and to coordinate data gathering, planning, research, and development efforts with other Hawaiian agencies. Included in this financial reporting division are OHA commercial property and land operations.

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**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

<b>Division Title</b>	<b>Division Objectives</b>
3. Beneficiary advocacy <i>Grants, Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund, Community Outreach, Hawaiian Registry, Research, Culture &amp; History, Demographics, Special Projects, Program Improvement, Chief Advocate, WDC Bureau, Compliance Monitoring, Public Policy, Papahānaumokuākea, Micro Loans</i>	To work for the betterment of all Hawaiians by improving access to resources, benefits, and services, particularly in the areas of housing, education, health, and economic development. To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation.

### **PURPOSE OF THE REPORT AND DEFINITIONS**

The purpose of the financial audit was to enable the independent auditors to form opinions on the financial statements of the Office of Hawaiian Affairs as of June 30, 2021, and for the year then ended. The auditors' report represents the conclusion of the independent auditors regarding the fairness of the presentations, in conformity with accounting principles generally accepted in the United States of America, set forth in the financial statements and is used to communicate such conclusion to interested parties.

The following is a glossary of certain accounting terms associated with the financial statements.

***Appropriations*** - Authorizations granted by the State Legislature or OHA Board of Trustees permitting the agency within established fiscal and budgetary controls to incur obligations and to make expenditures for specific purposes. An appropriation is usually limited in amount and as to the period during which it may be expended.

***Lapse*** - As applied to appropriations, this term denotes the automatic termination of an appropriation. At the end of the appropriation period, any unexpended or unencumbered balance lapses. This terminated amount is available for appropriation by the authorizing entity in the ensuing fiscal year.

***Encumbrances*** - Commitments related to unperformed (executory) contracts for goods or services.

***Expenditures*** - Decreases in net financial resources. Expenditures include current operating expenses and capital outlays that require the current use of net current assets.

***Fund*** - A fiscal and accounting entity with a self-balancing set of accounts recording cash and other current financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

**FACTORS AFFECTING FINANCIAL CONDITION, INCLUDING COVID-19**

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which OHA operates, including events that occur between the time of the financial statements (June 2021) and the report date (March 2022). Because COVID-19 continued to stay front and center in the world, nation, state and island communities, the following section will continue to be framed as it was in the prior year with additive operating updates.

***COVID-19***

From an initial reported cluster of cases of pneumonia, seemingly localized in Wuhan, Hubei Province, China on December 31, 2019, to the announcement by World Health Organization on January 30, 2020, that the outbreak constituted a Public Health Emergency of International Concern, the conditions migrated into an explosive, unprecedented global impact that we have all come to know as the novel coronavirus or COVID-19. COVID-19 severely disrupted Native Hawaiian well-being as all facets being disrupted by the COVID-19 disease itself or the impacts of the responses to COVID-19 (e.g., job loss, need for food, clothing, medication, diapers, social distancing, closure of schools, reduction in tourist, hotel occupancy, layoffs, multi-generational needs in the household, inequitable access to technology).

In March 2020, just as stay-at-home orders and migration to telework occurred for the organization, OHA's published an *ISSUE BRIEF: COVID-19 AND NATIVE HAWAIIAN COMMUNITIES, Native Hawaiians Over-Represented in COVID-19 At-Risk Populations* which demonstrated the needs, impacts, and vulnerabilities of the Native Hawaiian community amid the COVID-19 public health crisis. Key findings such as: Native Hawaiians (NH) are at greater risk due to existing medical conditions; many NH are members of vulnerable populations (e.g., homeless, limited access to quality healthcare, rural communities); NH communities are poised to suffer disproportionate share of financial hardship and have fewer financial resources to weather emergencies (e.g., income, credit, savings); NH students and caregivers losing needed supports; technology and the digital divide exacerbated; and caregiving for a household member with underlying health conditions (e.g., respiratory, diabetes).

In April 2020, OHA announced the launch of Kaiāulu Meals, a \$450,000 program that partnered with a statewide network of community organizations to deliver 12 weeks of locally-sourced food to nearly 1,500 kūpuna in need. In May 2020, the BOT approved and authorized \$3,000,000 in COVID-19 aid--\$2,170,000 for emergency financial assistance and \$830,000 for food security community grants.

OHA's COVID-19 advocacy activities included: state-wide moratorium on home evictions due to rent or mortgage non-payment; testifying on public school reopening protocols; advocating for pa'ahao testing, protections and related supports upon release; commenting on military exercises and related community protections and communication protocols; collaborating with State departments on data disaggregation and reporting for Native Hawaiians and Pacific Islanders (NHPI); participating in the NHPI COVID-19 3R (response, recovery and resilient) advocates for vulnerable populations; and conducting surveys and studies for Native Hawaiian businesses.

**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

**Act 29 (2021) Relating to the Budget of the Office of Hawaiian Affairs, Restoration of FY20-21 General Fund Appropriations**

In May 2021, the Governor signed Act 29 (2021) relating to the FY22, FY23 budget of the OHA and included Part IV. RELEASE OF PRIOR FUNDS, Section 9 which amended Section 8 of Act 37 (2019) and providing that the general funds appropriated for fiscal year 2020-2021 pursuant to part II of Act 29 shall not be released to the Office of Hawaiian Affairs until after the CLA - OHA & LLCs Contract and Disbursement Review - Report, dated December 4, 2019 (CLA Report), is received by the legislature. Act 2019 further approved that the restored general funds for FY 20 and FY21 would not lapse until June 30, 2022.

***Sources of Funding***

The sources of funding for OHA include State of Hawai'i general fund appropriations, ceded land revenue payments, federal grants, and miscellaneous other income. In addition, a substantial portion of the funding comes from withdrawals made from the Native Hawaiian Trust Fund (NHTF). The goal of the NHTF is to provide targeted investment returns to sustain the mission in perpetuity and to uphold OHA's mission. In this regard the Board of Trustees established both an investment and a spending policy. Generally, the investment policy targets the growth of the NHTF at least inflation plus five percent annually, while the spending policy limits the amount of withdrawals that can be made from the fund in any given fiscal year. Withdrawals are limited to five (5) percent of the NHTF's 20-quarter rolling average market value, as defined, to ensure that resources held within the trust are available for future spending.

The beneficiary needs for services is closely tied to the local economy, while the primary source of funding, the Native Hawaiian Trust Fund (NHTF), is closely tied to the national economy.

***State of the Local Economy***

Hawaii's economic recovery continues despite rising uncertainties with COVID-19 Omicron variant cases according to the Hawaii Department of Business, Economic Development & Tourism (DBEDT). Hawaii's economy benefitted from increases in investment and consumption from a boom in the construction and real estate market, while the tourism sector lagged. According to the U.S. Bureau of Economic Analysis, Hawaii's economic growth rate, as measured by the growth of real gross domestic product (GDP), dropped 10.8 percent in 2020 and expects economic growth for 2021 to be at 3.8 percent.

Looking forward, the Economic Research Organization at the University of Hawaii (UHERO) expects renewed economic growth to continue, touching nearly all sectors of the economy, with industries linked to tourism standing to make the largest gains. However, the global economy is facing another new challenge due to the outbreak of war between Russia and Ukraine further disrupting global supply chains and increasing oil and energy prices potentially delaying Hawaii's economic recovery.



**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
**June 30, 2021**

***State of the National Economy***

Following a strong rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt, and income inequality that could endanger the recovery in emerging and developing economies, according to the World Bank's latest Global Economic Prospects report. Global growth is expected to decelerate from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world. Meanwhile, rising inflation which hits low-income workers particularly hard is constraining monetary policy. Globally and in advanced economies, inflation is running at the highest rates since 2008. In developing economies, inflation has reached its highest rate since 2011, which has led many developing economies to withdraw policy support to contain inflationary pressures well before the recovery is complete.

The rapid spread of the Omicron variant indicates that the pandemic will likely continue to disrupt economic activity in the near term. In addition, a notable deceleration in major economies such as the United States and China will weigh on external demand in developing economies. Governments in many developing economies lack the policy space to support activity, if needed, to address new COVID-19 outbreaks, persistent supply-chain bottlenecks, inflationary pressures, and elevated financial vulnerabilities in large swaths of the world could increase the risk of a hard landing. At the time we are completing this report, Russia has launched a full-scale invasion of Ukraine, and the US and other countries have responded with a range of economic sanctions. The biggest risk from the Ukraine crisis is a potential surge in oil and gas prices and a hit to the European and global macroeconomy. We do not attempt to predict what markets might do in the short to intermediate-term. Economic risks are certainly elevated which likely means that the increased volatility in the financial markets we have witnessed over the last five years is likely to persist and even go higher.

***OHA's Investments***

OHA's Native Hawaiian Trust Fund (NHTF) reported a 26 percent net gain for the year ending June 30, 2021. Total assets increased to \$485,416,792 from \$394,399,972, which includes organizational spending totaling \$15,000,000. Global equity markets were strong across the board, with the MSCI All-Country World Index returning 39.3 percent. U.S. equity markets led the way (Russell 3000 Index; 44.2 percent), followed by Emerging Markets (MSCI Emerging Markets Index; 40.9 percent), and Developed International equities (MSCI All-country World ex U.S. Index; 35.7 percent). For the fiscal year, the NHTF outperformed its policy benchmark by 3.9 percent, with outperformance coming from most of the asset classes except for private investments. While it was a solid year, the success of an investment program for a perpetual trust is measured not in years, but decades. Success is measured by preserving the purchasing power of the Trust after spending, inflation, and all fees and expenses. Over the last 10 years, NHTF returned 7.5 percent or 5.4 percent real, meeting its long-term return objective of Consumer Price Index (CPI) + 5 percent.



**Office of Hawaiian Affairs, State of Hawai'i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED**  
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**MANA I MAULI OLA**  
**OHA 15-Year Strategic Plan for 2020-2035**

OHA's Strategic Plan "Mana I Maui Ola" (Strength to Wellbeing) includes three foundations: 'ohana (family), mo'omeheu (culture), and 'āina (land and water). OHA recognizes these foundations have the power to affect the wellbeing of Native Hawaiians. Therefore, they are woven into OHA's plans to affect change in the areas of education, health, housing, and economics. These four directions will be used to guide OHA's work to better the conditions of Native Hawaiians. Over the next 15 years, OHA will be implementing strategies, aligned with our foundations and directions to achieve our envisioned outcomes for a thriving and abundant Lāhui.

**Strategic Direction: Educational Pathways**

*Supporting initiatives, leveraging partnerships, engaging in strategies to develop educational pathways that strengthen culture-based education, early education, K-12 and post-secondary education will ensure that Native Hawaiians are grounded in their past while participating in a technologically oriented future.*

**Outcome: Strengthened and Integrated Community, Culture based Learning Systems**

Strategy 1: Support development and use of educational resources for all Hawaiian life-long learners in schools, communities and 'ohana.

**Strategy Outcomes:**

- 1.1. Increased number or percent of Native Hawaiian students who enter educational systems ready to learn;
- 1.2. Increased number or percent of Native Hawaiian students graduating high school who are college, career, and community ready; and
- 1.3. Increased number of Native Hawaiians engaged in traditional learning systems (i.e., hale, hālau, hale mua, hale pe'a) that reestablish/maintain strong cultural foundations and identity.

Strategy 2: Support education through Hawaiian language medium and focused Charter Schools.

**Strategy Outcomes:**

- 2.1. Adequately resourced Hawaiian Focused Charter Schools and Hawaiian-medium schools, including funding of transportation, special education, facilities, and meals, and availability of qualified teachers;
- 2.2. Increased availability of Hawaiian Focused Charter Schools and Hawaiian-medium schools; and
- 2.3. Establishment of a Native Hawaiian Charter School and Hawaiian-medium system.

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**Strategic Direction: Health Outcomes**

*Supporting initiatives, leveraging partnerships, engaging in strategies to promote healthy and strong families.*

Outcome: Strengthened ‘Ōiwi (Cultural Identity), Ea (Self-Governance), ‘Āina Momona (Healthy Lands and People), Pilina (Relationships), Waiwai (Shared Wealth), Ke Akua Mana (Spirituality)

Strategy 3: Advance policies, programs and practices that strengthen Hawaiian well-being, including physical, spiritual, mental and emotional health.

Strategy Outcomes:

- 3.1. Increased availability and access to quality, culturally based, and culturally adapted prevention and treatment interventions in ‘ohana, schools, and communities; (E Ola Mau a Mau)
- 3.2. Establishment of a fully functional, high quality, culturally adapted, primary Native Hawaiian Health System which coordinates effective wellness activities/ programs; (E Ola Mau a Mau)
- 3.3. Decrease the number /percent of Native Hawaiians in jails and prison; and
- 3.4. Communities are empowered to take care of iwi kupuna.

Strategy 4: Advance policies, programs and practices that strengthen the health of the ‘āina and mo‘omeheu.

Strategy Outcomes:

- 4.1 Preservation and perpetuation of Hawaiian language, culture, traditions, identity and sense of lāhui;
- 4.2 Increased community stewardship of Hawai‘i’s natural and cultural resources that foster connection to ‘āina, ‘ohana, and communities; and
- 4.3 Increased restoration of Native Hawaiian cultural sites, landscapes, kulāiwi and traditional food systems.

**Strategic Direction: Quality Housing**

*Leveraging partnerships to ensure Native Hawaiians can obtain affordable rentals as well as homeownership while also engaging in opportunities to affect legislation that support Hawaiian Home Lands, overall housing costs, and housing supply will greatly enhance the ability for Native Hawaiians who so desire to remain in Hawai‘i.*

Outcome: Strengthened Capability for ‘Ohana to Meet Living Needs, including Housing; Strengthened Effective Implementation of the Hawaiian Homes Commission Act.

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Strategy 5: Advance policies, programs and practices that strengthen Hawaiian resource management knowledge and skills to meet the housing needs of their 'ohana.

Strategy Outcomes:

- 5.1. Increased numbers/percent of Native Hawaiians who rent housing that meets their 'ohana's financial and well-being needs
- 5.2. Increased numbers/percent of Native Hawaiians who own housing that meets their 'ohana's financial and well-being needs
- 5.3. Increased safety, stability, social support networks, and cultural connection in Native Hawaiian communities

Strategy 6: Support implementation of the Hawaiian Homes Commission Act and other efforts to meet the housing needs of 'ohana.

Strategy Outcomes:

- 6.1. Increased affordable non-traditional housing options (accessory dwelling units/tiny homes, large multi-generational lots or homes) in communities of 'ohana's choice;
- 6.2. Increased housing unit supply on Hawaiian Home Lands; and
- 6.3. Decreased rate of Native Hawaiian 'ohana out of state migration.

**Strategic Direction: Economic Stability**

*Engaging in strategies to enhance the economic development and financial empowerment of the lāhui will ensure that Native Hawaiians progress toward a state of economic stability.*

Outcome: Strengthened Capability for 'Ohana to Meet Living Needs, including Housing; Strengthened Effective Implementation of the Hawaiian Homes Commission Act

Strategy 7: Advance policies, programs and practices that strengthen 'ohana abilities to pursue multiple pathways toward economic stability

Strategy Outcomes:

- 7.1. Increased number / percent of Native Hawaiian 'ohana who are able to provide high quality keiki and kupuna care;
- 7.2. Increase access to capital and credit for community strengthening Native Hawaiian businesses and individuals;
- 7.3. Increase number of Native Hawaiian 'ohana who are resource stable (financial, subsistence, other); and
- 7.4. Increased Native Hawaiian employment rate.

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Strategy 8: Cultivate economic development in and for Hawaiian communities.

Strategy Outcomes:

- 8.1. Increased number of successful, community strengthening Native Hawaiian-owned businesses;
- 8.2. Establishment of new markets for Native Hawaiian products (eg. kalo, loko i'a grown fish, etc.) that can provide Native Hawaiian producers a livable wage; and
- 8.3. Established and operationalized indigenous economic system consistent with Native Hawaiian knowledge, culture, values, and practices.

**CLOSING COMMENTS**

This past fiscal year continued to be challenging for OHA to operationally respond to continuing COVID-19 mandates and safety measures, including related policy adoption, while moving forward with expanded granting opportunities and commercial property activities in Kaka'ako Makai and Iwilei, and designing, planning and implementing a reorganization. I would like to express gratitude to the Board of Trustees, Administration of the State of Hawai'i and members of the Hawai'i State Legislature for their continuing support. We look forward to continuing our efforts to better the conditions of Native Hawaiians as we look toward a vibrant and thriving Lāhui.

Respectfully submitted,

Sylvia M. Hussey, Ed.D.  
Ka Pouhana, Chief Executive Officer  
Office of Hawaiian Affairs

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying 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, 2021, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Hi'ilei Aloha LLC, which is both a major fund and 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hi'ilei Aloha LLC, is based solely on the report of the other auditor. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 25 and the schedules of OHA's proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 72 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OHA's basic financial statements. The Letter from the Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The Letter from the Chief Executive Officer has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March XX, 2022 on our consideration of OHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OHA's internal control over financial reporting and compliance.

Honolulu, Hawaii  
March XX, 2022

DRAFT

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

As management of OHA, we offer the following narrative overview and analysis to readers of our financial statements. While the financial statements and notes present only the financial activities for the fiscal year ended June 30, 2021, management discussion and analysis will address both this year and the year ended June 30, 2020, including any subsequent events and disclosures that should be made to understand the financial statements between the fiscal year ended June 30, 2021 and the report issuance date of March XX, 2022.

Management's discussion and analysis is provided at the beginning of the financial statements and notes to explain the past and current position of OHA's financial condition in layman's terms. This summary should not be taken as a replacement for the financial statements and notes that immediately follow this narrative.

### **ECONOMIC CONDITIONS IMPACTED BY THE COVID-19 PANDEMIC**

The outbreak of the novel strain of Coronavirus (COVID-19) resulted in governments worldwide enacting measures to combat the spread of the virus, which include the implementation of travel restrictions, quarantine periods, and social distancing. These measures have caused material disruption to businesses globally, resulting in an economic slowdown, with the governments and central banks reacting with significant monetary and fiscal interventions to stabilize economic conditions. As COVID-19 cases and hospitalizations around the country continue to fall, city and state leaders race to lift COVID restrictions and prepare for full reopening in Hawaii. However, it is reported that a more infectious type of the Omicron variant has surged to account for more than a third of global COVID-19 cases recently. While health authorities are examining whether this subvariant of Omicron could extend the length of the COVID -19 wave, it remains to be seen how these new variants may disrupt the economic recovery. Future impacts of the COVID-19 pandemic cannot be quantified at this time, however, as of the reporting date, OHA has sufficient resources and liquidity to meet its financial obligations and mission spending.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to OHA's basic financial statements. OHA's basic financial statements include four components: 1) *Government-wide Financial Statements*, 2) *Governmental Funds Financial Statements*, 3) *Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis)*, *General Fund*, and 4) *Notes to Financial Statements*. The first three components are intended to present different financial views of OHA. The fourth component is intended to further explain some of the information in the financial statements and provide more detail. These components are described below.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Government-wide Financial Statements** provide a broad view of OHA's operations in a manner similar to a private-sector business. These statements provide both short-term and long-term information about OHA's financial position, which assists in assessing OHA's financial condition at the end of the year.

**Statement of Net Position** presents all of OHA's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual reported as "net position" at a point in time. Over time, increases or decreases in OHA's net position may serve as a useful indicator of whether the financial position of OHA is improving or deteriorating.

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

**Statement of Net Position**

Summarized financial information of OHA's Statement of Net Position as of June 30, 2021 and 2020 is as follows:

	2021	2020
<b>ASSETS</b>		
Capital assets	\$ 245,907,242	\$ 246,885,678
Other assets	<u>536,210,846</u>	<u>432,682,644</u>
Total assets	<u>782,118,088</u>	<u>679,568,322</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	5,316,091	4,991,503
Deferred outflows of resources related to OPEB	<u>1,542,238</u>	<u>2,473,361</u>
Total deferred outflows of resources	<u>6,858,329</u>	<u>7,464,864</u>
<b>LIABILITIES</b>		
Other liabilities	7,621,347	6,945,052
Long-term liabilities	<u>92,369,435</u>	<u>93,245,866</u>
Total liabilities	<u>99,990,782</u>	<u>100,190,918</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	177,722	295,237
Deferred inflows of resources related to OPEB	<u>1,962,432</u>	<u>402,703</u>
Total deferred inflows of resources	<u>2,140,154</u>	<u>697,940</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	224,487,577	223,188,697
Restricted	25,666,278	25,379,277
Unrestricted	<u>436,691,626</u>	<u>337,576,354</u>
Total net position	<u>\$ 686,845,481</u>	<u>\$ 586,144,328</u>

The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2021 by \$686,485,481 (presented as "Total net position"). Of this amount, \$436,691,626 is reported as "Unrestricted", while \$25,666,278 is reported as "Restricted" federal funds and \$224,487,577 is reported as "Invested in capital assets, net of related debt."

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

The assets of OHA exceeded its liabilities as of June 30, 2020 by \$586,144,328 (presented as "Total net position"). Of this amount, \$337,576,354 is reported as "Unrestricted", while \$25,379,277 is reported as "Restricted" federal funds and \$223,188,697 is reported as "Invested in capital assets, net of related debt."

Unrestricted net position represents the amount available to be used to meet OHA's ongoing obligations to beneficiaries and creditors. Restricted assets represent amounts that have legal requirements on their use.

OHA's total net position, from June 30, 2021 of \$686,845,481 and June 30, 2020 of \$586,144,328 increased by \$100,701,153 (a 17.18% increase) in 2021.

**Statement of Activities** presents information showing how the government's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The governmental activities of OHA include program revenues (revenues dedicated internally including federal and other grants that break out charges for services (e.g, lease rents), operating grants, and investment income and net gains/losses) and general revenues (including legislative appropriations, Public Land Trust Fund (PLTF), investment income and net gains/losses on investments in the NHTF, newspaper advertisements, donations, and other revenues).

It also includes the results of Business-Type Activities, Ho'okele Pono LLC (Ho'okele) and Hi'ilei Aloha LLC (Hi'ilei) and its wholly-owned subsidiaries, through its separate year end, December 31, 2020. Ho'okele Pono LLC and Hi'ilei Aloha LLC have been included as blended component units due to the fact that OHA is the sole corporate member of each entity. Based on its relationship with OHA, the LLCs are considered to be a component unit of OHA for financial reporting purposes.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi'ilei to permit persons who are not OHA executives to serve as managers (Managers) of Hi'ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi'ipaka to amend the Operating Agreement of Hi'ipaka permitting persons who are not OHA executives to serve as managers of Hi'ipaka; 2) Dissolution of Hi'ikualono; and 3) Dissolution of Ho'okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center (PTAC) grant to Ho'okipaipai, including the dissolution of Ho'okipaipai prior to the dissolution of Ho'okele Pono.

Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021.

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

**Statement of Activities**

Summarized financial information of OHA's Statement of Activities for the fiscal years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 9,917,931	\$ 14,605,273
Operating grants	257,396	1,158,046
General revenues:		
State allotments, net of lapsed appropriations	2,474,023	3,037,879
Public land trust revenue	15,100,000	15,100,000
Unrestricted contributions	594,866	471,247
Interest and investment earnings	114,995,247	1,420,776
Non-imposed employee fringe benefits	--	660,844
Total revenues	<u>143,339,463</u>	<u>36,454,065</u>
<b>EXPENSES</b>		
Current divisions:		
Board of trustees	2,621,449	3,079,741
Support services	20,245,073	20,084,271
Beneficiary advocacy	14,154,555	16,862,133
Unallocated depreciation	1,141,776	1,066,249
Hi'ilei Aloha LLC	4,638,973	6,583,971
Ho'okele Pono LLC	47,542	276,394
Total expenses	<u>42,849,368</u>	<u>47,952,759</u>
<b>NET TRANSFERS (TO) / FROM OTHER FUNDS</b>	<u>211,058</u>	<u>758,514</u>
<b>Change in net position</b>	\$ <u>100,701,153</u>	\$ <u>(10,740,180)</u>

OHA's Change in net position, increased by \$111,441,333 a (1,037.61%) increase during the year. The key elements of this increase compared to the prior year is:

A significant increase in investment and interest earnings of \$113,574,471 due to a strong market despite the pandemic which led to global economic shutdown, and job losses. Approximately \$88 million was due to the market value increase of the assets in the portfolio. OHA's Native Hawaiian Trust Fund (NHTF) reported a 26 percent net gain for the year ending June 30, 2021. Additional information regarding OHA's investments can be found in Note H to the financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS**

A “*fund*” is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. OHA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The governmental funds financial statements focus on individual parts of OHA, reporting OHA's operations in more detail than the government-wide statements. All of the funds of OHA are considered “*governmental funds*” as opposed to proprietary (operate more like those of commercial enterprises) and fiduciary funds (used to account for resources held for the benefit of parties outside OHA).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of available resources at the end of the year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of OHA's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of OHA.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are included on page 30 and 32 of this report.

OHA has two types of governmental funds that are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. OHA's two types of governmental funds are General Fund and Federal Funds.

The business type activities of blended component units, Ho'okele Pono LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, have been classified as a proprietary funds. Like the government-wide financial statements, the proprietary fund statements report long-term (noncurrent) and short-term (current) financial information. The Statement of Cash Flows for the proprietary funds presents changes in cash and cash equivalents, resulting from operating, noncapital financing, capital and related financing, and investing activities. OHA's proprietary funds are classified as business-type activities in the government-wide financial statements on pages 26 and 27.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

At the close of FY21, OHA's governmental funds reported an ending fund balance of \$525,904,341. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance totaled \$418,462, or 0.08% due to amounts related to inventory, prepaid items and security deposits.

Restricted fund balance totaled \$25,660,778 or 4.88%, and is comprised of 95.28% for the Native Hawaiian Revolving Loan Fund program and 4.72% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$24,795,393 or 4.71% based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$475,509,149 or 90.42% of fund balance and is comprised of the following: 3.86% has been encumbered, 0.01% represents the non-current portion of outstanding loans and 96.13% is available for future expenditures, including Board designations.

Unassigned fund of (\$479,441), or (0.09)%.

OHA's governmental funds experienced an increase of \$104,405,885 or 24.77% in fund balance during FY21. This is an increase of \$114,995,589 in comparison to the decrease of \$10,589,704 or 27.28% in fund balance during FY20. The primary reason for the increase is the interest and investment earnings increased by \$112,679,789 from prior fiscal year.

#### **PROPRIETARY FUNDS FINANCIAL ANALYSIS**

Proprietary funds' net position totaled \$16,992,328 at the end of FY21 compared to \$19,399,539 at the end of FY20, representing a decrease of \$2,407,211 or 12.41%.

Capital assets, net of related debt, represents the largest portion of proprietary funds' net position at \$15,192,223 or 83.98% and is primarily comprised of capital assets of Hi'ilei Aloha LLC and its wholly-owned subsidiary.

#### **CAPITAL ASSETS AND LONG-TERM LIABILITIES**

OHA's investment in capital assets, net of depreciation, amounted to \$245,907,242 and \$246,885,678, as of June 30, 2021 and 2020, respectively. Capital assets include land, building, leasehold improvements, equipment and software development.

	2021	2020
Land and construction in progress	\$ 227,456,731	\$ 227,456,731
Buildings and improvements	33,455,906	33,441,628
Furniture, fixtures, equipment, and vehicles	8,049,292	7,667,996
Accumulated depreciation	<u>(23,054,687)</u>	<u>(21,680,677)</u>
Totals	\$ <u>245,907,242</u>	\$ <u>246,885,678</u>

**Office of Hawaiian Affairs, State of Hawai'i**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2021**

The decrease in capital assets is due to the combined effect of depreciation expense of \$1,426,946 and net additions of \$395,574 during the year. Additional information regarding OHA's capital assets can be found in Note I to the financial statements.

OHA's long-term liabilities include notes payable, lines of credit, accrued vacation, and capital lease obligations. Additional information about OHA's long-term liabilities can be found in Note L and M to the financial statements.

## **SUBSEQUENT EVENTS**

### **Act 29 Release of General Fund Appropriations for FY2020-2021**

On May 28, 2021, Governor Ige signed into law, Act 29, Session Laws of Hawaii 2021, amending Act 37, Session Laws of Hawaii 2019. Act 37, section 8, was amended to read as follows: "Provided that the general funds appropriated for fiscal year 2020-2021 pursuant to part II of this Act shall not be released to the Office of Hawaiian Affairs until after the CLA - OHA & LLCs Contract and Disbursement Review - Report, dated December 4, 2019 (CLA Report) is received by the legislature." The general funds appropriated for fiscal year 2020-2021 were released with the provision and acceptance of the CLA Report.

Act 29, Part IV - Section 10, states that the general funds appropriated for fiscal year 2020 - 2021 shall not lapse at the end of the fiscal year for which the appropriation is made; provided that all moneys from the appropriation are encumbered as of June 30, 2022. In addition Section 11, of the Act provides for \$200,000 for fiscal year 2021 - 2022 to conduct or contract for the follow-up of the CLA Report.

### **Purchase of Iwilei Properties**

On September 30, 2021, OHA purchased the Iwilei Properties which included, 1) 500 N. Nimitz Hwy, a retail property with three national retail chain tenants, Ross Dress for Less, Long's (CVS Pharmacy) and PetSmart; and 2) 501 Sumner Street an industrial property. The purchase price was \$47 million. Gross rents from the properties, including tenant recoveries is estimated to be \$2.5 million and net income \$1.5 million for the period October 1, 2021 to June 30, 2022.

### **Refinancing of Na Lama Kukui Loans**

On March 15, 2022, OHA refinanced the loans on Na Lama Kukui, a large retail complex and office to the Honolulu based OHA staff. The original Term Loan termination date and payment of the outstanding loan balance was September 1, 2022. OHA paid off the original loans and negotiated a superior rate due to existing market conditions and a banking partner that made this possible. OHA now pays 60 basis points lower than the original term loan.

## **REQUEST FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Office of Hawaiian Affairs  
Attn: Chief Financial Officer  
560 N. Nimitz Hwy, Suite 200  
Honolulu, Hawai'i 96817

**Office of Hawaiian Affairs, State of Hawai'i**  
**STATEMENT OF NET POSITION**  
**June 30, 2021**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Petty cash	\$ 700	\$ --	\$ 700
Cash:			
Held in bank	23,107,043	2,426,956	25,533,999
Held by investment managers	10,075,062	--	10,075,062
Held in State Treasury	2,431,788	--	2,431,788
Restricted cash	272,252	--	272,252
Accounts receivable, net	5,034,519	147,699	5,182,218
Interest and dividends receivable	60,722	--	60,722
Inventory, prepaid items and other assets	609,180	323,440	932,620
Notes receivable, net:			
Due within one year	883,029	--	883,029
Due after one year	5,421,664	--	5,421,664
Investments	485,416,792	--	485,416,792
Capital assets			
Non-depreciable assets	214,026,998	13,429,733	227,456,731
Depreciable assets, net	<u>16,688,021</u>	<u>1,762,490</u>	<u>18,450,511</u>
Total assets	<u>764,027,770</u>	<u>18,090,318</u>	<u>782,118,088</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension	5,316,091	--	5,316,091
Deferred outflows of resources related to OPEB	1,542,238	--	1,542,238
Total deferred outflows of resources	<u>6,858,329</u>	<u>--</u>	<u>6,858,329</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	6,917,692	403,655	7,321,347
Due to State of Hawaii	300,000	--	300,000
Long-term liabilities:			
Due within one year	3,182,478	502,954	3,685,432
Due after one year	19,358,433	191,381	19,549,814
Other liabilities due in more than one year:			
Net pension liability	37,039,176	--	37,039,176
Net OPEB liability	<u>32,095,013</u>	<u>--</u>	<u>32,095,013</u>
Total liabilities	<u>98,892,792</u>	<u>1,097,990</u>	<u>99,990,782</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pension	177,722	--	177,722
Deferred inflows of resources related to OPEB	1,962,432	--	1,962,432
Total deferred inflows of resources	<u>2,140,154</u>	<u>--</u>	<u>2,140,154</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	209,295,354	15,192,223	224,487,577
Restricted	25,666,278	--	25,666,278
Unrestricted	<u>434,891,521</u>	<u>1,800,105</u>	<u>436,691,626</u>
Total net position	<u>\$ 669,853,153</u>	<u>\$ 16,992,328</u>	<u>\$ 686,845,481</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2021**

Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
	\$ 14,154,555	\$ --	\$ 257,396	\$ (13,897,159)	\$ --	\$ (13,897,159)
	2,621,449	--	--	(2,621,449)	--	(2,621,449)
	20,245,073	7,849,685	--	(12,395,388)	--	(12,395,388)
	1,141,776	--	--	(1,141,776)	--	(1,141,776)
Program activities	<u>38,162,853</u>	<u>7,849,685</u>	<u>257,396</u>	<u>(30,055,772)</u>	<u>--</u>	<u>(30,055,772)</u>
	4,638,973	2,068,246	--	--	(2,570,727)	(2,570,727)
	47,542	--	--	--	(47,542)	(47,542)
Program activities	<u>4,686,515</u>	<u>2,068,246</u>	<u>--</u>	<u>--</u>	<u>(2,618,269)</u>	<u>(2,618,269)</u>
Wide	<u>\$ 42,849,368</u>	<u>\$ 9,917,931</u>	<u>\$ 257,396</u>	<u>\$ (30,055,772)</u>	<u>\$ (2,618,269)</u>	<u>\$ (32,674,041)</u>
Net earnings				\$ 114,995,247	\$ --	\$ 114,995,247
ue				15,100,000	--	15,100,000
				2,474,023	--	2,474,023
ons				594,866	--	594,866
hues				133,164,136	--	133,164,136
				--	211,058	211,058
hues and transfers				<u>133,164,136</u>	<u>211,058</u>	<u>133,375,194</u>
tion				103,108,364	(2,407,211)	100,701,153
of year				<u>566,744,789</u>	<u>19,399,539</u>	<u>586,144,328</u>
ar				<u>\$ 669,853,153</u>	<u>\$ 16,992,328</u>	<u>\$ 686,845,481</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**GOVERNMENTAL FUNDS - BALANCE SHEET**  
June 30, 2021

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
<b>ASSETS</b>					
	\$ --	\$ 700	\$ --	\$ --	\$ 700
	168,034	15,717,605	6,901,217	320,187	23,107,043
managers	--	9,621,033	454,029	--	10,075,062
ury	--	2,431,788	--	--	2,431,788
	--	--	272,252	--	272,252
net	3,037,879	1,953,744	37,800	5,096	5,034,519
	--	2,374,181	--	444	2,374,625
receivable	--	467	60,255	--	60,722
ns and other assets	--	412,962	5,500	--	418,462
	--	54,428	828,601	--	883,029
	--	66,190	5,355,474	--	5,421,664
	--	473,299,955	12,116,837	--	485,416,792
	<u>\$ 3,205,913</u>	<u>\$ 505,933,053</u>	<u>\$ 26,031,965</u>	<u>\$ 325,727</u>	<u>\$ 535,496,658</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**GOVERNMENTAL FUNDS - BALANCE SHEET (Continued)**  
**June 30, 2021**

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
<b>ND FUND BALANCE</b>					
nd accrued liabilities	\$ 639,241	\$ 5,412,663	\$ 60,620	\$ 805,168	\$ 6,917,692
	2,369,558	--	5,067	--	2,374,625
aii	--	--	300,000	--	300,000
es	<u>3,008,799</u>	<u>5,412,663</u>	<u>365,687</u>	<u>805,168</u>	<u>9,592,317</u>
items and other assets	--	412,962	5,500	--	418,462
acy	--	--	1,211,502	--	1,211,502
of notes receivable	--	--	5,355,474	--	5,355,474
an programs	--	--	19,093,802	--	19,093,802
venue bonds	--	24,795,393	--	--	24,795,393
acy	197,114	9,394,494	--	--	9,591,608
	--	1,157	--	--	1,157
	--	8,777,522	--	--	8,777,522
of notes receivable	--	66,190	--	--	66,190
	--	457,072,672	--	--	457,072,672
	--	--	--	(479,441)	(479,441)
balances	<u>197,114</u>	<u>500,520,390</u>	<u>25,666,278</u>	<u>(479,441)</u>	<u>525,904,341</u>
es and fund balances	\$ <u>3,205,913</u>	\$ <u>505,933,053</u>	\$ <u>26,031,965</u>	\$ <u>325,727</u>	\$ <u>535,496,658</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO**  
**NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**June 30, 2021**

Total fund balances - governmental funds		\$ 525,904,341
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources, and therefore, are not reported in the funds.		230,715,019
Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		190,718
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,121,246)	
Capital lease obligations	(31,180)	
Net pension liability	(37,039,176)	
Net OPEB liability	(32,095,013)	
Deferred outflows of resources related to pension	5,316,091	
Deferred inflows of resources related to pension	(177,722)	
Deferred outflows of resources related to OPEB	1,542,238	
Deferred inflows of resources related to OPEB	(1,962,432)	
Note payable	(17,908,916)	
Lines of credit	<u>(3,479,569)</u>	<u>(86,956,925)</u>
Net position of governmental activities		\$ <u>669,853,153</u>

See accompanying notes to the basic financial statements.



**Office of Hawaiian Affairs, State of Hawai'i**  
**GENERAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2021**

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
of lapses	\$ 2,474,023	\$ --	\$ --	\$ --	\$ 2,474,023
s	--	7,815,440	--	34,245	7,849,685
-	--	283,345	311,521	--	594,866
ent earnings	--	114,734,031	261,109	107	114,995,247
venue	--	--	257,396	--	257,396
venue	--	15,100,000	--	--	15,100,000
	<u>2,474,023</u>	<u>137,932,816</u>	<u>830,026</u>	<u>34,352</u>	<u>141,271,217</u>
y	1,407,826	11,939,296	543,045	264,388	14,154,555
	54,420	2,567,029	--	--	2,621,449
	<u>1,697,141</u>	<u>16,112,175</u>	<u>--</u>	<u>33,820</u>	<u>17,843,136</u>
ditures	<u>3,159,387</u>	<u>30,618,500</u>	<u>543,045</u>	<u>298,208</u>	<u>34,619,140</u>
<b>(SES) SOURCES</b>					
	--	(2,246,192)	--	--	(2,246,192)
(o) other funds	--	325,757	20	(325,777)	--
in fund balances	<u>(685,364)</u>	<u>105,393,881</u>	<u>287,001</u>	<u>(589,633)</u>	<u>104,405,885</u>
	<u>882,478</u>	<u>395,126,509</u>	<u>25,379,277</u>	<u>110,192</u>	<u>421,498,456</u>
	\$ <u>197,114</u>	\$ <u>500,520,390</u>	\$ <u>25,666,278</u>	\$ <u>(479,441)</u>	\$ <u>525,904,341</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**RECONCILIATION OF NET CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**Year Ended June 30, 2021**

Net change in fund balances - total governmental funds		\$ 104,405,885
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Expenditures for capital assets	399,233	
Current year depreciation, amortization and other changes	<u>(1,141,776)</u>	(742,543)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year this is the principal payments on capital leases, note payable, and lines of credit.		2,277,316
Some items reported in the statement of activities do not involve current financial resources and therefore are not reported as revenues or expenditures in governmental funds. These activities are as follows:		
Decrease in other assets	(76,995)	
Decrease in compensated absences	310,998	
Increase in net pension liability	(2,539,629)	
Increase in deferred outflows of resources related to pension	324,588	
Decrease in deferred inflows of resources related to pension	117,515	
Increase in net OPEB liability	1,522,081	
Decrease in deferred outflows of resources related to net OPEB	(931,123)	
Increase in deferred inflows of resources related to net OPEB	<u>(1,559,729)</u>	<u>(2,832,294)</u>
Change in net position of governmental activities		\$ <u>103,108,364</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**(BUDGETARY BASIS), GENERAL FUND**  
**Year Ended June 30, 2021**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
<b>REVENUES</b>				
State appropriations, net of lapses	\$ <u>3,037,879</u>	\$ <u>3,037,879</u>	\$ <u>2,474,023</u>	\$ <u>(563,856)</u>
<b>EXPENDITURES</b>				
Beneficiary advocacy	1,855,514	1,855,514	1,846,580	(8,934)
Board of trustees	58,323	58,323	54,420	(3,903)
Support services	<u>1,124,042</u>	<u>1,124,042</u>	<u>1,107,799</u>	<u>(16,243)</u>
	<u>3,037,879</u>	<u>3,037,879</u>	<u>3,008,799</u>	<u>(29,080)</u>
Excess of expenses over revenues	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>(534,776)</u>	\$ <u>(534,776)</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**PROPRIETARY FUNDS - STATEMENT OF NET POSITION**  
**June 30, 2021**

	<b>December 31, 2020</b>		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 2,426,682	\$ 274	\$ 2,426,956
Accounts receivable, net	147,699	--	147,699
Inventory, prepaid items and other assets	<u>323,440</u>	<u>--</u>	<u>323,440</u>
Total current assets	2,897,821	274	2,898,095
Capital assets - net	<u>15,192,223</u>	<u>--</u>	<u>15,192,223</u>
Total assets	<u>\$ 18,090,044</u>	<u>\$ 274</u>	<u>\$ 18,090,318</u>
<b>LIABILITIES AND NET POSITION</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 368,743	\$ 34,912	\$ 403,655
Paycheck Protection Program loan	<u>502,954</u>	<u>--</u>	<u>502,954</u>
	<u>871,697</u>	<u>34,912</u>	<u>906,609</u>
Paycheck Protection Program loan, net of current portion	<u>191,381</u>	<u>--</u>	<u>191,381</u>
Net position			
Invested in capital assets	15,192,223	--	15,192,223
Unrestricted	<u>1,834,743</u>	<u>(34,638)</u>	<u>1,800,105</u>
Total net position	<u>17,026,966</u>	<u>(34,638)</u>	<u>16,992,328</u>
Total liabilities and net position	<u>\$ 18,090,044</u>	<u>\$ 274</u>	<u>\$ 18,090,318</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**Year Ended June 30, 2021**

	<b>December 31, 2020</b>		
	<b>Hi'ilei</b>	<b>Ho'okele</b>	
	<b>Aloha LLC</b>	<b>Pono LLC</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Sales - gift store and other	\$ 733,196	\$ --	\$ 733,196
Cost of sales	<u>(1,163,563)</u>	<u>--</u>	<u>(1,163,563)</u>
Gross loss	(430,367)	--	(430,367)
Admission and tours	1,728,183	--	1,728,183
Other revenue	<u>770,430</u>	<u>--</u>	<u>770,430</u>
Total operating revenues	2,068,246	--	2,068,246
<b>EXPENSES</b>			
Program services	3,685,802	47,542	3,733,344
Management and general	910,861	--	910,861
Fundraising	<u>42,310</u>	<u>--</u>	<u>42,310</u>
Total operating expenses	<u>4,638,973</u>	<u>47,542</u>	<u>4,686,515</u>
Operating income (loss)	(2,570,727)	(47,542)	(2,618,269)
<b>NONOPERATING REVENUES AND EXPENSES</b>			
Net transfers from other funds	128,854	82,204	211,058
	<u>128,854</u>	<u>82,204</u>	<u>211,058</u>
Change in net position	<u>(2,441,873)</u>	<u>34,662</u>	<u>(2,407,211)</u>
<b>NET POSITION</b>			
Beginning of year	<u>19,468,839</u>	<u>(69,300)</u>	<u>19,399,539</u>
End of year	\$ <u>17,026,966</u>	\$ <u>(34,638)</u>	\$ <u>16,992,328</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2021**

	<b>December 31, 2020</b>		
	<b>Hi'ilei Aloha LLC</b>	<b>Ho'okele Pono LLC</b>	<b>Total</b>
Cash flows from operating activities			
Receipts from customers, grantors and funders	\$ 3,434,885	\$ --	\$ 3,434,885
Payments to suppliers, vendors and service providers	(2,602,507)	(12,344)	(2,614,851)
Payments to employees for salaries and benefits	(3,052,594)	(44,018)	(3,096,612)
Payments of unrelated business income taxes	<u>(130,350)</u>	<u>--</u>	<u>(130,350)</u>
Net cash used in operating activities	<u>(2,350,566)</u>	<u>(56,362)</u>	<u>(2,406,928)</u>
Cash flows from noncapital financing activities			
Proceeds from PPP loan	694,335	--	694,335
Cash grants from OHA	128,854	82,204	211,058
Advances from Hi'ilei Aloha LLC	--	45,449	45,449
Repayments of advances from Hi'ilei Aloha LLC	<u>--</u>	<u>(94,148)</u>	<u>(94,148)</u>
Net cash provided by noncapital financing activities	<u>823,189</u>	<u>33,505</u>	<u>856,694</u>
Cash flows from capital and related financing activities			
Acquisition of property and equipment	<u>(49,277)</u>	<u>--</u>	<u>(49,277)</u>
Net cash used in capital and related financing activities	<u>(49,277)</u>	<u>--</u>	<u>(49,277)</u>
Cash flows from investing activities			
Advances to Ho'okipaipai LLC	(45,449)	--	(45,449)
Repayments of advances to Ho'okipaipai LLC	<u>94,148</u>	<u>--</u>	<u>94,148</u>
Net cash provided by investing activities	<u>48,699</u>	<u>--</u>	<u>48,699</u>
Net decrease in cash and cash equivalents	(1,527,955)	(22,857)	(1,550,812)
Cash and cash equivalents - January 1, 2020	<u>3,954,637</u>	<u>23,131</u>	<u>3,977,768</u>
Cash and cash equivalents - December 31, 2020	\$ <u>2,426,682</u>	\$ <u>274</u>	\$ <u>2,426,956</u>

See accompanying notes to the basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS (Continued)**  
**Year Ended June 30, 2021**

	<b>December 31, 2020</b>		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash used in operating activities			
Operating loss	\$ (2,570,727)	\$ (47,542)	\$ (2,618,269)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	285,170	--	285,170
Change in:			
Accounts receivable, net	64,087	--	64,087
Inventory, prepaid items and other assets	76,294	2,084	78,378
Accounts payable and accrued liabilities	<u>(205,390)</u>	<u>(10,904)</u>	<u>(216,294)</u>
Net cash used in operating activities	\$ <u>(2,350,566)</u>	\$ <u>(56,362)</u>	\$ <u>(2,406,928)</u>

See accompanying notes to the basic financial statements.



**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE A - FINANCIAL REPORTING ENTITY**

The accompanying basic financial statements present the financial activity of the Office of Hawaiian Affairs (Primary Government or OHA) and its blended component units, which are legally separate organizations.

As of June 30, 2021, OHA's blended components units are comprised of Hi'ilei Aloha LLC and Ho'okele Pono LLC, Hawai'i limited liability companies (collectively, the Companies). OHA is the sole corporate member of the Companies. The results of the Companies as of and for the year ended December 31, 2020, their year ends, have been included in OHA's basic financial statements. In May 2019, the Board of Trustees, via Resolution, authorized and approved: Amended and Restated Operating Agreements of Hi'ilei Aloha LLC and Hi'ipaka LLC; Proposed Articles of Termination and Plan of Dissolution of Ho'okele Pono LLC, Ho'okipaipai LLC and Hi'ikualono LLC; Implementation actions of Managers to complete all operating and dissolution activities in accordance with state and federal requirements and/or to effect the intents of the Resolution; and A position description for Manager of Hi'ilei Aloha and Hi'ipaka, including commencement of recruitment activities for these non-OHA manager positions.

Ho'okele Pono LLC and its wholly-owned subsidiaries, Ho'okipaipai LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, Hi'ipaka LLC, Hi'ipoi LLC, and Hi'ikualono LLC are exempt from federal income tax under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. In August 2017, Articles of Termination were processed for Hi'ipoi LLC. Hi'ikualono LLC has been inactive since formation.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

- (1) ***Basis of Presentation*** - OHA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).
- (2) ***Governmental Funds Financial Statements*** - The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OHA considers revenues to be available if they are collected within 60 days of the end of the current year. Principal revenue sources susceptible to accrual include Federal grants, public land trust revenue, and interest and dividends on investments.

Expenditures are generally recorded when a liability is incurred as under accrual accounting. Modifications to the accrual basis of accounting include the employees' accumulated annual leave, workers' compensation, net pension liability, net other postemployment benefits (OPEB) liability and capital lease obligations which are recorded as expenditures when utilized or paid. The amount of accumulated annual leave unpaid, accrued workers' compensation, net pension liability, net OPEB liability and capital lease obligations as of June 30, 2021 have been reported only in the government-wide financial statements.

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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When both restricted and unrestricted resources are available for use, it is OHA's policy to use restricted funds first, then unrestricted resources as they are needed.

The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise the assets, liabilities, fund balance, revenues and expenditures of the fund. The funds are intended to conform to the State of Hawai'i general accounting system and are structured to comply with the requirements of appropriations and allotments authorized by State law.

OHA reports the following funds as major:

*General Fund* - The general fund of OHA is part of the State of Hawai'i General Fund. OHA's general fund financial statements reflect only OHA's appropriations and obligations. The general fund is used to account for all financial resources except those required to be accounted for in another fund, and includes the operating budget of general funds appropriated by the Hawai'i State Legislature.

*Public Land Trust Fund (PLTF)* - Reflects the income and expenditures from the Public Land Trust as defined in Chapter 10, Hawai'i Revised Statutes, as well as the proceeds and income of the Native Hawaiian Trust Fund. Expenditures reflect those from the OHA board of trustee appropriations of the Public Land Trust Funds.

*Federal Grants Fund* - Reflects the interest income earned from the Native Hawaiian Revolving Loan Fund (NHRLF) and the funds earned under other federal grants. Expenditures reflect necessary costs to administer the NHRLF and other federal grants.

- (3) **Proprietary Funds Financial Statements** - The focus of proprietary fund measurement is upon determination of operating income (loss), changes in net position, and net position. The intent of these funds is to be self-sufficient. The applicable GAAP are those similar to businesses in the private sector.

OHA reports the following funds as major:

*Hi'ilei Aloha LLC* - Reflects the revenues and expenditures related to the preservation and perpetuation of cultural and natural resources which are primarily generated from managing admissions to Waimea Valley on Oahu and the activities and events held there.

*Ho'okele Pono LLC* - Reflects the revenues and expenditures related to community economic development activity in the State of Hawaii which are primarily related to the operation of the Hawaii Procurement Technical Assistance Center. Although this fund does not meet the major fund criteria, management believes this fund is important to financial statement users and has elected to report it as a major fund.

- (4) **Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the

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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

provider have been met. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Resources that are dedicated internally are reported as general revenues rather than as program revenues. Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position.

- (5) **Investments** - Investments are reported at fair value using a variety of techniques. Mutual funds are actively traded on major stock exchanges, thus fair value is obtained using values from these exchanges, which are based on trades of identical securities available daily on a last trade or official close basis. Certain debt securities, such as U.S. Treasuries, have an active market. These securities can typically be valued using the closing or last traded price on a specific date. Hedge funds, private equity funds, and private debt funds are valued using their net asset value (NAV) and are audited annually. The most significant input into the NAV of such entities is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly basis, in accordance with GAAP. Commingled funds are valued based upon the NAV determined by the investment managers and are audited annually.

Purchases and sales of investments are recorded on the trade date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

- (6) **Inventory and Prepaid Items** - All inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- (7) **Capital Assets** - Capital assets include tangible and intangible assets acquired with estimated useful lives greater than one year. Capital assets acquired for general organization purposes are recorded as expenditures in the governmental funds financial statements. Donated fixed assets are recorded at estimated fair value at the time received on the government-wide and proprietary fund financial statements.

Depreciation and amortization expense is recorded in the government-wide financial statements. Buildings, equipment, furniture and fixtures are depreciated on the straight-line method over their estimated useful lives. There is no depreciation recorded for land. The estimated useful lives of capital assets are as follows:

Buildings	30 Years
Leasehold improvements	Shorter of lease term or useful life
Furniture, fixtures, and equipment	5 Years

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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (8) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflow of resources related to pensions and other postemployment benefits (OPEB) resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, changes in proportion which will be amortized over five years, and OHA's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the plans which will be recognized as reductions of the net pension and net OPEB liabilities in the subsequent year. The deferred inflow of resources related to pensions and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension plan which will be amortized over five years.
- (9) ***Compensated Absences and Compensatory Pay*** - OHA accrues all vacation and compensatory pay at current salary rates; including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with GASB Codification Section C60, Compensated Absences. The balance at June 30, 2021 includes fringe benefits computed at the rate of 7.65% of accrued vacation and compensatory pay. Accrued vacation is reported as an expense when earned in the government-wide and proprietary fund financial statements, but not reported as an expenditure in the governmental funds financial statements, as current financial resources are not used.
- (10) ***Risk Management*** - OHA is exposed to various risks of loss from torts, theft of or damage to assets, errors and omissions, and employee injuries and illnesses.
- (11) ***Governmental Funds - Fund Balance*** - GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) provides guidance on the reporting of stabilization arrangements and changes the classifications and definitions to the following:

**Nonspendable Fund Balance**

Includes amounts that are (a) not in a spendable form or (b) legally or contractually required to remain intact. Examples include prepaid expenses and security deposits. These balances have been identified for proper presentation in OHA's Governmental Funds - Balance Sheet.

**Restricted Fund Balance**

Includes amounts restricted to a specific purpose as constraints placed on the use of these resources are either (a) externally imposed (e.g. grantors, creditors, laws, regulations) or (b) imposed by law through constitutional provisions or enabling legislation. Federal grants administered by OHA and specific provisions identified in OHA's general fund appropriation have been presented under "restricted fund balance."

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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Committed Fund Balance

Includes amounts that can only be used for specific purposes based on constraints imposed by formal action of the entity's highest level of decision-making authority. For OHA purposes, "committed" funds have been identified as constraints imposed by Board of Trustee resolution.

Assigned Fund Balance

Includes amounts that are constrained as to use by the entity's intent to be used for specific purposes, but are neither "restricted" nor "committed". Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has delegated such authority to assign amounts to be used for specific reasons. These constraints are more easily modified and/or removed. Generally all funding of any fund, other than the General Fund are "assigned." Public Land Trust as presented on OHA's Governmental Funds - Balance Sheet includes trust fund corpus for which no specific purpose has been defined. Draws from this line item are made annually pursuant to biennium budget approved by the Board of Trustees.

Unassigned Fund Balance

Is the residual classification for the general fund that has not been "restricted", "committed" or "assigned" in any way, however, may be subject to future reclassification. This classification also includes any negative residual balance when actual expenditures exceed available resources of a fund.

Stabilization Arrangements

In September 2019, the Board approved a new Fiscal Stabilization Policy, including Withdrawal Guidelines and eliminated the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy. The Fiscal Stabilization Fund (FSF) was established by an initial, one-time appropriation of \$1,500,000 into a separate fund account outside the Native Hawaiian Trust Fund (NHTF) upon adoption of this policy. This appropriation shall be counted toward maximum withdrawal limitation in the Board of Trustees (BOT) Spending Policy. 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. At the discretion of the BOT, additional deposits of up to \$3,000,000 may be made in each subsequent year from funds that were budgeted from the NHTF Financial Assets Portfolio that were unspent at the end of previous years. The audited financial statements and audited processes (i.e., lapsing of prior encumbered purchase orders) for each respective 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. 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. 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. Temporarily idle moneys in the FSF



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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Once established, reserves for contingencies may be designated in the FSF to acknowledge and recognize the responsibilities of the OHA. 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.

Funds from the FSF may be withdrawn and used as authorized by the BOT through an Action Item for the following defined purposes only: budget stabilization, emergencies, reserves and contingencies. The maximum withdrawals in any given 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 FSF. The funds that are withdrawn must be used during the current year, and do not carry over to subsequent years.

As of July 1, 2020, the State of Hawaii did not release the fiscal year 2021 general fund appropriation as conditioned in Act 37, Session Laws of Hawaii (SLH) 2019, Section 8, pending the completion of an audit by the State Auditor, which the State Auditor previously suspended in December 2019. In anticipation of the impact of the State Auditor's suspended work, in June 2020, the BOT approved the use of the FSF in the amount of \$3,000,000, to be drawn in quarterly increments of \$750,000, to replace the general fund appropriations for the year ended June 30, 2021.

In May 2021, Governor Ige signed into law Act 29, SLH 2021, which included fiscal year 2022 and 2023 general fund appropriations and an amendment to applicable sections of Act 37, SLH 2019. The Act 37, SLH 2019 amendment related to the release of the 2021 general fund appropriation based on the provision of the CLA - OHA & LLCs Contract and Disbursement Review Report, dated December 4, 2019, in place of the previously required State Auditor report. Act 29, SLH 2021 further extended the 2021 appropriations lapse date to June 30, 2022. Administration will bring to the BOT recommendations regarding the balances and purposes currently authorized in the FSF.

- (12) **Encumbrances** - Encumbrances against budgeted appropriations are recorded upon the execution of contracts or purchase orders. Such encumbrances have been classified by expenditure division (i.e. Board of Trustees, Support Services, Beneficiary Advocacy) by fund balance classification (i.e. Restricted, Committed, Assigned) in the governmental funds financial statements. The related expenditure is reported in the period in which the liability is incurred.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Encumbrances as of June 30, 2021 consist of the following:

General Fund	\$ 197,114
Public Land Trust Fund	18,173,173
Federal Grants Fund	<u>1,211,502</u>
	\$ <u>19,581,789</u>

- (13) **Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.
- (14) **Notes Receivable** - Notes receivable consist of notes made to Native Hawaiian-owned businesses and individuals. Management provides an allowance for doubtful accounts equal to the estimated amounts deemed uncollectible by management which it considers outstanding for more than 90 days. Management also provides a general allowance for its notes receivable.
- (15) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (16) **Postemployment Benefits Other Than Pensions** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (17) **Recent Accounting Pronouncements** - The GASB issued Statement No. 87, Leases. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this



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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interest - an amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as postponed by GASB 95. This Statement was adopted during the year ended June 30, 2021. Management has determined that the adoption of this Statement did not have a material effect on OHA's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 92, Omnibus 2020. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The provisions of this Statement are effective for reporting period beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this

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**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on OHA's financial statements.

**NOTE C - BIENNIAL BUDGET**

Because it is not a part of the executive branch, OHA's budget is considered by the Hawai'i State Legislature to be separate from the State Administration's submittal, and its development follows a different procedure. The budgetary data reflected in the basic financial statements is established as follows:

***The Budget*** - In the fall of each odd-numbered fiscal year, OHA's Administration drafts the program and budget recommendations that will be the basis for OHA's biennium budget request. Once approved by OHA's Board of Trustees, the general funds budget is submitted directly to the State Legislature prior to its convening. The Budget is composed of amounts for personnel, operations and provisions for social, education and legal services, and includes the matching Trust Funds for those purposes.

***Legislative Review*** - Once the budget is submitted to the State Legislature, the review process follows that which is applied to the executive branch, with the budget being reviewed by House Finance Committee, Senate Ways and Means Committee, and the respective subject matter committees in the House and Senate. The State Legislature may request provisos and may require financial analysis and evaluation of those programs funded with general funds, but has no discretion over trust fund allocations.

***Program Execution*** - Except as limited by policy decisions of OHA's Board of Trustees, provisions of the State Legislature, and other provisions of law, OHA's Administration is responsible for the proper management of the programs. Appropriation changes and transfers can be authorized by OHA's Board of Trustees; those impacting general funds are reported to the State Legislature.

The budget is adopted for the general fund and is prepared on a basis other than GAAP. The actual results of operations are presented on the budgetary basis in the statement of revenues and expenditures - budget and actual to provide a meaningful comparison of actual results to the legislative budget.

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**NOTE C - BIENNIAL BUDGET (Continued)**

The major differences between the budgetary basis and GAAP basis are that (1) encumbrances are recorded as the equivalent of expenditures under the budgetary basis; and (2) revenue is recognized when received under the budgetary basis.

Adjustments necessary to reconcile the results of operations for the year ended June 30, 2021 from the budgetary basis to GAAP basis are as follows:

	Amount
Excess of expenditures over revenues - actual (budgetary basis)	\$ (534,776)
Reserve for encumbrances at June 30, 2021	197,114
Prior year reserve for encumbrances	(100,904)
Expenditures for liquidation of prior-year encumbrances	<u>(246,798)</u>
Expenditures over revenues - actual (GAAP basis)	<u>\$ (685,364)</u>

**NOTE D - APPROPRIATIONS**

OHA is authorized to transfer appropriation amounts and staffing positions between programs for operating purposes, provided that a report of all transfers are made to the State Legislature prior to convening of the next legislative session. Act 37, SLH 2019 authorized a total of \$3,037,879 in general fund appropriations for the year ended June 30, 2020 and there were no lapsed appropriations for the same period. Act 37 conditioned the release of the same amount of \$3,037,879 for fiscal year ended June 30, 2021 based on the submission of the State Auditor's findings and recommendations in a "financial and management audit". Pursuant to Act 29, SLH 2021, which was enacted on May 28, 2021 and amended Act 37 Section 8, the general fund appropriation of \$3,037,879 for the year ended June 30, 2021 was released. Such funds were processed and released to OHA in July 2021 and are recorded in accounts receivable, net for the general fund on the accompanying governmental funds - balance sheet.

**NOTE E - CASH**

The State maintains a cash pool that is used by all agencies. OHA's portion of this pool is indicated on the Governmental Funds Balance Sheet as "Cash Held in State Treasury." The Hawai'i Revised Statutes (HRS) authorizes the Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. OHA has elected not to receive any earnings from this cash pool.

OHA's cash included in State pooled funds is fully collateralized with securities held by third-party agents in the State's name, as required by the HRS, Section 38-8. As of June 30, 2021, OHA's cash held in the State Treasury totaled \$2,431,788. OHA holds cash in banking institutions held outside of the State Treasury to maximize investment returns in accordance with HRS Section 10-5.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE E - CASH (Continued)**

As of December 31, 2020, Hi'ilei Aloha LLC had a cash and cash equivalents balance of \$2,426,682. Hi'ilei Aloha LLC and its wholly-owned subsidiary, Hi'ipaka LLC maintain separate legal entity cash accounts with a financial institution in the State of Hawai'i. Balances are insured up to \$250,000 per account holder by the FDIC. Balances may at times, however, exceed the FDIC's insurance limits. As of December 31, 2020, Ho'okele Pono LLC did not have bank balances that exceed FDIC insurance limits. Balances may at times, however, exceed the FDIC's insurance limits.

**NOTE F - INVENTORY, PREPAID ITEMS AND OTHER ASSETS**

As of June 30, 2021, OHA's governmental funds had inventory, prepaid items and other assets totaling \$418,462. As of December 31, 2020, Hi'ilei Aloha LLC had inventory, prepaid items, and other assets of \$323,440.

**NOTE G - NOTES RECEIVABLE**

At June 30, 2021, notes receivable bear interest from 0% to 12.50%, mature on various dates through January 2029, and consists of the following:

	<u>Amount</u>
Notes receivable (of which \$3,120 is guaranteed by the Department of Hawaiian Home Lands (DHHL))	\$ 9,107
Native Hawaiian Revolving Loan Fund	7,230,726
Other	<u>184,558</u>
Total	7,424,391
Less allowance for doubtful accounts	<u>(1,119,698)</u>
Notes receivable, net	6,304,693
Amounts due within one year	<u>(883,029)</u>
Amounts due after one year	<u>\$ 5,421,664</u>

**NOTE H - INVESTMENTS**

Under the HRS Chapter 10, OHA's Board of Trustees may collect, receive, deposit, withdraw, and invest money and property to further the mission of OHA. On May 29, 2003, OHA's Board of Trustees adopted the Native Hawaiian Trust Fund Investment Policy Statement (NHTF investment policy), as updated September 27, 2012. OHA's Board of Trustees maintain responsibility for setting the investment policy guidelines, asset allocation constraints, and monitoring the advisors to ensure they act prudently and follow the investment policy.

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**NOTE H - INVESTMENTS (Continued)**

OHA's investment policy allows for investments in U.S. large cap, U.S. small cap equities, international equities, core fixed income, high yield, real estate, absolute return, private equity, and private debt securities. Investments as of June 30, 2021 and their maturities were as follows:

Investment type	Fund	Reported Value	Investment maturities (in years)	
			Less than one	One through five
U.S. Treasuries	NHRLF	\$ 12,116,837	\$ 3,700,285	\$ 8,416,552
Mutual funds	NHTF	\$ 232,311,672		
Commingled funds	NHTF	89,762,924		
Alternative investments				
Private equity	NHTF	96,125,116		
Hedge funds	NHTF	49,903,783		
Private debt	NHTF	5,196,460		
Subtotal - NHTF		<u>473,299,955</u>		
Total investments		<u>\$ 485,416,792</u>		

For all investments held in accordance with OHA's NHTF investment policy, funds are managed by investment advisors who are responsible for the prudent management of all assets subject to their oversight and are involved in all key decisions, such as manager selection, within the context set by the investment policy. The advisors are also responsible for the adherence to the NHTF investment policy which provides objectives, guidelines and procedures as to the type of investments, assets allocations, long term targets, asset diversification, benchmark, performance objectives, and of restricted investments. The NHTF investment policy provides for the optimal investment returns to sustain the beneficiaries of the Trust in perpetuity and to uphold the mission of the NHTF.

In addition, OHA has a separate investment policy for the NHRLF, which is restricted to investments in government backed securities (fixed securities) which strive for higher rates of return with the potential for greater principal stability than longer term fixed income investments.

Foreign currency, interest rate, credit and concentration of credit risks for OHA's investments are as follows:

- (1) **Foreign Currency Risk** - To diversify the NHTF portfolio against market fluctuations, OHA's investment policy allows for investments in foreign countries. As of June 30, 2021, OHA's foreign currency risks are as follows:

Investment Type	Currency	Value (US Dollar)
Private equity funds	Euro	\$ 2,818,566

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**NOTE H - INVESTMENTS (Continued)**

- (2) **Interest Rate Risk** - As a means to limit the amount of exposure to fair market value losses attributed to rising interest rates, OHA's NHRLF investment policy for the liquidity portfolio limits investments to the following maximum maturities:

<u>Type of Investment</u>	<u>Maximum Maturity</u>
U.S. Treasuries	5 Years

The duration of the investment portfolio, under normal market conditions, range between plus or minus 50% of the investment policy benchmark.

- (3) **Credit Risk** - Pursuant to 45 C.F.R. 1336.72(a), "any portion of the revolving loan fund that is not required for expenditure must be invested in obligations of the United States or in obligations guaranteed or insured by the United States." At June 30, 2021, credit rates for all securities of government agencies were rated at least Aa (Moody's) or AA (Standard & Poor's).
- (4) **Concentration of Credit Risk** - The NHRLF investment policy states that except for U.S. Treasury securities, fixed income securities will be limited to not more than 5% of the total portfolio, at the time of purchase, in any one issue. OHA is in compliance with this policy.
- (5) **Fair Value Measurements** - The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

**Level 1** Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that OHA can access at the time of measurement date.

**Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.



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**NOTE H - INVESTMENTS (Continued)**

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs that are unobservable for the asset or liability.

The fair value of mutual funds and U.S. Treasury obligations is obtained by using the closing price reported on active markets.

The valuation of private equity, commingled funds, hedge funds, and private debt are obtained by using the NAV, and are excluded from the fair value measurement table below.

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2021.

	Fund	Level 1	Level 2	Level 3	Total
Mutual funds					
U.S. equities	NHTF	\$ 90,145,463	\$ --	\$ --	\$ 90,145,463
U.S. fixed income	NHTF	65,831,994	--	--	65,831,994
Non-U.S. equities	NHTF	60,275,960	--	--	60,275,960
Emerging market equities	NHTF	13,803,451	--	--	13,803,451
Real assets	NHTF	2,254,804	--	--	2,254,804
Total mutual funds		232,311,672	--	--	232,311,672
U.S. Treasuries	NHRLF	12,116,837	--	--	12,116,837
Total investments at fair value		244,428,509	--	--	244,428,509
Investments held at NAV					
Commingled funds					89,762,924
Alternative investments					
Private equity					96,125,116
Hedge funds					49,903,783
Private debt					5,196,460
Total investments at NAV					240,988,283
Total investments					\$ 485,416,792

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that OHA's investments have fluctuated since June 30, 2021.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Domestic equity	\$ 18,161,864	None	Monthly/Quarterly	Various up to trade date
International equity	36,586,741	None	Monthly/Quarterly	Various up to trade date
Domestic core fixed income	35,014,319	None	Monthly/Quarterly	Various up to trade date
Alternative investments				
Marketable alternatives	49,903,783	None	Monthly/Quarterly	Various up to trade date
Illiquid alternatives	101,321,576	22,617,893	Upon realization	Not applicable
Total investments measured at NAV	\$ 240,988,283			
Invested securities lending collateral				
Money market fund	\$ 9,621,033			Same as trade date



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**NOTE H - INVESTMENTS (Continued)**

- **Domestic equity** - State Street Equity 500 Index Fund - primary objective is to replicate as closely as possible, before expenses, the performance of the Standard & Poor's 500 Index (the "S&P 500" or sometimes referred to in context as the "Index"). This Index is commonly used to represent the broad U.S. equity market.
- **International equity** - State Street Global Equity ex-U.S. Index Fund - primary objective is to provide investment results, before fees and expenses, correspond generally to the total return performance of a broad-based index of world (ex-U.S.) equity markets over the long term.
- **Domestic core fixed income** - State Street Aggregate Bond Index Fund - primary objective is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of an index that tracks the U.S. dollar denominated investment grade bond market over the long term.
- **Marketable alternatives** - The marketable alternatives portfolio seeks to provide a consistently positive return source above the risk free rate that has a low volatility and low correlation to other asset classes. The portfolio is diversified by strategies which may include but are not limited to macro, relative value, opportunistic, distressed, market neutral, and quantitative strategies.
- **Illiquid alternatives** - The illiquid alternatives portfolio seeks to enhance total return through investments/partnerships which may have limited liquidity and/or utilize leverage. The types of investments may consist of leveraged buy-outs, venture capital, secondary transactions, private debt (mezzanine, convertible, secured loans), recapitalization, distressed (debt and/or equity), and acquisitions. Staff and investment consultant will conduct diligence on each fund and the CEO must approve commitments into funds. Each commitment is made as a limited partner. The funds are generally illiquid for five to ten years.
- **Money market funds** - State Street Institutional U.S. Government Money Market Fund - primary objective is to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable \$1.00 per share net asset value ("NAV").

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**NOTE I - CAPITAL ASSETS**

OHA's capital assets of governmental activities during the year ended June 30, 2021 are as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Capital assets not depreciated:				
Land	\$ 213,961,981	\$ --	\$ --	\$ 213,961,981
Construction in progress	65,017	--	--	65,017
	<u>214,026,998</u>	<u>--</u>	<u>--</u>	<u>214,026,998</u>
Capital assets being depreciated:				
Buildings	23,708,949	--	--	23,708,949
Leasehold improvements	6,215,252	--	--	6,215,252
Furniture, fixtures and equipment	6,411,538	399,233	--	6,810,771
Total capital assets being depreciated	36,335,739	399,233	--	36,734,972
Less accumulated depreciation	<u>(18,905,175)</u>	<u>(1,141,776)</u>	<u>--</u>	<u>(20,046,951)</u>
Capital assets being depreciated, net	<u>17,430,564</u>	<u>(742,543)</u>	<u>--</u>	<u>16,688,021</u>
Governmental activities capital assets, net	<u>\$ 231,457,562</u>	<u>\$ (742,543)</u>	<u>\$ --</u>	<u>\$ 230,715,019</u>

Hi'ilei Aloha LLC's capital assets activities during the year ended December 31, 2020 are as follows:

	Balance January 1, 2020	Additions	Deductions	Balance December 31, 2020
Capital assets not depreciated:				
Land	\$ 13,429,733	\$ --	\$ --	\$ 13,429,733
Capital assets being depreciated:				
Buildings and improvements	3,517,427	14,278	--	3,531,705
Furniture, fixtures and equipment	967,000	34,999	(52,936)	949,063
Vehicles	289,458	--	--	289,458
Total capital assets being depreciated	4,773,885	49,277	(52,936)	4,770,226
Less accumulated depreciation	<u>(2,775,502)</u>	<u>(285,170)</u>	<u>52,936</u>	<u>(3,007,736)</u>
Total capital assets being depreciated	<u>1,998,383</u>	<u>(235,893)</u>	<u>--</u>	<u>1,762,490</u>
Capital assets, net	<u>\$ 15,428,116</u>	<u>\$ (235,893)</u>	<u>\$ --</u>	<u>\$ 15,192,223</u>

**NOTE J - CAPITAL LEASES**

OHA leases photocopiers and mail postage meter machines for all offices. Capital leases are recorded as assets and liabilities and amortized over the term of the lease agreement by use of the straight line method. The amortization of assets recorded under capital leases is included with depreciation expenses. As of June 30, 2021, assets recorded under capital lease included in furniture, fixtures and equipment is approximately \$247,500 and related amortization is approximately \$244,300.

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**NOTE J - CAPITAL LEASES (Continued)**

Annual debt service requirements to maturity for the capital leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 28,065	\$ 626
2023	<u>3,115</u>	<u>58</u>
	\$ <u>31,180</u>	\$ <u>684</u>

**NOTE K - OPERATING LEASES**

OHA leases office space and equipment under various noncancelable operating leases through November 2027. Future minimum payments under these operating leases as of June 30, 2021 are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 169,700
2023	199,000
2024	92,300
2025	66,800
2026	44,300
Thereafter	<u>19,800</u>
	\$ <u>591,900</u>

In August 1998, OHA entered into a 35-year lease with the Department of Land and Natural Resources (DLNR) for the use of the premises known as the Old Waialua Court House in Waialua, Oahu. Lease rent is gratis, however, OHA pays for all operating and repair costs associated with maintaining the property. OHA sublets a portion of the property to a not-for-profit organization which reimburses OHA for their portion of the costs associated with maintaining the property as set forth in the lease agreement between OHA and DLNR. Rent expense (including taxes and common area maintenance) under this operating lease totaled approximately \$271,500 for the year ended June 30, 2021.

Hi'ilei Aloha LLC leases space on a month-to-month basis to support program and administrative operations, including space on Hi'ipaka's premises. Rental expense totaled \$21,298 for the year ended December 31, 2020, including \$4,800 paid to Hi'ipaka LLC.

Portions of Kaka'ako Makai, land included in capital assets, and Na Lama Kukui, building included in capital assets, are currently leased under operating lease arrangements that expire through December 2042 and October 2028, respectively. For the year ended June 30, 2021, rental revenue from Kaka'ako Makai and Na Lama Kukui amounted to approximately \$3,924,000 and \$3,858,000 respectively, and are recorded in the PLTF as charges for services.

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**NOTE K - OPERATING LEASES**

As of June 30, 2021, approximate minimum future lease rentals under non-cancellable operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 4,748,100
2023	3,518,100
2024	1,910,700
2025	1,093,400
2026	964,600
2027 - 2031	3,116,400
2032 - 2036	2,696,600
2037 - 2041	1,763,400
2042 - 2043	<u>529,000</u>
	<u>\$ 20,340,300</u>

Hi'ipaka LLC leases its food and beverage premises to an independent third party under a lease agreement expiring in October 2025. The agreement provides for the payment of minimum base rent, percentage rent on sales exceeding certain breakpoints, and fixed payments for utilities. The agreement allows the tenant to extend the lease for an additional five year period. Rental income earned during the year ended December 31, 2020 was \$127,880. As of December 31, 2020, future minimum base rentals under this non-cancellable operating lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 168,450
2022	204,000
2023	204,000
2024	204,000
2025	<u>170,000</u>
	<u>\$ 950,450</u>

**NOTE L - LONG-TERM LIABILITIES**

On August 14, 2012, OHA entered into a \$21,370,000 long term note payable with a bank, to finance the purchase of Na Lama Kukui. The interest rate is fixed at 3.35%. The note is due in full on September 1, 2022 and is collateralized by a mortgage lien on the property, assignment of OHA's right, title and interest as landlord in and to any rents under tenant leases and rental agreements on Na Lama Kukui and security interest in all furniture, fixtures, and equipment. On July 26, 2013 the agreement was modified to increase the interest rate to 3.6% and include certain financial covenants. The outstanding balance on the note payable as of June 30, 2021 was \$17,908,916. At June 30, 2021, OHA was in compliance with those covenants. In the event of default, OHA is liable for the immediate

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**NOTE L - LONG-TERM LIABILITIES (Continued)**

repayment of 53.2% of the outstanding principal balance of the loan, together with accrued interest and reimbursement of the fees and costs incurred by the bank in connection with the loan. The remaining 46.8% of the principal balance of the loan and all other obligations under the loan shall be enforced solely against the collateral.

As of June 30, 2021, future principal and interest payments from direct borrowings for the note payable are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 648,626	\$ 648,970	\$ 1,297,596
2023	<u>17,260,290</u>	<u>107,421</u>	<u>17,367,711</u>
	\$ <u>17,908,916</u>	\$ <u>756,391</u>	\$ <u>18,665,307</u>

On June 28, 2013 OHA entered into a \$6,758,000 line of credit to finance the renovation of Na Lama Kukui, which is due in full on June 28, 2023. On January 28, 2015, OHA entered into a \$5,000,000 line of credit to finance OHA's governance planning initiative and other projects, which is due in full on February 3, 2024. OHA had drawn a total of \$3,479,569 between the lines of credit as of June 30, 2021. The interest rates are contingent upon certain elections by OHA. The lines of credit are collateralized by all investment property and financial assets held in certain investment accounts. The lines of credit are also subject to certain financial covenants. At June 30, 2021, OHA was in compliance with those covenants. Future principal and interest payments for direct borrowings on the lines of credit are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,614,774	\$ 69,755	\$ 1,684,529
2023	1,614,423	30,669	1,645,092
2024	<u>250,372</u>	<u>2,252</u>	<u>252,624</u>
	\$ <u>3,479,569</u>	\$ <u>102,676</u>	\$ <u>3,582,245</u>

In the past, long-term liabilities have generally been paid by the Public Land Trust Fund.

Changes in long-term liabilities for governmental activities during the year ended June 30, 2021 were as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amount due</u> <u>within one year</u>	<u>Amount due</u> <u>after one year</u>
Compensated absences	\$ 1,432,244	\$ 535,394	\$ (846,392)	\$ 1,121,246	\$ 891,013	\$ 230,233
Capital lease obligation	82,506	--	(51,326)	31,180	28,065	3,115
Note payable	18,519,648	--	(610,732)	17,908,916	648,626	17,260,290
Lines of credit	<u>5,094,827</u>	--	<u>(1,615,258)</u>	<u>3,479,569</u>	<u>1,614,774</u>	<u>1,864,795</u>
Total	\$ <u>25,129,225</u>	\$ <u>535,394</u>	\$ <u>(3,123,708)</u>	\$ <u>22,540,911</u>	\$ <u>3,182,478</u>	\$ <u>19,358,433</u>

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**NOTE L - LONG-TERM LIABILITIES (Continued)**

In April 2020, Hi'ipaka obtained a loan under the Paycheck Protection Program (PPP) in the amount of \$694,335. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during specified measurement periods. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1.00%, with a deferral of payments for the first six months. In December 2020, Hi'ipaka submitted an application to have its loan completely forgiven. The loan balance presented in the proprietary funds - statement of net position is based on the scheduled repayment terms without regard to the possibility of loan forgiveness, with the current portion due in 2021 and the noncurrent portion due in 2022.

**NOTE M - EMPLOYEE BENEFITS**

**(1) Defined Benefit Pension Plan**

**Pension Plan Description** - Generally, all full-time employees of the State are required to be members of the Employees' Retirement System of the State of Hawai'i (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. The employees of Hi'ilei Aloha LLC and Ho'okele Pono LLC are excluded from the ERS plans. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS's website: <https://ers.ehawaii.gov/resources/financials>.

**Benefits Provided** - The ERS Pension Trust is comprised of three pension classes for membership purposes and is considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.00%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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**NOTE M - EMPLOYEE BENEFITS (Continued)**

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

*Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Employees Hired prior to July 1, 2012

*Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.



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**NOTE M - EMPLOYEE BENEFITS (Continued)**

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

*Death Benefits* - For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Employees Hired After June 30, 2012

*Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

*Disability and Death Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Employees Hired Prior to July 1, 2012

*Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

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**NOTE M - EMPLOYEE BENEFITS (Continued)**

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

*Death Benefits* - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

*Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

*Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Contributions** - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. Contributions to the pension plan from OHA were \$2,134,887 for the year ended June 30, 2021.

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**NOTE M - EMPLOYEE BENEFITS (Continued)**

Per Act 17 (SLH 2017), employer contributions from the State have been increased over the four years beginning July 1, 2017. The rate for general employees increased to 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** - At June 30, 2021, OHA reported a liability of \$37,039,178 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OHA's proportion of the net pension liability was based on a projection of OHA's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2020, OHA's proportion was 0.35% as compared to its proportion measured as of June 30, 2019 of 0.37%. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2021, OHA recognized pension expense of \$4,232,413. At June 30, 2021, OHA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 454,075	\$ 46,408
Changes in assumptions	1,425,730	425
Net difference between projected and actual earnings on pension plan investments	1,113,283	--
Changes in proportion and differences between OHA contributions and proportionate share of contributions	188,116	130,889
OHA's contributions subsequent to the measurement date	<u>2,134,887</u>	<u>--</u>
	\$ <u>5,316,091</u>	\$ <u>177,722</u>

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

The \$2,134,887 reported as deferred outflows of resources related to pensions resulting from OHA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,211,331
2023	619,164
2024	669,819
2025	492,725
2026	<u>10,443</u>
	<u>\$ 3,003,482</u>

**Actuarial Assumptions** - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five year period from July 1, 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% compounded annually including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Strategic Allocation (Risk-Based Classes)</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Long-Term Expected Real Rate of Return*</u>
Broad growth	63.0%	7.90%	5.70%
Diversifying strategies	37.0%	3.70%	1.50%
	<u>100.0%</u>		

\* Uses an expected inflation rate of 2.20%

**Discount Rate** - The discount rate used to measure the net pension liability at June 30, 2020 was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

**Sensitivity of OHA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents OHA's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what OHA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
OHA's proportionate share of the net pension liability	\$ 49,649,736	\$ 37,039,176	\$ 29,579,712

**Pension Plan Fiduciary Net Position** - The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <https://www.ers.ehawaii.gov/resources/financials>.

**Payables to the Pension Plan** - At June 30, 2021, the amount payable to the ERS was \$165,624.

(2) **Postemployment Health Care and Life Insurance Benefits**

**Plan Description** - The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports/>. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. A retiree can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

**Employees Covered by Benefit Terms** - At July 1, 2019, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	37,767
Inactive plan members entitled to but not yet receiving benefits	7,576
Active plan members	<u>50,831</u>
Total plan members	<u>96,174</u>



**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

**Contributions** - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF from OHA were \$983,690 for the year ended June 30, 2021. OHA is required to make all contributions for members.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - At June 30, 2021, OHA reported a net OPEB liability of \$32,095,013. The net OPEB liability was measured as of July 1, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2020, OHA's proportionate share of the State's net OPEB liability was 0.25%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on OHA's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2021, OHA recognized OPEB expense of \$1,952,462. At June 30, 2021, OHA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 1,837,566
Changes in assumptions	292,344	124,866
Net difference between projected and actual earnings on OPEB plan investments	266,204	--
OHA's contributions subsequent to the measurement date	<u>983,690</u>	<u>--</u>
	\$ <u>1,542,238</u>	\$ <u>1,962,432</u>

The \$983,690 reported as deferred outflows of resources related to OPEB resulting from OHA's contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2021.



**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (281,664)
2023	(271,247)
2024	(268,585)
2025	(252,569)
2026	(327,454)
Thereafter	(2,365)
	<u>\$ (1,403,884)</u>

**Actuarial Assumptions** - The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Payroll growth rate	3.50% to 7.00%, including inflation
Investment rate of return	7.00%

Healthcare cost trend rates:

PPO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.80%; declining to a rate of 4.70% after 13 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first year; followed by 4.00%
Vision	Initial rate of 0.00 for the first year; followed by 2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drug.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Non-U.S. equity	16.00%	7.72%
U.S. equity	14.00%	6.23%
Private equity	10.00%	9.66%
Core real estate	10.00%	5.98%
Trend following	8.00%	2.12%
U.S. microcap	6.00%	7.85%
Private credit	6.00%	5.50%
Global options	6.00%	4.65%
Long treasuries	6.00%	0.86%
Reinsurance	5.00%	4.34%
Alternative risk premia	5.00%	1.56%
TIPS	5.00%	0.11%
Core bonds	3.00%	8.00%
	100.00%	

**Single Discount Rate** - The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through the fiscal year ending June 30, 2025, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State made its full Annual Required Contribution in the fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**OPEB Plan Fiduciary Net Position** - The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at <https://eutf.hawaii.gov/reports/>.

**Changes in OHA's Proportionate Share of the State's Net OPEB Liability** - The following table represents a schedule of changes in OHA's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2020.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	\$ 39,216,375	\$ 5,599,281	\$ 33,617,094
Changes for the fiscal year:			
Service cost	622,313	--	622,313
Interest on the total OPEB liability	1,998,401	--	1,998,401
Contributions - employer	--	2,053,803	(2,053,803)
Net investment income	--	109,657	(109,657)
Benefit payments	(919,089)	(919,089)	--
Administrative expense	--	(774)	774
Difference between expected and actual experience	(1,829,616)	--	(1,829,616)
Change in assumptions	(149,804)	--	(149,804)
Other	--	689	(689)
Net changes	<u>(277,795)</u>	<u>1,244,286</u>	<u>(1,522,081)</u>
Balance at June 30, 2021	\$ <u>38,938,580</u>	\$ <u>6,843,567</u>	\$ <u>32,095,013</u>

**Sensitivity of OHA's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates** - The following table represents OHA's proportionate share of the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what OHA's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
OHA's proportionate share of the net OPEB liability	\$ <u>38,511,609</u>	\$ <u>32,095,013</u>	\$ <u>27,038,760</u>

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE M - EMPLOYEE BENEFITS (Continued)**

The following table represents OHA's proportionate share of the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what OHA's net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
OHA's proportionate share of the net OPEB liability	\$ <u>26,810,031</u>	\$ <u>32,095,013</u>	\$ <u>38,931,074</u>

**Payables to the OPEB Plan** - OHA's employer contributions payable to the EUTF as of June 30, 2021, was \$-0-.

- (3) **Deferred Compensation** - The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor OHA's financial statements.

- (4) **Hi'ilei Aloha LLC and Ho'okele Pono LLC Retirement Plan** - Hi'ilei Aloha LLC and Ho'okele Pono LLC offer 401(k) profit sharing plans. Employees become eligible upon six months of employment and may contribute to the plan to the extent allowed by law. Hi'ilei Aloha LLC and Ho'okele Pono LLC match employees' contributions up to a specified percentage of salary. For the year ended December 31, 2020, contribution expense amounted to \$66,792 and \$1,470 for Hi'ilei Aloha LLC and Ho'okele Pono LLC, respectively.
- (5) **Sick Leave** - Accumulated sick leave amounted to approximately \$2,612,000 as of June 30, 2021. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Employees who retire or leave government service in good standing with sixty or more unused sick days are entitled to additional service credit in the ERS. Accordingly, no liability for sick leave is recorded in the accompanying basic financial statements.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE N - NON-IMPOSED EMPLOYEE FRINGE BENEFITS**

Payroll fringe benefit costs for employees of OHA whose payroll are funded by state appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs are generally reported as revenues of OHA's general fund. However, as discussed in Notes B11 and D, the general fund appropriation for the year ended June 30, 2021 was withheld as the result of Act 37, SLH 2019. While the general fund appropriations were eventually released pursuant to Act 29, SLH 2021, in July 2021, OHA had already processed its payroll for the year ended June 30, 2021 without the general fund appropriation and as such, could not record any non-imposed fringe benefits for the payroll fringe benefit costs of OHA funded staff payroll expense covered by the state appropriations for the year ended June 30, 2021.

**NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES**

- (1) ***Workers' Compensation and Other Self-Insurance Liabilities*** - As a state agency, the Office of Hawaiian Affairs (OHA) participates in the State's risk management program. The State maintains certain insurance coverage to satisfy bond indenture agreements, cover liability and property exposures as well as for other risk mitigation purposes, but is substantially self-insured for many perils. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. In addition to the coverages provided by the State under the State's risk management program, the OHA purchases public officials and employment practices liability insurance, bankers' professional liability insurance, property coverage and general and excess liability coverage for property owned or required by lease agreements entered into.

The State is self-insured for workers' compensation. Accordingly, the OHA is liable for workers' compensation claims filed by its employees to the extent not otherwise covered by insurance. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. Beginning in fiscal year 2013 OHA began purchasing a third party workers' compensation policy, but was still liable for outstanding claims related to periods in which the OHA was self-insured. As of June 30, 2021, there are no outstanding claims for which OHA is liable.

- (2) ***Quiet Title Litigation*** - Under Haw. Rev. Stat. Section 669-3(e), OHA is required to be statutorily joined as a defendant in any action to quiet title to an interest in kuleana if an owner of an inheritable interest in the kuleana died intestate or partially intestate and without any heirs or other takers. OHA typically responds in these actions by answering the complaint, seeking discovery and information, reviewing the evidence to determine whether OHA has an escheat interest in the kuleana, and participating in the litigation as necessary. OHA retains outside counsel for quiet title litigation. As of June 30, 2021, OHA is currently evaluating its potential interest in several quiet title actions. OHA continues to monitor these actions for any potential escheated interest.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES**

- (3) **Litigation** - OHA is a party to administrative and court proceedings that arise in the ordinary course of business. Although occasional adverse decisions (or settlements) may occur, OHA believe that the final disposition of such matters will not have a material adverse effect on the financial position or changes in the financial position of OHA.

**NOTE P - RELATED PARTY TRANSACTIONS**

OHA receives a portion of ceded land revenues from various state agencies. In June 2006, Act 178 was passed which laid the foundation for a quarterly guaranteed ceded land revenue stream of \$3,775,000, totaling \$15,100,000 per year. Ceded land revenue of \$15,100,000 is included as public land trust revenue in the PLTF. As of June 30, 2021 \$1,266,007 is included in accounts receivable, net in the PLTF.

Besides property leased from DLNR, as discussed in Note K, Executive Order 3724 granted OHA a set aside of land located in Kekaha, Kaua'i (Kekaha Armory), to be used for Hawaiian cultural and educational purposes in which OHA would control and manage the property. OHA is responsible for all maintenance costs associated with the property. Upon cancellation of the Executive Order and/or in the event of non-use for a continuous period of one year, for purposes described above, the property will revert back to DLNR, free of all liens and encumbrances. Unless sooner terminated, OHA leases the Kekaha Armory to a not-for-profit organization for a maximum period of 65 years commencing on November 2000, to utilize such property for purposes in accordance with the Executive Order.

In December 2008, OHA and DHHL mutually agreed to a collaborative financing arrangement to provide funds for DHHL's use in the planning, design and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by DHHL, in fulfillment of OHA's mission to better the conditions of Native Hawaiians. OHA's commitment under the agreement was to pay DHHL an annual fee not to exceed \$3,000,000 for 23 years. Payments to DHHL are presented as beneficiary advocacy expenditures in the PLTF; governmental funds - statement of revenues, expenditures, and changes in fund balances. As of June 30, 2021, OHA has approximately \$33,000,000 in future payments committed to DHHL.

**Office of Hawaiian Affairs, State of Hawai'i**  
**SCHEDULE OF OHA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Last Ten Fiscal Years**

<u>Measurement Period Ended</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a %age of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a %age of the Total Pension Liability</u>
June 30, 2020	0.35%	\$ 37,039,176	\$ 8,362,878	442.90%	54.80%
June 30, 2019	0.37%	\$ 34,499,547	\$ 8,810,968	391.55%	54.80%
June 30, 2018	0.41%	\$ 32,698,545	\$ 9,008,205	362.99%	54.80%
June 30, 2017	0.41%	\$ 31,892,391	\$ 10,027,875	318.04%	54.80%
June 30, 2016	0.42%	\$ 32,669,717	\$ 10,033,406	325.61%	51.28%
June 30, 2015	0.43%	\$ 21,773,504	\$ 9,966,952	218.46%	62.42%
June 30, 2014	0.42%	\$ 20,332,122	\$ 9,270,781	219.31%	63.92%
June 30, 2013	0.43%	\$ 22,136,982	\$ 9,028,381	245.19%	57.96%

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.



**Office of Hawaiian Affairs, State of Hawai'i**  
**SCHEDULE OF CONTRIBUTIONS (PENSION)**  
**Last Ten Years \***

Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2021	\$ 2,134,887	\$ 2,134,887	\$ --	\$ 8,953,558	23.84%
June 30, 2020	\$ 1,846,492	\$ 1,846,492	\$ --	\$ 8,362,878	22.08%
June 30, 2019	\$ 1,663,734	\$ 1,663,734	\$ --	\$ 8,810,968	18.88%
June 30, 2018	\$ 1,694,776	\$ 1,621,477	\$ 73,299	\$ 9,008,205	18.81%
June 30, 2017	\$ 1,633,906	\$ 1,633,906	\$ --	\$ 10,027,875	16.29%
June 30, 2016	\$ 1,705,768	\$ 1,634,903	\$ 70,865	\$ 10,033,406	17.00%
June 30, 2015	\$ 1,644,547	\$ 1,644,547	\$ --	\$ 9,966,952	16.50%
June 30, 2014	\$ 1,483,325	\$ 1,483,325	\$ --	\$ 9,270,781	16.00%

\* GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**REQUIRED BY GASB STATEMENT NO. 68**  
**Year Ended June 30, 2021**

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%
- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

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**Office of Hawaiian Affairs, State of Hawai'i**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**Last Ten Years\***

	2021	2020	2019	2018
Net OPEB liability	\$ 622,313	\$ 638,464	\$ 631,702	\$ 510,265
Change in expected and actual experience	1,998,401	2,012,496	1,955,895	1,549,389
Net OPEB liability	(1,829,616)	(16,757)	(578,349)	--
Contributions	(149,804)	161,749	350,035	--
	<u>(919,089)</u>	<u>(963,777)</u>	<u>(952,352)</u>	<u>(766,044)</u>
Total OPEB liability	(277,795)	1,832,175	1,406,931	1,293,610
Plan - Beginning	<u>39,216,375</u>	<u>37,384,200</u>	<u>35,977,269</u>	<u>34,683,659</u>
Plan - Ending	\$ <u>38,938,580</u>	\$ <u>39,216,375</u>	\$ <u>37,384,200</u>	\$ <u>35,977,269</u>
Plan assets	\$ 2,053,803	\$ 2,125,953	\$ 1,881,695	\$ 1,523,372
Investment income	109,657	193,288	216,804	152,522
Net investment income	(919,089)	(963,777)	(952,352)	(766,044)
Administrative expense	(774)	(1,328)	(710)	(391)
	<u>689</u>	<u>447,738</u>	<u>--</u>	<u>12,248</u>
Plan fiduciary net position	1,244,286	1,801,874	1,145,437	921,707
Position - Beginning	<u>5,599,281</u>	<u>3,797,407</u>	<u>2,651,970</u>	<u>1,730,263</u>
Position - Ending	\$ <u>6,843,567</u>	\$ <u>5,599,281</u>	\$ <u>3,797,407</u>	\$ <u>2,651,970</u>
	\$ <u>32,095,013</u>	\$ <u>33,617,094</u>	\$ <u>33,586,793</u>	\$ <u>33,325,299</u>
Ratio as a percentage of the total	17.58%	14.28%	10.16%	7.37%
	\$ 8,362,878	\$ 8,810,968	\$ 9,008,205	\$ 10,027,875
Percentage of Covered Payroll	383.78%	381.54%	372.85%	369.94%

Based on the information provided for ten years for each respective fiscal year. Additional years will be built prospectively as more information becomes available.

**Office of Hawaiian Affairs, State of Hawai'i**  
**SCHEDULE OF CONTRIBUTIONS (OPEB)**  
**Last Ten Years\***

Year Ended	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2021	\$ 983,690	\$ 983,690	\$ --	\$ 8,953,558	10.99%
June 30, 2020	\$ 2,144,512	\$ 2,053,803	\$ 90,709	\$ 8,362,878	25.64%
June 30, 2019	\$ 2,125,952	\$ 2,048,768	\$ 77,184	\$ 8,362,878	25.42%
June 30, 2018	\$ 2,123,100	\$ 1,881,695	\$ 241,405	\$ 9,008,205	23.57%
June 30, 2017	\$ 1,523,372	\$ 1,523,372	\$ --	\$ 10,027,875	15.19%

\* The data is presented for the years for which information is available.

**Office of Hawaiian Affairs, State of Hawai'i**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**REQUIRED BY GASB STATEMENT NO. 75**  
**Year Ended June 30, 2021**

**NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS**

The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the year ended June 30, 2021:

Actuarial valuation date	July 1, 2019
Actuarial cost method	Entry Age Normal
Amortization method*	Level percent, closed
Remaining amortization period	24 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	7.00%
Payroll growth	3.50%
Healthcare inflation rates	
PPO**	10.00% initial, declining to 4.86% after 13 years
HMO**	10.00% initial, declining to 4.86% after 13 years
Part B	4.00 and 5.00% initial, declining to 4.70% after 12 years
Dental	5.00% for the first 3 years, then to 4.00% for all future years
Vision	0.00% for the first 3 years, then 2.50% for all future years

\* Closed bases are established at each valuation for new unfunded liabilities.

\*\* Blended rates for medical and prescription drugs.

**Committee on Resource Management**Trustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair***Members***Trustee Leina'ala Ahu Isa, *At-Large*Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brendon Kalei'aina Lee, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII  
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE  
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

**DATE:** Tuesday, March 22, 2022**TIME:** 1:30 p.m.**PLACE:** Virtual Meeting viewable at [www.oha.org/livestream](http://www.oha.org/livestream) OR

Listen by phone: (213) 338-8477,

Webinar ID: 854 5448 2431

Due to COVID-19, the OHA Board of Trustees and its standing committees will hold virtual meetings until further notice. Pursuant to Governor Ige's January 26, 2022, Emergency Proclamation Related to COVID-19 (Omicron Variant), there will be no in-person location for this meeting that is open to the general public. The virtual meeting can be viewed and observed via livestream on OHA's website at [www.oha.org/livestream](http://www.oha.org/livestream) or can be listened to by phone via the phone number and Webinar ID listed at the beginning of this agenda.

**AGENDA**

**I. Call to Order****II. Public Testimony on Items Listed on the Agenda\***

(Please see page 2 on how to submit written testimony or provide oral testimony online.

Oral testimony by telephone/landline **will not** be accepted)**III. Approval of Minutes**

None

**IV. Unfinished Business**

None

**V. New Business**

A. Presentation by Auditors: DRAFT Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021, Dwayne Takeno, Principal & Charles Goodin, Senior Manager, N&K CPAs, Inc.

B. ACTION ITEM RM #22-04: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

C. Presentation by Administration: State Auditor Report No. 22-04: Follow-Up on Recommendations from Report No. 18-03, Audit of the Office of Hawaiian Affairs, March 2022

**VI. Announcements****VII. Adjournment**

If you require an auxiliary aid or accommodation due to a disability, please contact Everett Ohta at telephone number (808) 594-1988 or by email at: [everetto@oha.org](mailto:everetto@oha.org) no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72 hours prior to the meeting and posted to OHA's website at: [www.oha.org/rm](http://www.oha.org/rm).




## **ACTION ITEM**

### **COMMITTEE ON RESOURCE MANAGEMENT**


March 22, 2022

**RM #22-04**

**Action Item Issue:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

Prepared by:  Mar 17, 2022  
Ramona G. Hinck  
Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Reviewed by:  Mar 18, 2022  
Sylvia M. Hussey, Ed.D.  
Ka Pouhana, Chief Executive Officer

Reviewed by:  Mar. 18, 2022  
Ke Kua, Trustee John Waihee, IV  
Luna Ho'omalu o ke Kōmike Resource Management  
Chair of the Committee on Resource Management



**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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**I. Proposed Action**

The Board of Trustees, Committee on Resource Management:

- Approve the draft Office of Hawaiian Affairs Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2021 at Attachment A;
- Approve the draft Office of Hawaiian Affairs Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021, at Attachment B; and
- Authorize the OHA Chief Executive Officer and Administration to take all other reasonable actions necessary and appropriate to complete, issue, file and distribute the reports.

**II. Management's Responsibility, Auditor's Responsibilities and Auditor's Opinion – FYE 6/30/2021**

**A. Financial Transparency.** Posted on the Office of Hawaiian Affairs' website, under the Financial Transparency tab, are

financial statements from June 30, 2004 to June 30, 2020---17 years of financial information plus three years of single audits of the Native Hawaiian Revolving Loan Fund (NHRLF), completed by four independent audit firms. The following list indicates the year of the financial statements audited, the independent audit firm conducting the audit, **noting that each audit had a "clean" or an "unqualified" opinion.** Refer to section D below for further discussion re: Auditor's Opinion.

1. June 30, 2020, N&K, CPA's Inc.
2. June 30, 2019, N&K, CPA's Inc.
3. June 30, 2018, N&K, CPA's Inc.
4. June 30, 2017, N&K, CPA's Inc.
5. June 30, 2016, KMH LLP
6. June 30, 2015, KMH LLP
7. June 30, 2014, KMH LLP
8. June 30, 2013, KMH LLP
9. June 30, 2012, KMH LLP
10. June 30, 2011, PKF Pacific Hawaii LLP
11. June 30, 2010, PKF Pacific Hawaii LLP
12. June 30, 2009, Grant Thornton LLP
13. June 30, 2008, Grant Thornton LLP
14. June 30, 2007, Grant Thornton LLP

**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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15. June 30, 2006, Grant Thornton LLP

16. June 30, 2005, Grant Thornton LLP

17. June 30, 2004, Grant Thornton LLP

- B. Management's Responsibility.** Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- C. Auditor's Responsibilities.**<sup>1</sup> The Auditor's responsibility is to express opinions on the financial statements based on their audit. Financial statements of Hi'ilei Aloha LLC are audited by another auditor, report furnished and the other auditor's opinion is relied upon. The audit is conducted in accordance with 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. Those standards require Auditor's plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- D. Auditor's Opinion – June 30, 2021.**<sup>2</sup> "In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions." The above opinion is commonly referred to as a "clean" or "unqualified" opinion.

### **III. Setting Context for OHA Financial Statements for the Year ended June 30, 2021**

The following points provide context for the fiscal year ended June 30, 2021:

- A.** Financial reporting period is as of June 30, 2021 and covers the financial activity period of July 1, 2020 to June 30, 2021, plus any subsequent events up until the report date (March 2022);
- B.** Entire agency across the state and in Washington D.C. continued to be in telework due to COVID-19 with a targeted April 4, 2022 return to worksites date; Stay-at-home and Governor's proclamations, restricted travel have eased; and statewide mandates are being or have been lifted by state and county officials;

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<sup>1</sup> Source: Independent Auditor's Report

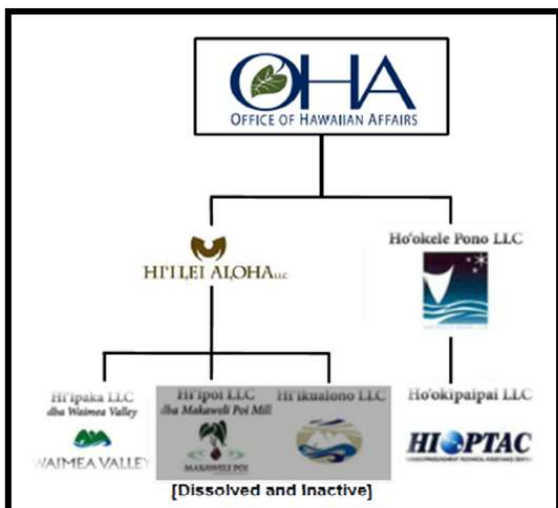
<sup>2</sup> Source: Independent Auditor's Report

**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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- C. OHA information includes General Funds, Trust Funds, Special Funds, Federal Funds (e.g., Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund);
- D. The CEO Letter and Management's Discussion and Analysis both accompany the financial statements include Mana I Maui Ola SP2020-2035 language, updates to economic impact, Act 29 (2021) resolution of FY21 general funds appropriation and subsequent events and is not audited;
- E. Native Hawaiian Trust Fund market value as of:
  - ☐ 9/30/2021 - \$466MM;
  - ☐ 11/30/2021 - \$471MM;
  - ☐ 01/31/2022 - \$467MM
- F. Winddown of the LLCs, Appointment of Non-OHA LLC Managers effective 4/1/2021 via Action Item RM #21-01<sup>3</sup>, OHA approved the following non-OHA employees as volunteer, uncompensated Managers for Hi'ilei Aloha LLC (Hi 'ilei), effective April 1, 2021, with the noted staggered terms of service:
  - 1. Roberts "Bob" Leinau for a service period of three (3) years (expires March 31, 2024);
  - 2. Greg C. Pietsch for a service period of two (2) years (expires March 31, 2023); and
  - 3. Leilani Kūpahu-Marino Kaho'āno for a service period of one (1) year (expires March 31, 2022); the Board recently approved the reappointment for a three year term.<sup>4</sup>

**Figure 1. LLC Structure**



The staggered terms were intentionally set to enable stability in institutional knowledge, experience and management for Hi'ilei and Hi'ipaka LLC, dba Waimea Valley (Hi'ipaka).

LLC winddown activities were also completed in 2021 and the new non-OHA LLC managers (aka "Community LLC Managers") will be scheduled to report out to the Board later in 2022.

<sup>3</sup> Approved by the Committee on Resources Management on February 16, 2021; and ratified by the Board of Trustees on February 25, 2021.

<sup>4</sup> Action Item RM #22-03: Reappointment of Leilani Kahoano as Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term (2023,2024, 2025), March 8, 2022 Committee on Resource Management, ratified by the Board of Trustees on March 10, 2022

**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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**G. Act 29 Release of General Fund Appropriations for FY2020-2021.** On May 28, 2021, Governor Ige signed into law, Act 29, Session Laws of Hawaii 2021, amending Act 37, Session Laws of Hawaii 2019. Act 37, section 8, was amended to read as follows: "Provided that the general funds appropriated for fiscal year 2020-2021 pursuant to part II of this Act shall not be released to the Office of Hawaiian Affairs until after the CLA - OHA & LLCs Contract and Disbursement Review - Report, dated December 4, 2019 (CLA Report) is received by the legislature." The general funds appropriated for fiscal year 2020-2021 were released with the provision and acceptance of the CLA Report.

Act 29, Part IV - Section 10, states that the general funds appropriated for fiscal year 2020 - 2021 shall not lapse at the end of the fiscal year for which the appropriation is made; provided that all moneys from the appropriation are encumbered as of June 30, 2022. In addition Section 11, of the Act provided for \$200,000 for fiscal year 2021 – 2022 to conduct or contract for the follow-up of the CLA Report.

**H. Purchase of Iwilei Properties.** On September 30, 2021, OHA purchased the Iwilei Properties which included, 1) 500 N. Nimitz Hwy, a retail property with three national retail chain tenants, Ross Dress for Less, Long's (CVS Pharmacy) and PetSmart; and 2) 501 Sumner Street an industrial property. The purchase price was \$47 million. Gross rents from the properties, including tenant recoveries is estimated to be \$2.5 million and net income \$1.5 million for the period October 1, 2021 to June 30, 2022.

**I. Refinancing of Na Lama Kukui Loans.** On March 15, 2022, OHA refinanced the loans on Na Lama Kukui, a large retail complex and office to the Honolulu based OHA staff. The original Term Loan termination date and payment of the outstanding loan balance was September 1, 2022. OHA paid off the original loans and negotiated a superior rate due to existing market conditions and a banking partner that made this possible. OHA now pays 60 basis points lower than the original term loan.

#### **IV. Setting Context for OHA Financial Statements – Limited Liability Companies**

The following points provides context for the limited liability company (LLC) information included in the June 30, 2021 OHA financials as business-type activities:

- A. LLC fiscal year is the calendar year ending 12/31/2020 (pre-COVID);
- B. The organization experienced interim leadership (e.g., CEO, CFO and COO), see table below and finalized Community LLC Managers:

Period	CEO	COO	CFO
1/1/2019 to 1/9/2019	Kamana`opono Crabbe	Sylvia Hussey	David Laeha

**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

Period	CEO	COO	CFO
1/10/2019 to 6/30/2019	Kamana`opono Crabbe	Sylvia Hussey	Sylvia Hussey (Interim)
7/1/2019 to 11/30/2019	Sylvia Hussey (Interim)	Lisa Watkins-Victorino (Interim)	Gloria Li (Interim)
12/1/2019 to 3/31/2020	Sylvia Hussey	Lisa Watkins-Victorino (Interim)	Gloria Li (Interim)
4/1/2020 to 6/30/2020	Sylvia Hussey	Lisa Watkins-Victorino (Interim)	Sylvia Hussey (Interim)
7/1/2020 to 10/15/2020	Sylvia Hussey	Sterling Wong (Interim)	Sylvia Hussey (Interim)
10/16/2020 to 10/26/2020	Sylvia Hussey	Sterling Wong (Interim)	Ramona Hinck
10/27/2020 to 11/1/2020	Sylvia Hussey	Sylvia Hussey (Interim)	Ramona Hinck
11/2/2020 to 3/31/2021	Sylvia Hussey	Casey Brown	Ramona Hinck
Community LLC Managers			
4/1/2021 to present	Roberts "Bob" Leinau (3 years)	Greg C. Pietsch (2 years)	Leilani Kūpahu-Marino Kaho`āno (1 year initially, renewed for 3 years)

- C. Limited Liability Company information include the following explanation:  
 "OHA is the sole member of two limited liability companies, Hi`ilei Aloha LLC (Hi`ilei) and Ho`okele Pono LLC (Ho`okele Pono). Hi`ilei is the sole member of two limited liability companies Hi`ipaka LLC (Hi`ipaka) and Hi`ikualono LLC (Hi`ikualono). Ho`okele Pono is the sole member of a single limited liability company Ho`okipaipai LLC (Ho`okipaipai). Based on the common governance structure and financial obligations, limited liability companies (LLC), have been classified as blended component units under proprietary funds. As a result, the financial results of Ho`okele Pono and Hi`ilei and its member owned LLCs through December 31, 2020 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2021.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi`ilei to permit persons who are not OHA executives to

**Action Item RM #22-04:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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serve as managers (Managers) of Hi`ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi`ipaka to amend the Operating Agreement of Hi`ipaka permitting persons who are not OHA executives to serve as managers of Hi`ipaka; 2) Dissolution of Hi`ikualono; and 3) Dissolution of Ho`okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center grant to Ho`okipaipai, including the dissolution of Ho`okipaipai prior to the dissolution of Ho`okele Pono. Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021.

**IV. Recommended Action**

Administration recommends the Board of Trustees, Committee on Resource Management:

- A. Approve the draft Office of Hawaiian Affairs Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2021 at Attachment A;
- B. Approve the draft Office of Hawaiian Affairs Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021, at Attachment B; and
- C. Authorize the OHA Chief Executive Officer and Administration to take all other reasonable actions necessary and appropriate to complete, issue, file and distribute the reports.

**IV. Attachments**

- A. Draft OHA Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2021
- B. Draft OHA Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

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

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

Year Ended June 30, 2021



**N&K CPAs, Inc.**

ACCOUNTANTS|CONSULTANTS



**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

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OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAI'I

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**DRAFT**

**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, 2021, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements, and have issued our report thereon dated March XX, 2022. 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 auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by 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. However, material weaknesses may exist that have not been identified.

### **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.

Honolulu, Hawaii  
March XX, 2022

**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 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, 2021. 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 statutes, 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, 2021.

### **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, 2021, and the related notes to the financial statements which collectively comprise OHA's basic financial statements. We issued our report thereon dated March XX, 2022, 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.

Honolulu, Hawaii  
March XX, 2022

DRAFT

**PART III**  
**FINANCIAL INFORMATION**

**Office of Hawaiian Affairs, State of Hawai'i**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2021**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>Department of Transportation</b>			
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>240,684</u>
Total Highway Planning and Construction Cluster			<u>240,684</u>
Total Department of Transportation			<u>240,684</u>
<b>Department of Health and Human Services</b>			
Native American Programs			
Native Hawaiian Revolving Loan Program	93.612	N/A	<u>1,844,149</u>
Total Department of Health and Human Services			<u>1,844,149</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>2,084,833</u></b>

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, 2021**

**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, 2021. 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, 2021 was \$7,230,726.

**Office of Hawaiian Affairs, State of Hawai'i**  
**Native Hawaiian Revolving Loan Fund**  
**BALANCE SHEET**  
**June 30, 2021**

**ASSETS**

**ASSETS**

Cash held in banks	\$ 6,901,698
Cash held by investment managers	454,029
Prepaid expenses and other	5,500
Interest and dividends receivable	60,255
Notes receivable, net of allowance for doubtful accounts	6,184,075
Investments	<u>12,116,837</u>

Total assets	\$ <u>25,722,394</u>
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**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	\$ 43,182
Due to other funds	<u>5,067</u>

Total liabilities	<u>48,249</u>
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**FUND BALANCE**

Restricted	
Beneficiary advocacy	359,572
Long-term portion of notes receivable	5,355,474
Native Hawaiian loan program	<u>19,959,099</u>

Total fund balance	<u>25,674,145</u>
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Total liabilities and fund balance	\$ <u>25,722,394</u>
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**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, 2021**

**REVENUES**

Loan interest income	\$ 547,796
Net change in fair value of investment securities	(287,288)
Other revenue	<u>311,521</u>
Total revenues	<u>572,029</u>

**EXPENDITURES**

Salaries and fringe benefits	311,637
Services	194,456
Rent	32,469
Investment manager fee	31,504
Legal services	13,154
Recovery of bad debt	(285,605)
Other expenses	<u>5,926</u>
Total expenditures	<u>303,541</u>

**NET CHANGE IN FUND BALANCE**

268,488

**FUND BALANCE, BEGINNING OF YEAR**

25,405,657

**FUND BALANCE, END OF YEAR**

\$ 25,674,145



**Office of Hawaiian Affairs, State of Hawai'i**  
**Native Hawaiian Revolving Loan Fund**  
**STATEMENT OF CASH FLOWS (UNAUDITED)**  
**Year Ended June 30, 2021**

<b>Cash flows from operating activities</b>	
Net change in fund balance	\$ 268,488
Adjustments to reconcile net change in fund balance to net cash provided by operating activities:	
Recovery of bad debt	(285,605)
Net change in fair value of investment securities	287,288
Amortization of discount on investment securities	(8,571)
(Increase) decrease in:	
Interest and dividends receivable	41,612
Prepaid expenses and other	(5,500)
Due from other funds	148
Increase (decrease) in:	
Accounts payable	(2,374)
Due to other funds	5,067
Net cash provided by operating activities	<u>300,553</u>
<b>Cash flows from investing activities</b>	
Purchase of investments	(7,166,441)
Proceeds from maturities of investments	9,026,383
Notes receivable issued	(1,538,477)
Proceeds from repayment of notes receivable	<u>1,410,620</u>
Net cash provided by investing activities	<u>1,732,085</u>
<b>NET INCREASE IN CASH</b>	2,032,638
<b>Cash at beginning of year</b>	<u>5,323,089</u>
<b>Cash at end of year</b>	<u>\$ 7,355,727</u>
<b>Cash consists of:</b>	
Cash in banks	\$ 6,901,698
Cash held by investment manager	<u>454,029</u>
	<u>\$ 7,355,727</u>

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**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, 2021**

**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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
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

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**PART V**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Office of Hawaiian Affairs, State of Hawai‘i**  
**STATUS REPORT**  
**Year Ended June 30, 2021**

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2020, dated March 23, 2021.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>Reference Number</b>	<b>Recommendation</b>	<b>Status</b>
<b>2020-001</b>	<b>Reconciliation of the General Ledger to Financial Statements (Significant Deficiency) (Page 19)</b>  We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's general ledger.	Accomplished

**Committee on Resource Management**Trustee John Waihe'e IV, *At-Large - Chair*Trustee Luana Alapa, *Moloka'i / Lāna'i - Vice Chair****Members***Trustee Leina'ala Ahu Isa, *At-Large*Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brendon Kalei'aina Lee, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII  
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE  
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

**DATE:** Tuesday, March 22, 2022**TIME:** 1:30 p.m.**PLACE:** Virtual Meeting viewable at [www.oha.org/livestream](http://www.oha.org/livestream) OR

Listen by phone: (213) 338-8477,

Webinar ID: 854 5448 2431

Due to COVID-19, the OHA Board of Trustees and its standing committees will hold virtual meetings until further notice. Pursuant to Governor Ige's January 26, 2022, Emergency Proclamation Related to COVID-19 (Omicron Variant), there will be no in-person location for this meeting that is open to the general public. The virtual meeting can be viewed and observed via livestream on OHA's website at [www.oha.org/livestream](http://www.oha.org/livestream) or can be listened to by phone via the phone number and Webinar ID listed at the beginning of this agenda.

**AGENDA**

**I. Call to Order****II. Public Testimony on Items Listed on the Agenda\***

(Please see page 2 on how to submit written testimony or provide oral testimony online.

Oral testimony by telephone/landline **will not** be accepted)**III. Approval of Minutes**

None

**IV. Unfinished Business**

None

**V. New Business**

A. Presentation by Auditors: DRAFT Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021, Dwayne Takeno, Principal & Charles Goodin, Senior Manager, N&K CPAs, Inc.

B. ACTION ITEM RM #22-04: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2021; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2021

C. Presentation by Administration: State Auditor Report No. 22-04: Follow-Up on Recommendations from Report No. 18-03, Audit of the Office of Hawaiian Affairs, March 2022

**VI. Announcements****VII. Adjournment**

If you require an auxiliary aid or accommodation due to a disability, please contact Everett Ohta at telephone number (808) 594-1988 or by email at: [everetto@oha.org](mailto:everetto@oha.org) no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72 hours prior to the meeting and posted to OHA's website at: [www.oha.org/rm](http://www.oha.org/rm).



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OFFICE OF HAWAIIAN AFFAIRS

Interoffice Memorandum

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**Date:** March 18, 2022

**To:**

Ke Kauhuhu Carmen Hulu Lindsey  
Ke Kua Leina'ala Ahu Isa  
Ke Kua Dan Ahuna  
Ke Kua Kaleihikina Akaka  
Ke Kua Keli'i Akina

Ke Kua Luana Alapa  
Ke Kua Brendon Kalei'āina Lee  
Ke Kua Mililani Trask  
Ke Kua John Waihe'e IV

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

**cc:** Board of Trustees Staff and Aides; CEO Team

**Subject:** Follow-Up on Recommendations from Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, Report No. 22-04

**Attachments:** 1) Response to the Formal Request for Information on Status of Implementation of Audit Recommendations (Report No. 18-03), March 2019; 2) Transmittal letter dated March 3, 2022; 3) Follow-Up on Recommendations from Report No 18-03, *Audit of the Office of Hawaiian Affairs*, Report No. 22-04

**Summary:** The purpose of this memo is to convey Administration's feedback and discussion regarding the above subject report, issued by the State Auditor (SA), as a follow up to Report No. 18-03, the 2017 Performance Audit.<sup>1</sup> Figure 1 on the next page, summarizes the status of audits and reviews conducted by the State Auditor every four and five years, respectively. Financial audit status information is also included to comprehensively track audits and reviews of the Office of Hawaiian Affairs (OHA).

The following table summarizes the status of the recommendations as reported and discussion will be done in reverse (i.e., not applicable, not implemented, partially implemented, implemented).

Description	Status
Implemented	11
Partially Implemented	13
Not Implemented	9
Not Applicable	6
Total	39

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<sup>1</sup> Performance audits also referred to as management audits, examine the efficiency and effectiveness of government programs or agencies. These are also called program audits when they focus on whether programs are attaining the objectives and results expected of them, and operations audits when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources. <https://auditor.hawaii.gov/what-is-an-audit/>, retrieved March 18, 2022. The State Auditor's office is in the process of conducting fieldwork for the 2021 performance audit.



**Figure 1. Summary of Audits and Reviews**

	1. Performance Audit 2013 State Auditor	2. Performance Audit 2017 State Auditor		3. Funds Review 2016 State Auditor	4. Performance Audit 2021 State Auditor	5. Funds Review 2021 State Auditor	Financial Audit 6/30/2021 N&K CPAs
Initial Report No.	13-07 (September 2013)	18-03 (Feb 2018)	18-08 June 2018)	16-10 (December 2016)	In progress	22-02 (Feb 2022) <a href="#">Discussed at the March 8, 2022 Committee on Resource Management Meeting</a>	N/A
Primary Focus	Land planning and grant monitoring	Non- Competitive grants ( <a href="#">Kulia Initiatives</a> and CEO Sponsorship, Fiscal Reserves, Trustee Allowance	Policies and actions re: Competitive Grants	Special Funds, Revolving Funds, Trust Funds, Trust Accounts	Objectives (CY2019- 2021): 1) Legacy Land Stewardship Contracts and Stewards; 2) Process to select potential commercial property acquisitions; and 3) Development of commercial properties, including planning of development	Special Funds, Revolving Funds, Trust Funds, Trust Accounts	17 years of “clean” or “unqualified” opinions from auditors (6/30/2004): Grant <a href="#">Thornton</a> , LLP, PKF Pacific Hawaii LLP, KMH LLP and N&K, CPA’s Inc.
Follow Up Report No.	18-08 (June 2018)	22-04 (March 2022)	21-10 (Aug 2021) <a href="#">Discussed at the March 8, 2022 Committee on Resource Management Meeting</a>	N/A	N/A	N/A	N/A
Status to Date	Published	Published <a href="#">Scheduled for the March 22. 2022 Committee on Resource Management meeting including NHRLF Single Audit</a>	Published	Published	In Progress		<a href="#">Scheduled for the March 22. 2022 Committee on Resource Management meeting including NHRLF Single Audit</a>

## I. Overview of Follow Up and Activities Post Performance Audit Report Issuance<sup>2</sup>

Section 23-7.5, Hawaii Revised Statutes, requires the SA to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. The SA follows up on recommendations in two ways. First, annually, agencies are asked to report on the status of the implementation of audit recommendations and such self-reported implementation is compiled by the SA into a consolidated report.<sup>3 4 5</sup> Second, the SA conducts an “active”

<sup>2</sup> Source, Report 22-04, page 1

<sup>3</sup> Response to the Formal Request for Information on Status of Implementation of Audit Recommendations (Report No. 18-03), March 2019, Attachment 1

<sup>4</sup> Report 20-15, Report on the Implementation of State Auditor’s Recommendations 2015 – 2018, <https://files.hawaii.gov/auditor/Reports/2020/20-15.pdf>, November 2020, retrieved March 18, 2022

<sup>5</sup> Report 21-11, Report on the Implementation of State Auditor’s Recommendations 2015 – 2019 <https://files.hawaii.gov/auditor/Reports/2021/21-11.pdf>, October 2021, retrieved March 18, 2022

follow up two to three years after issuance of the audit report containing the recommendations where independently, the SA assesses the agency’s progress in implementing each recommendation and issue a separate follow-up report.

As noted in Figure 1 above, Report 18-03, *Audit of the Office Hawaiian Affairs*, was one of two reports issued by the SA, as a result of the 2017 performance audit; the other report being Report 18-08, *Audit of the Office of Hawaiian Affairs’ Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*<sup>6</sup>.

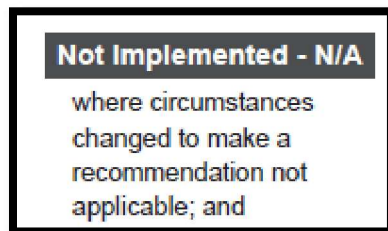
For further context the following tracks the timeline of the SA report, OHA response and follow up activities:

1. February 2018 – Issuance of Report 18-03
2. March 2019 – OHA Response, Update of Responses (Attachment 1)
3. March 2022 – Report 22-04, Follow-Up Report 18-03 (Attachments 2 and 3)

Sections below will provide Administration’s feedback and discussion about the SA’s implementation status, including SA definitions. Administration’s discussion will be done in reverse (i.e., not applicable, not implemented, partially implemented, implemented).

## II. Recommendations – Not Applicable

Figure 2. Not Implemented – N/A



The six (6) recommendations concluded by the SA as Not Implemented – N/A refers to:

**Trustee Recommendations:** 2a, 2b, 2c, 2d; and

**OHA Administration Recommendations:** 2a and 2b

Table 1. Summary of Implementation Status – Not Applicable

Description	Status
Implemented	11
Partially Implemented	13
Not Implemented	9
Not Applicable	6
Total	39

<sup>6</sup> <https://files.hawaii.gov/auditor/Reports/2018/18-08.pdf> , retrieved March 18, 2022

**Table 2. Summary of Implementation Status – Not Applicable - Details**

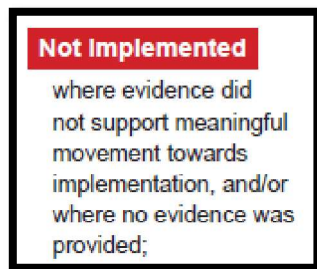
Recommendation	Administration Comment
1. <b>2a</b> OHA Board of Trustees should, with respect to Kūlia Initiatives <sup>7</sup> , determine and clearly define the purpose of Kūlia Initiatives.	<b>2a</b> OHA discontinued the use of Kūlia Initiatives  <a href="#">Administration concurs with the Not Implemented – N/A status</a>
2. <b>2b</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).	<b>2b</b> OHA discontinued the use of Kūlia Initiatives  <a href="#">Administration concurs with the Not Implemented – N/A status</a>
3. <b>2c</b> 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.	<b>2c</b> OHA discontinued the use of Kūlia Initiatives  <a href="#">Administration concurs with the Not Implemented – N/A status</a>
4. <b>2d</b> OHA Board of Trustees should with respect to Kūlia Initiatives, ensure that the purposes and 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.	<b>2d</b> OHA discontinued the use of Kūlia Initiatives  <a href="#">Administration concurs with the Not Implemented – N/A status</a>
5. <b>2a</b> 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.	<b>2a</b> OHA discontinued the use of Kūlia Initiatives  <a href="#">Administration concurs with the Not Implemented – N/A status</a>
6. <b>2b</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)	<b>2b</b> OHA discontinued the use of Kūlia Initiatives

<sup>7</sup> aka BOT Initiatives

Recommendation	Administration Comment
OHA’s policies and procedures; (c) trustees’ fiduciary duties; and (d) State laws.	Administration concurs with the Not Implemented – N/A status

### III. Recommendations – Not Implemented

Figure 3. Not Implemented



The nine (9) recommendations concluded by the SA as Not Implemented refers to:

**Trustee Recommendations:** 1f, 3c, 3d, 4a, 4b, 4c, 4d

**OHA Administration Recommendations:** 4a, 4b

Table 3. Summary of Implementation Status – Not Implemented

Description	Status
Implemented	11
Partially Implemented	13
Not Implemented	9
Not Applicable	6
Total	39

Table 4. Summary of Implementation Status – Not Implemented - Details

Recommendation	Administration Comment
1. <b>1f</b> 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).	<p>The SA classified this as not implemented as the master list provided, only included grants and not 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)”.</p> <p>Administration’s change in practices ensure the Board approves all grants, sponsorships and non-competitive awards (e.g., charter school grants) via action item or via budget/budget realignment actions on a line item basis (sponsorships). The CEO does not award/grant nor do the line(s) of business. In addition on a quarterly basis, the Trustees receive grant status reports (and other reports).</p>

Recommendation	Administration Comment
	While the SA marked this “Not Implemented”, Administration’s change in practices ensures the Board’s approval authority is centralized and not delegated to the CEO or programs and is aligned to Chapter 10.
2. <b>3c</b> 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.	Administration disagrees with the SA’s implementation classification of Not Implemented and notes that a classification of Not Applicable is more appropriate as the Fiscal Reserve itself and associated practices were eliminated, replaced with the Fiscal Stabilization Policy. In addition, all Fiscal Stabilization Policy actions are approved by the Board via action item.
3. <b>3d</b> 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.	Same as 3c above
4. <b>4a</b> OHA Board of Trustees should, with respect to CEO Sponsorships, determine and clearly define the purpose of CEO Sponsorships.	The SA deemed not implemented as the CEO Sponsorships (and BOT sponsorship) are still on moratorium pending the Ad Hoc Committee on Grants and Sponsorship’s work and recommendations. Therefore, Administration doesn’t disagree with the SA implementation classification. However, as a matter of practice all programmatic sponsorships are approved by Trustees through an action item via the budget/budget realignment process.
5. <b>4b</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 purposes of CEO Sponsorship, as needed, to align with the defined purposes of CEO Sponsorship	Same as 4a above

Recommendation	Administration Comment
6. <b>4c</b> 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.	Same as 4a above
7. <b>4d</b> 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.	Same as 4a above
8. <b>4a</b> OHA Administration should, with respect to CEO Sponsorships, adhere to Grants Staff recommendations regarding the Administration’s requests to fund CEO Sponsorships.	Same as 4a above
9. <b>4b</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.	Same as 4a above

#### IV. Recommendations – Partially Implemented

Figure 4. Partially Implemented

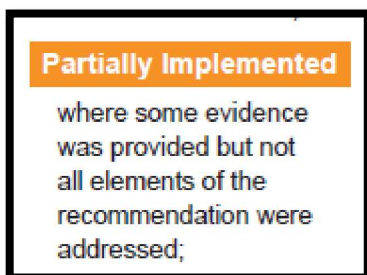


Table 5. Summary of Implementation Status – Partially Implemented

Description	Status
Implemented	11
Partially Implemented	13
Not Implemented	9
Not Applicable	6
Total	39

The 13 recommendations concluded by the SA as Partially Implemented relate to:

**Trustee Recommendations and synthesized reason(s) it is classified Partially Implemented:**

1. 1a (page 10) – training is not required by the Board’s policies and procedures;
2. 1b (page 11) – board governance work, including policy framework in progress, including populating of the policy framework with fiscal, debt, spending and other policies;
3. 1c (page 12) – outstanding implementation of the Code of Conduct;
4. 1e (page 14) – change in budget approval directed as of Action Item RM #18-12, effective with the FY22-23 (budget) and approved on June 30, 2021;
5. 1g (page 16) – pending organization-wide grant and sponsorship processes;
6. 3a (page 18) – re: fiscal reserve; pending permanent policy adoptions as the Fiscal Stabilization policy was a temporary cash policy to replace Fiscal Reserve within the Spending Policy;
7. 3b (page 19) – same as 3a above;
8. 3e (page 21) – same as 3a above;
9. 3f (page 22) – same as 3a above; and
10. 5e (page 30) – outstanding implementation of the Code of Conduct;

**OHA Administration Recommendations and synthesized reason(s) it is classified Partially Implemented:**

11. 1a (page 32) - training is not documented by the Board’s policies and procedures;
12. 3a (page 35) - same as 3a above; and
13. 3b (page 36) - same as 3a above.

**V. Recommendations – Implemented**

Figure 5. Implemented

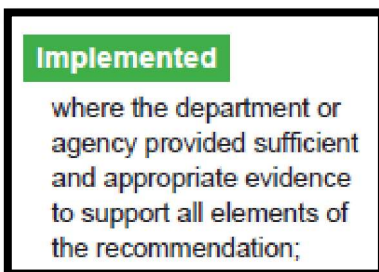


Table 6. Summary of Implementation Status – Implemented

Description	Status
Implemented	11
Partially Implemented	13
Not Implemented	9
Not Applicable	6

The 11 recommendations concluded by the SA as Implemented relate to:

**Trustee Recommendations and synthesized reason(s) it is classified Implemented:**

1. 1d (page 13) – greater transparency, posting of information, financial transparency on website
2. 5a (page 26) – implementation of new Trustee Protocol Allowance criteria and procedures;
3. 5b (page 28) – same as 5a above;
4. 5c (page 28) – same as 5a above;
5. 5d (page 28) – same as 5a above; and
6. 5f (page 31) – same as 5a above.

**OHA Administration Recommendations and synthesized reason(s) it is classified Implemented:**

7. 1b (page 33) – provision of financial documents and other information in a timely manner as requested by individual trustees;
8. 5a (page 38) - same as 5a above;
9. 5b (page 39) - same as 5a above;
10. 5c (page 40) - same as 5a above; and
11. 5d (page 41) - same as 5a above.

**VI. Conclusion and Next Steps**

The primary follow up items to recommendations made in Report 18-03 and classified accordingly are: 1) Ad Hoc Committee on Grants and Sponsorships; and 2) Trustees Code of Conduct work.

If there are any follow up questions, please contact me.





## ATTACHMENT 1

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **03/28/2019**

<b>Estimated Date of Completion:</b>	06/30/2019
<p>New employees and Trustees are provided an on-boarding packet of information that includes Hawaii State Ethics Commission (HSEC) prepared handouts on the Gifts, Fair Treatment, Conflicts of Interest, Campaigning Activities laws under the State Ethics Code.</p> <p>In an election year, all of OHA is sent an email, reminding Trustees and employees of their state ethics obligations if running for elected office and are provided copies of HSEC prepared ethics and campaign activities handouts for their reference.</p> <p>Trustees and employees received State Ethics Code training from the Executive Director of the HSEC at OHA's Honolulu office on October 17, 24, 26, and 31, 2017. The Trustees received Ethics training on October 26, 2017 and OHA's neighbor island and D.C. offices participated in the Ethics training via video conferencing on October 24, 2017.</p> <p>On March 21, 2018 during a BAE Committee meeting, Trustees were informed and received information regarding the changes to the HRS Chapter 92 that were to take effect on July 1, 2018.</p> <p>On March 28, 2018, the Trustees were provided training from Board Counsel on their fiduciary and other duties as elected officials.</p>	

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	<b>6/30/2019</b>
<p>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).</p> <p>On February 27, 2018, the Board took the significant action of approving BOT #18-01 which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships and of approving 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.</p> <p>In February and March, 2018, a small working group comprised of Trustee staff and OHA in-house counsel met to discuss and draft proposed amendments to the BOT Code of Conduct. The proposed amendments are still a work in progress, but upon a completion, the draft amendments will be circulated for review internally and provided to the HSEC and/or the OIP for comment and/or informal opinion for compliance with state laws, prior to consideration by the full Board.</p> <p>OHA undertook an agency wide review and update of its standard operating procedures (SOPs) for all departments and programs. A majority of the SOPs have been completed and are now subject to internal legal review for compliance with state laws, fiduciaries duties, and the audit recommendations, where applicable.</p> <p>On August 30, 2018, the Board approved (2nd rdg) a comprehensive update of the BOT Bylaws that incorporated all previously Board approved changes to the Bylaws as well as amendments that reflected and were consistent with the changes to HRS Chapter 92 that took effect on July 1, 2018.</p>	

## **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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated: 3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>On March 15, 2016 (2nd rdg), the Board approved a BOT Code of Conduct to hold Trustees accountable for breaches of fiduciary duties and/or violations of State and federal laws. In February and March 2018, a small working group comprised of Trustee staff and Administration met to discuss and draft proposed amendments to the BOT Code of Conduct. The proposed amendments are still a work in progress, but upon completion, the draft amendments will be circulated for review internally and submitted to the HSEC and/or the OIP for comment and/or informal opinion for compliance with state laws, prior to consideration by the full Board.</p> <p>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) are expected to be completed no later than June 30, 2019.</p> <p>Training on ethics and fiduciary duties is provided to Trustees to create and maintain awareness on fiduciary responsibilities and duties.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented
			N/A	Disagree

**Detailed Response:**

**Dated: 3/28/19**

Estimated Date of Completion:	6/30/2019
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On February 7, 2018 (2nd rdg), the Board approved RM #18-01 that amended paragraph 3.5.f. of the OHA BOT Executive Policy Manual (EPM), limiting the CEO's budget adjustment authority to the lesser of \$100,000 or 5% of each budget category. It also disallowed any budget adjustments in or out of Grants and Sponsorships by the CEO. Budget adjustments in or out of Grants and Sponsorships must be approved by the Board.

On October 11, 2018 (2nd rdg), the Board approved RM #18-12, amendments to the OHA BOT EPM 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 require Board approval for all Grants and Sponsorships.

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 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](http://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.



**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 checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated: 3/28/19**

<b>Estimated Date of Completion:</b>	10/11/2018
<p>The Board already approves a majority of grants through OHA's budget approval process. The organization's current budget process activities include Administration's development, review and presentation to the Board and the Board's review, via workshops, and approval of: core operating (e.g., personnel, program, including sponsorships, contracts, grants, travel, equipment, overhead, debt service) and non-core (e.g., Kaka'ako Makai, Nā Lama Kukui, Legacy Property, and Special Programs) budgets. Quarterly briefings are held for the Board regarding the performance of the Native Hawaiian Trust Fund by OHA's investment staff and third party managers. The practice of the Board's review and approval of the biennium budget and the components of such is already in place.</p> <p>Some grants and disbursements are budget line items approved by the Board, including, but not limited to: DHHL, Native Hawaiian Focused Public Charter Schools. Community Grants and Kūlia Initiatives are approved by the Board after application review and recommendation from Administration.</p> <p>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). Kaiāulu Sponsorships"</p> <p>On February 7, 2018 (2nd rdg), the Board approved RM #18-01 that amended paragraph 3.5.f. of the OHA BOT Executive Policy Manual (EPM), limiting the CEO's budget adjustment authority to the lesser of \$100,000 or 5% of each budget category. It also disallowed any budget adjustments in or out of Grants and Sponsorships by the CEO. Budget adjustments in or out of Grants and Sponsorships must be approved by the Board.</p>	

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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As indicated in OHA's letter to the Auditor dated May 30, 2018, OHA procured an information database system that would allow for robust monitoring, tracking, and reporting of grants status and outcomes. Upgrades and enhanced functionality of the information database system is in process and projected to be fully implemented by June 30, 2019, for the new grants cycle (Kūlia, Community, 'Ahahui). The system has the capability to generate a report or master list of all Grants and Sponsorships and related award and approval information.

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, but is not limited to: 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. 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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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". The new process includes, but is not limited to: 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. 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 checked="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
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	07/26/2018
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The purpose of the Kūlia Grants, documented in the Kūlia Grants Guidelines & Process document, approved by the Board on July 26, 2018, as recommended in the report presented by Ad Hoc Committee on Grants and Sponsorship on June 7, 2018, is to "provide funding to eligible organizations with programs that benefit the Hawaiian community and align with OHA's Strategic Priorities and mission. These grants are provided as a pilot program for Kūlia Grants consideration in 2018. . . . 'Kūlia,' as one of OHA's core values, connotes excellence, innovation, and initiative. This funding opportunity is intended to allow OHA to support unique and innovate programs that continue to assist OHA to 'Ho'oulu Lahui Aloha.'"

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.

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.



**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 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
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	07/26/2018
<p>The purpose of the Kūlia Grants is documented in the Kūlia Grants Guidelines &amp; Process document, approved by the Board on July 26, 2018, as recommended in the report presented by Ad Hoc Committee on Grants and Sponsorship on June 7, 2018. Eligibility criteria for Kūlia Grants includes, but is not limited to the following: "This funding opportunity is <b>not intended</b> to support programs that could otherwise apply through the Community Grants Program (CGP) for funding consideration. The CGP fiscal biennium funding (FB 18-19) application ran from September 2016 to December 2016 and was designed for programs that specifically address the targets set in OHA's Strategic Results." Examples of eligible Kūlia Grants requests include: requests that fall outside of the CGP fiscal biennium funding period; requests that align with the broader OHA Strategic Priorities of health, education, income, land, culture, and housing; and requests for projects that are ineligible for consideration under the CGP, such as capital improvements (CIP) and capacity-building.</p> <p>The Kūlia Grants Guidelines &amp; 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.</p> <p>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.</p>	



**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 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
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	07/26/2018
<p>In the current cycle of Kūlia grants process activities, the planning, solicitation, application and review process activities have been completed. Kūlia Grants are competitive grants, for a total budgeted amount of \$500,000 for FY 2018, as approved and set aside by the OHA BOT in OHA's core operating budget (OHA Action Item #17-07). There is a minimum award amount of \$25,000 and a maximum award amount of \$100,000; however all awards are subject to availability of funding.</p> <p>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.</p> <p>The organization's current budget process activities include Administration's development, review and presentation to the Board and the Board's review, via workshops, and action of: core operating (e.g., personnel, program, including sponsorships, contracts, grants, travel, equipment, overhead, debt service) and non-core (e.g., Kaka'ako Makai, Nā Lama Kukui, Legacy Property, and Special Programs) budgets. Quarterly briefings are held for the Board regarding the performance of the Native Hawaiian Trust Fund by OHA's investment staff and third party managers. The practice of the Board's review and approval of the biennium budget and the components of such is already in place.</p> <p>OHA is currently undergoing its FY2020-2021 biennium budget development process, which will include a Board determined amount to fund Kūlia Initiatives.</p>	



**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 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
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	07/26/2018
<p>The minimum requirements for Kūlia Grants, includes but is not limited to the following: organizations must have IRS tax-exempt non-profit status and be registered to do business in Hawaii; applications must comply with applicable federal, state, and county laws, ordinances, and administrative rules and must hold applicable licenses and permits as required to conduct its activities and operations. Organization applicants must possess a Certificate of Vendor Compliance from the State of Hawaii (available through <a href="http://vendors.ehawaii.gov">http://vendors.ehawaii.gov</a>). Even if an organization is currently receiving funding support from OHA, the organization must provide proof that it is compliant and in good standing prior to requesting funding from Kūlia Grants. Applicants must provide a percentage of project costs from other funding sources. Applications shall submit an application online that addresses all of the requirements contained in this Solicitation.</p> <p>Applications for Kūlia Grants must provide the following: identify the OHA Strategic Priority that will be addressed by the program and describe how the program impacts the identified Strategic Priority; explain how the proposed program services will benefit the Native Hawaiian community and estimate the number of Native Hawaiian 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</p>	



**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.

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated: 3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.





**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	<b>6/30/2019</b>
<p>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).</p> <p>On February 27, 2018, the Board took significant action by approving BOT #18-01 which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships. The moratorium remains in effect until the BOT approves policy amendments to address concerns with Sponsorships.</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: 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 &amp; 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>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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).

On February 27, 2018, the Board took significant action by approving BOT #18-01 which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships. The moratorium remains in effect until the BOT approves policy amendments to address concerns with Sponsorships.

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. 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 checked="" type="checkbox"/> Implemented	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	10/11/2018
<p>On February 7, 2018 (2nd rdg), the Board approved RM #18-01 that amended paragraph 3.5.f. of the OHA BOT Executive Policy Manual (EPM), limiting the CEO's budget adjustment authority to the lesser of \$100,000 or 5% of each budget category. It also disallowed any budget adjustments in or out of Grants and Sponsorships by the CEO. Budget adjustments in or out of Grants and Sponsorships must be approved by the Board.</p> <p>On February 27, 2018, the Board took significant action by approving BOT #18-01, which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships. The moratorium remains in effect until the BOT approves policy amendments to address concerns with Sponsorships.</p> <p>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</p>	

**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.

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	<b>6/30/2019</b>
<p>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).</p> <p>On February 7, 2018 (2nd rdg), the Board approved RM #18-01 that amended paragraph 3.5.f. of the OHA BOT Executive Policy Manual (EPM), limiting the CEO's budget adjustment authority to the lesser of \$100,000 or 5% of each budget category. It also disallowed any budget adjustments in or out of Grants and Sponsorships by the CEO. Budget adjustments in or out of Grants and Sponsorships must be approved by the Board.</p> <p>On February 27, 2018, the Board took significant action by approving BOT #18-01 which placed a moratorium on the use of the Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships. The moratorium remains in effect until the BOT approves policy amendments to address concerns with Sponsorships.</p> <p>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</p>	

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated: 3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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 to the BOT 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.





**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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 to the BOT 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.

**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

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	





**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	06/30/2019
<p>New employees and Trustees are provided an on-boarding packet of information that includes HSEC prepared handouts on the Gifts, Fair Treatment, Conflicts of Interest, Campaigning Activities laws under the State Ethics Code.</p> <p>In an election year, all of OHA is sent an email, reminding Trustees and employees of their state ethics obligations if running for elected office and are provided copies of HSEC prepared ethics and campaign activities handouts for their reference.</p> <p>Trustees and employees received State Ethics Code training from the Executive Director of the HSEC at OHA's Honolulu office on October 17, 24, 26, and 31, 2017. The Trustees received Ethics training on October 26, 2017 and OHA's neighbor island and D.C. offices participated in the Ethics training via video conferencing on October 24, 2017.</p> <p>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.</p> <p>On December 27, 2018, the 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.</p>	

**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.

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	06/30/2019
<p>OHA's intra-web has a BOT reporting site where Administration provides on a periodic basis -- reports, updates and other information -- accessible by the BOT. Such information includes, but is not limited to: updates from each department; Quarterly Investment Reports from OHA's investment managers; Out-of-State Monthly Travel reports; and Quarterly Budget Variances to Trustees. Information for 2018 and 2019 will be updated to the site. The Out-of-State Monthly Travel reports and the Quarterly Budget Variances to Trustees are sent directly to Trustees via email.</p> <p>During Board and Committee meetings, the Board is regularly updated by the CEO and/or Program Directors on significant plans, events, and the status of approved actions.</p> <p>OHA investment managers present before the Board on a quarterly basis the status of OHA's investments.</p> <p>As indicated in OHA's letter to the Auditor dated May 30, 2018, OHA procured an information database system that would allow for robust monitoring, tracking, and reporting of grants status and outcomes. Upgrades and enhanced functionality of the information database system is in process and projected to be fully implemented by June 30, 2019, for the new grants cycle (Kūlia, Community, 'Ahahui).</p> <p>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</p>	

**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	03/28/2019
<p>The purpose of the Kūlia Grants is documented in the Kūlia Grants Guidelines &amp; Process document, approved by the Board on July 26, 2018, as recommended in the report presented by Ad Hoc Committee on Grants and Sponsorship on June 7, 2018. The 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	03/28/2019
<p>The purpose of the Kūlia Grants is documented in the Kūlia Grants Guidelines &amp; Process document, approved by the Board on July 26, 2018, as recommended in the report presented by Ad Hoc Committee on Grants and Sponsorship on June 7, 2018. The 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.</p> <p>The minimum requirements for Kūlia Grants, includes but is not limited to the following: organizations must have IRS tax-exempt non-profit status and be registered to do business in Hawaii; applications must comply with applicable federal, state, and county laws, ordinances, and administrative rules and must hold applicable licenses and permits as required to conduct its activities and operations. Organization applicants must possess a Certificate of Vendor Compliance from the State of Hawaii (available through <a href="http://vendors.ehawaii.gov">http://vendors.ehawaii.gov</a>). Even if an organization is currently receiving funding support from OHA, the organization must provide proof that it is compliant and in good standing prior to requesting funding from Kūlia Grants. Applicants must provide a percentage of project costs from other funding sources. Applications shall submit an application online that addresses all of the requirements contained in this Solicitation.</p> <p>Applications for Kūlia Grants must provide the following: identify the OHA Strategic Priority that will be addressed by the program and describe how the program impacts the identified Strategic Priority; explain how the proposed program services will benefit the Native Hawaiian community and estimate the number of Native Hawaiian</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with Board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	<b>6/30/2019</b>
<p>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. Since its creation, substantial work and activities were completed by the Board and OHA Administration; and in February 2018, the Board of Trustees took significant action by approving a moratorium on the use of Fiscal Reserve funds, until the Board approves policies to address concerns relating to the Fiscal Reserve. In January and February 2019, the Board, through its Resource Management Committee, and with the continuing assistance of a third party collaborator and OHA Administration, reactivated various FSP activities, beginning with Board workshops on review of existing and identification of gaps and needed updates in, fiscal related policies (e.g., Spending, Investment, Fiscal Reserve, Debt, Economic Development). The Board anticipates completion of this policy related work as well as the outcomes of the Board Governance Framework Permitted Interaction Group, including implementation processes and procedures, no later than June 30, 2019.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	<b>6/30/2019</b>
<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: 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 &amp; 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>	



**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 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
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion: 10/11/2018

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).

On February 7, 2018 (2nd rdg), the Board approved RM #18-01 that amended paragraph 3.5.f. of the OHA BOT Executive Policy Manual (EPM), limiting the CEO's budget adjustment authority to the lesser of \$100,000 or 5% of each budget category. It also disallowed any budget adjustments in or out of Grants and Sponsorships by the CEO. Budget adjustments in or out of Grants and Sponsorships must be approved by the Board.

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. The moratorium remains in effect until the BOT approves policy amendments to address concerns with Sponsorships.

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



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input checked="" type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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 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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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.



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input checked="" type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

<b>Estimated Date of Completion:</b>	6/30/2019
<p>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 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.</p> <p>In its September 20, 2018 Report to the BOT 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.</p> <p>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.</p> <p>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.</p>	



**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 checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Not Implemented N/A	<input type="checkbox"/> Not Implemented Disagree
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**Detailed Response:**

**Dated:** **3/28/19**

Estimated Date of Completion:	6/30/2019
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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 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 to the BOT 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.

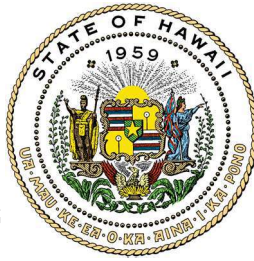
The BOT had discussions on the draft TPA at its October 11, 2018 meeting, and the matter was referred to the RM Committee for further review and action.

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.





## ATTACHMENT 2



March 3, 2022

**VIA EMAIL**

The Honorable Carmen "Hulu" Lindsey, Chairperson (TrusteeHuluLindsey@oha.org)  
Sylvia M. Hussey, Ed.D., Ka Pouhana, Chief Executive Officer (SylviaH@oha.org)  
Office of Hawaiian Affairs  
560 North Nimitz Highway, Suite 200  
Honolulu, Hawai'i 96817

**Re: "Follow-Up on Recommendations from Report No. 18-03, Audit of the Office of Hawaiian Affairs," Report No. 22-04**

Dear Chairperson Lindsey and Dr. Hussey:

Please find attached our "Follow-Up on Recommendations from Report No. 18-03, *Audit of the Office of Hawaiian Affairs*," Report No. 22-04. The audit was performed pursuant to Section 23-7.5, Hawai'i Revised Statutes, and is a report on the Office of Hawaiian Affairs' implementation of the recommendations made in Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, published February 2018.

The report is accessible through the Office of the Auditor's website at:  
<https://files.hawaii.gov/auditor/Reports/2022/22-04.pdf>.

On behalf of my staff, thank you for your cooperation and courtesy. We also express our appreciation to the Office of Hawaiian Affairs' staff for their assistance.

If you have questions about the report, please feel free to contact me.

Very truly yours,

Leslie H. Kondo  
State Auditor

LHK:emo

Attachment

cc/attach:	Trustee Leinaala Ahu Isa	(TrusteeAhuIsa@oha.org)
	Trustee Dan Ahuna	(TrusteeAhuna@oha.org)
	Trustee Kaleihikina Akaka	(TrusteeAkaka@oha.org)
	Trustee Keli'i Akina	(TrusteeAkina@oha.org)
	Trustee Luana Alapa	(TrusteeAlapa@oha.org)
	Trustee Brandon Kaleiaina Lee	(TrusteeLee@oha.org)
	Trustee Mililani Trask	(TrusteeTrask@oha.org)
	Trustee John D. Waihee IV	(TrusteeWaihee@oha.org)



## ATTACHMENT 3

# Follow-Up on Recommendations from Report No. 18-03, *Audit of the Office of Hawaiian Affairs*

A Report to the Governor  
and the Legislature of  
the State of Hawai'i

Report No. 22-04  
March 2022



**OFFICE OF THE AUDITOR**  
STATE OF HAWAII



## OFFICE OF THE AUDITOR STATE OF HAWAII

### Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

### Our Mission

*To improve government through independent and objective analyses.*

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

### Our Work

We conduct performance audits, which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:  
<https://auditor.hawaii.gov>



PHOTO: OFFICE OF HAWAIIAN AFFAIRS

## Follow-Up on Recommendations from Report No. 18-03, *Audit of the Office of Hawaiian Affairs*

Section 23-7.5, Hawai‘i Revised Statutes, 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 department or agency. We follow up on recommendations in two ways. First, annually, we ask agencies to report the status of their implementation of our audit recommendations. We compile agencies’ self-reported implementation status in a consolidated report. Second, we conduct an “active” follow-up two to three years after issuance of the audit report containing the recommendations where we, independently, assess the agency’s progress in implementing each recommendation and issue a separate follow-up report. This report presents the results of our follow-up on the Office of Hawaiian Affairs’ implementation of the 39 audit recommendations made in Report No. 18-03, *Audit of the Office of Hawaiian Affairs*.

### The Office of Hawaiian Affairs

The Office of Hawaiian Affairs (OHA) is a unique state agency. Established by the State Constitution, independent of the executive branch, its primary responsibility is to better the conditions for Native Hawaiians. OHA is the principal agency responsible for the performance, development, and coordination of programs and activities

**We determined that OHA has implemented 11 and partially implemented 13 of the 39 recommendations made in our report. An additional nine recommendations were not implemented and we determined six to be not applicable.**



relating to Native Hawaiians. OHA's other purposes include assessing the policies and practices of other state agencies that impact the Native Hawaiian community and conducting advocacy efforts for its Native Hawaiian beneficiaries.

OHA is governed by a Board of Trustees (Board) comprised of nine members chosen by the State's electorate for staggered four-year terms. The Board is led by a chairperson and a vice chairperson. OHA trustees have fiduciary responsibilities, including a duty of prudence (to exercise reasonable care, skill, and caution); duty of loyalty (to act solely in the best interests of beneficiaries); duty of impartiality (to be impartial with respect to the various beneficiaries, in consideration of the diverse interests of present and future beneficiaries); and duty with respect to co-trustees (using reasonable care to prevent co-trustees from committing a breach of trust and to obtain redress if a breach occurs).

The Chief Executive Officer (CEO) of OHA is appointed by a majority of the Board to lead OHA's operations, including its executive team and staff (collectively, the Administration). At the time of our 2018 audit, the CEO was assisted by a Chief Operating Officer (COO) and the directors of five divisions – (1) Advocacy, (2) Community Engagement, (3) Research, (4) Resource Management: Financial Assets, and (5) Resource Management: Land Assets. During our follow-up review, OHA's executive team consisted of its CEO, COO, Chief Financial Officer (CFO), Human Resources Director, Senior Legal Counsel and the directors of Advocacy, Community Engagement, Research, Resource Management: Land Assets and Systems Office. The Information Technology and Operations Directors are also part of the executive team; those positions, however, are not currently filled with permanent hires.

## **Why we did the audit in 2018**

In 2018, we conducted a performance audit of OHA pursuant to section 10-14.55, Hawai'i Revised Statutes (HRS), which requires the Office of the Auditor to audit OHA at least once every four years.<sup>1</sup> We issued two reports about mechanisms used by OHA to provide monetary support to organizations and individuals. Report No. 18-03 evaluated OHA policies and actions regarding its non-competitive grants (Kūlia Initiatives and CEO Sponsorships) and the use of its Fiscal Reserve and Trustee Allowances. Report No. 18-08 evaluated OHA policies and actions regarding its competitive grants. A follow-up on OHA's implementation of the audit recommendations contained in Report No. 18-08 was issued separately.

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<sup>1</sup> The 2018 report was our seventh audit pursuant to this mandate.

## What we found in 2018

In Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, we reviewed OHA policies and actions regarding use of its Kūlia Initiatives, Fiscal Reserve, CEO Sponsorships, and Trustee Allowances. We found that, over time, OHA had created alternate funding processes to direct more money toward programs, projects, and individuals. Initially, those funding opportunities appeared to be guided by policies, procedures, and guidelines designed to ensure that funds were distributed fairly and equitably. We found those expenditures and other forms of discretionary spending did not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Some were approved by the Administration without the Board's approval or even knowledge.

In fiscal years 2015 and 2016, we found OHA spent nearly twice as much on non-competitive discretionary disbursements (\$14 million) as it did on grants that were planned, budgeted, publicized, vetted, and monitored (\$7.7 million). To fund these unplanned expenditures, OHA realigned its budget by \$8 million, moving moneys budgeted for other purposes, and drawing \$6 million from its Fiscal Reserve. Report No. 18-03 found OHA lacked a clear policy guiding use of its Fiscal Reserve, which had been spent down rapidly.

The report also found OHA had used its Fiscal Reserve (which, when established in 2000, was referred to as a "rainy day fund") to pay for such things as retirement benefits for a former trustee (\$56,300), a trip to New Zealand for a group that included trustees and members of the Administration to pick up a Hawaiian feathered cape and helmet (\$100,000), and costs associated with an international conservation convention (\$500,000).

We also found CEO Sponsorships were subject to minimal oversight and, despite written guidelines, were often approved based on the then-CEO's personal discretion. According to OHA's *Grants Program Standard Operating Procedures*, CEO Sponsorships, which had a maximum award amount of \$25,000, provided funding support to eligible organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefitted the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition benefits. However, we found that vague rules guiding discretionary spending by OHA were broadly interpreted, arbitrarily enforced, and at times, disregarded. For instance, we reported several occasions in which OHA's then-CEO ignored "do not fund" recommendations by Administration personnel and funded CEO Sponsorships, contrary to written guidelines.



Finally, we found significant irregularities in and abuse of OHA's Trustee Allowance process. Allowances were originally established to cover incidental expenses incurred by trustees to develop and maintain ongoing communication with beneficiaries and the general public, but had evolved to allow a broad range of expenditures. We reported OHA's rules governing Trustee Allowances were loosely and arbitrarily enforced, leading to many instances of questionable spending. We found trustees had used their discretionary allowances to pay for things that appeared inconsistent with OHA's mission and their fiduciary duties to Native Hawaiians, such as political donations and activities (\$554), a beneficiary's rent (\$1,000), another beneficiary's funeral-related clothing expenses (\$1,000), and a trustee's personal legal expenses (\$1,500).

### **What we found in 2021**

In response to Report No. 18-03, OHA instituted specific policies and actions related to its use of Kūlia Initiatives, Fiscal Reserve, CEO Sponsorships, and Trustee Allowances.

#### ***Kūlia Initiatives***

Kūlia Initiatives were awards to organizations for programmatic services that did not qualify for Community Grants or CEO Sponsorships. These disbursements were neither solicited nor publicized and could only be requested by trustees or the Administration on behalf of a recipient. Report No. 18-03 found these non-competitive awards did not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Furthermore, OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve.

In response to Report No. 18-03, OHA discontinued the use of Kūlia Initiatives.

#### ***Fiscal Reserve***

On October 31, 2000, the Board of Trustees amended the *Native Hawaiian Trust Fund Spending Policy* to establish the Fiscal Reserve, which it defined as "any funds available but not spent in previous fiscal years, held within the Native Hawaiian Trust Fund." Report No. 18-03 found Fiscal Reserve Withdrawal Guidelines were broad and allowed OHA to withdraw from the Fiscal Reserve for several reasons, including budget stabilization, unpredicted one-time payments, capital acquisitions not earmarked in OHA's budget, and special circumstances.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA placed a moratorium on the use of Fiscal Reserve funds until specific policy changes could be approved by the Board. In 2019, the Board eliminated the Fiscal Reserve Withdrawal Guidelines, established a new Fiscal Stabilization Fund, and adopted a Fiscal Stabilization Policy. According to OHA, the new Fiscal Stabilization Policy is a temporary measure that was instituted to address the audit findings while OHA reconciles its objectives with its policies. According to OHA, new policies will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed.

The new Fiscal Stabilization Fund was established as a separate fund through an initial, one-time appropriation of \$1.5 million and, unlike the Fiscal Reserve, is not included as part of the Native Hawaiian Trust Fund. Pursuant to the Fiscal Stabilization Policy, the Board of Trustees has the discretion to transfer up to \$3 million from the Native Hawaiian Trust Fund to the Fiscal Stabilization Fund each fiscal year. The Fiscal Stabilization Fund balance, however, cannot exceed \$10 million, and the maximum withdrawals from the Fiscal Stabilization Fund for any given fiscal year – for any combination of authorized uses – are limited to \$3 million, and no more than \$750,000 per quarter, regardless of the total balance of the fund. Authorized uses include budget stabilization, emergencies, “[activating] previously designated reserves,” and “contingencies.”

While the interim policy restricts how the Fiscal Stabilization Fund may be used, expenditures from that fund are not included when calculating the annual spending withdrawal amount in the fiscal year in which moneys are expended. That potentially allows OHA to exceed the 5 percent spending limit established in OHA’s Native Hawaiian Trust Fund Spending Policy.

### **CEO Sponsorships**

CEO Sponsorships provided funding support to organizations whose missions aligned with OHA’s vision and strategic plan, whose programs and services benefitted the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition benefits. CEO Sponsorships, however, were subject to minimal oversight and were often, despite written guidelines, approved based on the then-CEO’s personal discretion.

In response to Report No. 18-03, OHA placed a moratorium on the use of CEO Sponsorships, effective February 2018. However, the use of CEO Sponsorships has not been permanently discontinued. According to the CEO, the moratorium on the use of CEO Sponsorships would

## **Definition of Terms**

**WE DEEM** recommendations:

### **Implemented**

where the department or agency provided sufficient and appropriate evidence to support all elements of the recommendation;

### **Partially Implemented**

where some evidence was provided but not all elements of the recommendation were addressed;

### **Not Implemented**

where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided;

### **Not Implemented - N/A**

where circumstances changed to make a recommendation not applicable; and

### **Not Implemented - Disagree**

where the department or agency disagreed with the recommendation, did not intend to implement, and no further action will be reported.

continue ‘subject to the outcomes’ of the Board’s Ad Hoc Committee on Grants and Sponsorships.

### ***Trustee Sponsorship and Allowance Fund***

Allowable expenditures from the Trustee Sponsorship and Annual Allowance Fund (Trustee Allowance) included such things as “support for beneficiaries in their personal quest for self-improvement” and “compassionate assistance...for emergencies/times of need including funeral services, vision/hearing aids, dentures, personal care items, wheelchairs.” Each trustee received \$22,200 at the beginning of each fiscal year and submitted quarterly expenditure reports to the CEO. Trustees were required to return the unused balance to OHA at the end of the fiscal year.

In response to Report No. 18-03, OHA placed a moratorium on the use of the Trustee Allowance and required the immediate return of the unused balance of each trustee’s allowance to OHA.

In May 2019, the Board voted to rename the Trustee Allowance to the Trustee Protocol Allowance<sup>2</sup> “to match the statutory language contained in Hawai‘i Revised Statutes § 10-9.” The Board also voted to revert to the original purpose of the Trustee Allowance – establishing a communication network and promoting a broader understanding and participation in the resolution of Native Hawaiian issues (see below).

The Board also approved a new Trustee Protocol Allowance Policy. According to OHA, new criteria and procedures incorporated in the Trustee Protocol Allowance comply with OHA’s mission and policies, trustees’ fiduciary duties, and applicable state law.

The purpose of the Trustee Protocol Allowance is to:

- Develop and maintain an ongoing communication network with beneficiaries and the general public;
- Promote a broader understanding of Native Hawaiian issues within the Native Hawaiian community and among the general public; and
- Encourage participation in the resolution of those issues, provided that such communications comply with applicable laws and OHA policies.

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<sup>2</sup> In 1993, a trustee protocol allowance was added to section 10-9, HRS, which read: “[Members of the OHA board:] (4) Shall be allowed a protocol allowance to cover expenses incurred in the course of a member’s duties and responsibilities.”

Corresponding and conforming changes have been made to both the Board of Trustees Executive Policy Manual and the Board of Trustees Operations Manual.

The Trustee Protocol Allowance Policy is subject to OHA's "Code of Conduct and Sanctions for Violations of the Code of Conduct," adopted by the Board in 2016, which frames the trustees' fiduciary responsibilities, executive policies, and laws applicable to trustee conduct.

OHA retains the moneys budgeted for the Trustee Protocol Allowance in the Trustee Protocol Allowance Fund and, rather than advancing the annual Trustee Protocol Allowance, disburses funds as needed to reimburse trustees for allowable expenditures; each trustee's allowance is fixed at \$7,200 per fiscal year. Allowances cannot be used to benefit individuals as allowed under the prior policy. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed. In the event an expenditure is deemed impermissible, trustees may appeal the determination, in writing, to the Board of Trustees Chairperson. Within 30 days of the end of each quarter, the Administration compiles a quarterly report of expenditures made by each trustee and submits the Trustee Quarterly Protocol Allowance Expenditure Report to the Board before posting it on OHA's public website.

## **OHA's Overarching Board Governance Framework**

Following the issuance of Report Nos. 18-03 and 18-08, OHA stated it has taken several specific actions, including implementation of a new governance framework and an organization-wide quality assurance function.

In April 2019, the Board adopted a Board Governance Framework comprised of five elements: (1) Identity; (2) Values; (3) Statutory Basis; (4) Policies; and (5) Supporting Documents and Practices (Operations). The framework is notable for placing OHA's identity as a Lāhui, or people, above its state agency and trust identities.

According to OHA, it is working to ensure processes, practices, and policies align with the elements of this governance framework and is currently working on the fourth element – policies.

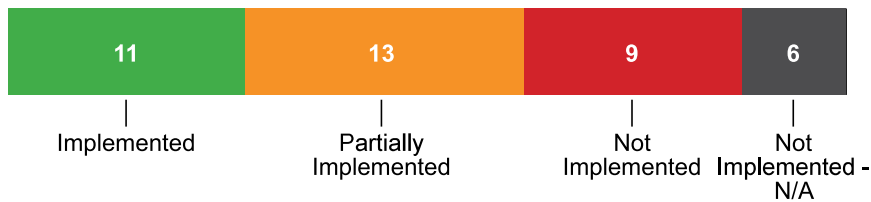
Board Governance Framework Element	Description
1. Identity	A state agency with the responsibility to manage a trust that identifies and operates more similarly to Ali'i Trusts with a Lāhui mindset in improving the well-being of the Lāhui.
2. Values	Acknowledge the surrounding intangible yet invaluable role of values in governance. Effecting the operating values begins with trustees and board work as exemplars for Administration and the Organization as a whole.
3. Statutory Basis	Established under the Hawai'i Constitution, OHA is meant to address the needs of the Native Hawaiian people.
4. Policies	<p>Organize three levels of policies:</p> <ul style="list-style-type: none"> <li>• Lāhui Level – Policies would articulate the Hawaiian cultural foundation of the organization as a basis for the heavy weight or significant responsibility to normalize Hawaiian language, and to protect and exercise native rights.</li> <li>• Trustee Level – Policies would articulate broad, systemic, strategic, overarching policies that are attributed to OHA's trustee role as a result of the Constitution and Chapter 10 purposes and duties (e.g., fiduciary, care, obedience, code of ethics).</li> <li>• CEO Level – Policies would guide and direct operations such as compensation, recruitment, procurement, contracting, data retention, asset protection, risk management, etc.</li> </ul>
5. Supporting Documents and Practices (Operations)	Policy development, alignment, implementation, maintenance, and monitoring by developed and "operationalized" documents (e.g., Board of Trustees Executive Policy Manual, Board of Trustees Operations Manual, standard operating procedures, guidelines, operating manuals) and consistent practices.

### Audit recommendations by status

We determined that OHA has implemented 11 and partially implemented 13 of the 39 recommendations made in Report No. 18-03, Audit of the Office of Hawaiian Affairs. An additional nine recommendations were not implemented and we determined six to be not applicable.

#### Exhibit 1

### Audit Recommendations by Status



Source: Office of the Auditor

### Recommendations and their status

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. The following details the audit recommendations made and the current implementation status of each recommendation based on our review of information and documents provided by OHA and other publicly available information.

## OHA Board of Trustees

### Recommendation 1a

**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.**

#### Partially Implemented

#### Comments

This recommendation was intended to address the numerous issues that we reported about OHA's use of the Native Hawaiian Trust Fund. More specifically, we reported that trustees had approved Kūlia Initiatives awards, including a number that were funded using the Fiscal Reserve, and had used their Trustee Allowances for purposes that did not appear to be for the betterment of the conditions and well-being of Native Hawaiians, which is OHA's primary mission. For instance, using the Native Hawaiian Trust Fund and the Trustee Allowance, trustees approved a grant to a former trustee who was ineligible for state retirement benefits, paid personal legal expenses, made donations to political and religious organizations, purchased gift cards, and paid a beneficiary's medical expenses, another beneficiary's travel expenses, and yet another beneficiary's rent. Moreover, trustees said that they approved certain projects to "save face" because the Administration had already committed to funding the requests and admitted voting in favor of certain requests because funds had been verbally committed or because the project was considered to be a "good one."

Training is not currently required by the Board's policies and procedures. OHA represented, as part of its regular practice, that trustees and trustee staff are required to attend training that includes fiduciary duties and other responsibilities of trustees; the State Ethics Code; the Sunshine Law; and Uniform Information Practices Act. During orientation of new trustees and executives, counsel for the Board and OHA's in-house counsel provide training on trustees' fiduciary duties and other responsibilities, OHA's mandates and duties, and the State Ethics Code. The Administration has also provided training to trustees and their staff on the Sunshine Law and Uniform Information Practices Act and OHA provided us with copies of new training presentations provided after 2018.

According to OHA, the Board is in the process of establishing an overarching governance framework that should include a written policy that requires regular training for trustees, trustees' staff, and OHA's administrators, managers, and staff on (i) trustees' fiduciary duties and other responsibilities; (ii) the State Ethics Code; (iii) the Sunshine Law; and (iv) Uniform Information Practices Act. We acknowledge that OHA appears to be providing training; however, that practice is not documented, and for that reason, we consider the recommendation to be only partially implemented.

### Recommendation 1b

**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.**

#### Partially Implemented

#### Comments

OHA states it is working to ensure OHA policies and procedures, applicable to trustees and the Administration, align with and are consistent with OHA's mission, trustees' fiduciary duties, and State laws.

As noted previously, OHA is in the process of establishing a new governance framework. As part of that process, it is working to ensure processes, practices, and policies align with the elements of the governance framework.

For example, in September 2020, the Board approved the formation of a Permitted Interaction Group to investigate certain aspects of a governance framework, specifically the development of fiscal policies. The goal and purpose of this group was to create a unified framework of the Board's fiscal policies to ensure the long-term viability of the Native Hawaiian Trust Fund. Among other things, the group investigated the alignment of existing trustee policies on investment, debt, spending, Kaka'ako Makai, and endowment; worked to establish a consistent format for policies, update parameters, mechanisms, and processes; reviewed policy implementation; determined the scope of the trustee policies including delegation of policies to the CEO; and worked to integrate the trustee policies and related documents into the governance framework. The group also recommended policies and procedures be developed relating to spending, debt, investment, land assets, and economic development. The group presented a report on trustee policies to the Board in October 2020. The group's recommendations are under review.



### Recommendation 1c

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**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.**

#### Partially Implemented

#### Comments

According to OHA, the 2016 Code of Conduct details a seven-step process for addressing violations by a trustee within OHA. If a trustee believes that another trustee has violated the Code of Conduct, the trustee must send an official complaint letter to the Board Chairperson within 30 days of the alleged event. Following receipt of a formal complaint, the Chairperson must review the allegation and discuss the matter with the Vice Chairperson and subject trustee to seek a mutually agreeable resolution. Should the trustee continue to violate the Code of Conduct, the Chairperson will raise the violation to the Board of Trustees in executive session, and should the conduct continue, the Chairperson will consult with Board Counsel and place the matter on the agenda for appropriate action by the Board for discussion in executive session. The Board may, by majority vote, censure or sanction the offending trustee. Penalties include, but are not limited to, removing the trustee from Board committees and suspending Trustee Allowances. The Board may, in its sole discretion, make its findings public at a special or regular Board meeting or refer criminal conduct to appropriate law enforcement authorities.

According to OHA, the Code of Conduct remains incomplete as OHA addresses concerns regarding Sunshine Law requirements. The Code of Conduct and the Executive Policy Manual will be part of the governance framework.

## Recommendation 1d

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**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.**

**Implemented**

### Comments

OHA's website now includes a section called "Financial Transparency" where the public can access information, including but not limited to grants and sponsorships awarded by OHA (e.g., organization name, purpose, location, and award amount); expenditures by trustees using Trustee Allowances; annual reports; financial audit reports; and financial statements. OHA's annual reports include a summary of the approved fiscal year budget and spending limit. Where biennium budget, budget alignment, and funding allocation requests are submitted to and approved by the Board through an action item and when quarterly updates regarding OHA's investment portfolio are presented to the Board in public meetings, the budget and financial information and investment updates provided to the Board for the meeting and/or meeting minutes are posted on a section of OHA's website specific to the Board or committee at <https://www.oha.org>.

OHA states documents provided to the Board for action items with budget, financial, and investment update information and/or meeting minutes are made available to the public "when reasonably available." We note the Board and OHA must provide information as required by Hawai'i's open meetings and public records laws, codified at part I of Chapter 92 and Chapter 92F, HRS, respectively, not only when information is reasonably available. OHA's policies and practice must comply with state laws, including those requiring transparency and public access.

## Recommendation 1e

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**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.**

### Partially Implemented

#### Comments

Effective July 1, 2021, a Board policy requiring Board approval for all grants and sponsorships went into effect. Prior to that, the CEO was authorized to approve grant requests up to \$25,000 and requests more than \$25,000 required board approval.

According to OHA, the Board approves grants through its budget approval process. The Board reviews and approves the biennium budget which includes some grants and disbursements as budget line items, including but not limited to, Community Grants, grants to Native Hawaiian Focused Public Charter Schools, and a grant to the Department of Hawaiian Home Lands. OHA represents the majority of grants are approved through the budget approval process.

As a matter of practice, the Administration provides trustees with a memorandum including a preliminary analysis of a requested grant two weeks prior to requiring the Board's action on the item. The analysis also includes a profile of individuals on the requesting organization's Board of Directors and Executive Leadership to identify conflicts of interest, if any. Subsequently, OHA's Grants Department prepares the action item for Board approval. In 2018, the Board also approved the Kūlia Grants Guidelines and Process, which additionally requires Board approval of Kūlia Grants. This vetting process distinguishes Kūlia Grants from the discontinued Kūlia Initiatives, which were non-competitive awards that could only be requested by the members of the Board or Administration on behalf on a recipient.

The CEO's budget adjustment authority was amended and is now limited to the lesser of \$100,000 or 5 percent for each program. Under the amendment, any CEO-initiated budget adjustments involving grants and sponsorships also require Board approval, regardless of the amount. Requiring these fiscal decisions be made in open public meetings subject to the Sunshine Law would increase transparency and accountability; however, the effective date of the amendment has been deferred until submittal of the FY2022-2023 biennium budget to allow the Administration time to implement.

## Recommendation 1f

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**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).**

**Not Implemented**

### Comments

While the Board of Trustees has not required the Administration to develop a master list of all OHA grants, sponsorships and other funding awarded, according to OHA, it has developed an information database system that ensures grants are monitored and evaluated consistently. OHA's Grants Portal serves as an electronic filing system for grant solicitations, applications, awarded contracts, and grantee reporting documents; documents are tracked throughout the granting process, enabling OHA to electronically track pre-award, award, and post-award documents. The system generates a master list of all grants, including the name and island location of the applicant; OHA's strategic priority (e.g., culture, water, education); the purpose of the project; the grant process; contract number; award amount; quarterly payment amounts; payment dates; and the funding balances. OHA represents its practice is to run a quarterly report for all grants and contracts, which is documented in OHA's financial reporting, including variances and budget adjustment parameters for each quarter. The master list provided by OHA in March 2021 included 36 active grants, 26 closed grants, and 11 pending grants and is updated on a weekly and quarterly basis.

The master list does not include sponsorships and other funding awarded by OHA, and no information about the approving or granting entity within OHA (such as the Board, CEO, or line of business) is included. In its policies and procedures, the Board should document the requirement that the Administration 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). A documented policy would clarify the process and allow the Board and the Administration to hold staff accountable for performing the required procedure.

## Recommendation 1g

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**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.**

**Partially Implemented**

### Comments

The Board has not considered 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. However, we deem this recommendation partially implemented because OHA cited significant changes to specific policies for trustee allowances, grants, sponsorships, and other awards that prevent multiple awards to the same individual, group, or organization during a fiscal year. In February 2021, the Administration held a joint meeting with the Beneficiary Advocacy Empowerment Committee and the Resource Management Committee to discuss the elements for a trustee policy on strategic granting. The Administration will take trustee comments discussed during the meeting to formulate a grants policy for Board approval. According to OHA, the Administration is in the process of developing new organization-wide grant, including sponsorship, processes.

## Recommendation 2a

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**OHA Board of Trustees should, with respect to Kūlia Initiatives, determine and clearly define the purpose of Kūlia Initiatives.**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA's mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

## Recommendation 2b

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**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).**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA’s mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

## Recommendation 2c

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**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.**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA’s mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

## Recommendation 2d

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**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) trustees' fiduciary duties; and (d) State laws.**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA's mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

## Recommendation 3a

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**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.**

**Partially Implemented**

### Comments

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once Board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been fully implemented.

### Recommendation 3b

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**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.**

#### Partially Implemented

#### Comments

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once Board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been fully implemented.

### Recommendation 3c

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**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.**

#### Not Implemented

#### Comments

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once Board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed.

We note while the interim policy restricts how the Fiscal Stabilization Fund may be used, expenditures from that fund are not included when calculating the annual spending withdrawal amount in the fiscal year in which moneys are expended. That potentially allows OHA to exceed the 5 percent spending limit established in OHA's Native Hawaiian Trust Fund Spending Policy.



### Recommendation 3d

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**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.**

#### **Not Implemented**

#### **Comments**

In Report No. 18-03, we noted OHA was not considering the impacts to the Native Hawaiian Trust Fund when approving grants and other types of expenditures. The then-acting CFO told us that the Fiscal Office monitored expenditures to ensure compliance with OHA's budget and spending policy, but that the office did not track the withdrawal rate from the Native Hawaiian Trust Fund. However, we reported that OHA's annual expenditures had exceeded the five percent spending cap from the Native Hawaiian Trust Fund since FY2011, partly because of OHA's use of the Fiscal Reserve. Moreover, OHA's Investment Management Staff had projected a steady decline in OHA's largest revenue source over the next several years.

Currently, the Fiscal Stabilization Policy, as approved by the Board in September 2019 and which replaced the Fiscal Reserve Guidelines, does not require that specific information such as the Native Hawaiian Trust Fund balance, projected revenue, or impact to the trust fund, be provided as part of the action item seeking board approval of a funding request from the Fiscal Stabilization Fund. However, according to OHA, funding request procedures for use of the Fiscal Stabilization Fund require, among other things, an explanation of the reason the request is an authorized use of the fund together with supporting documentation, and OHA states that its Investment Manager and investment consultants regularly engage with the Board, and workshops are provided to the Board, as a matter of practice.

According to OHA, while the Administration does not provide the Board with any information regarding the impacts to the Native Hawaiian Trust Fund when considering use of the Fiscal Reserve, it may be included in the governance framework which is pending OHA's completion.

The intent of this recommendation was that the Board assess impacts to the Native Hawaiian Trust Fund and OHA's ability to serve its beneficiaries, current and future, when considering use of the Fiscal Reserve. While the Fiscal Stabilization Fund was created purportedly in response to Report No. 18-03 (and therefore did not exist at the

time of the audit), the recommendation is applicable to the Board's use of the Fiscal Stabilization Fund. Trustees very likely have the same fiduciary duties to OHA's beneficiaries in their use of the Native Hawaiian Trust Fund and the Fiscal Stabilization Fund. Under the new Fiscal Stabilization Policy, it is our understanding that the Board can transfer up to \$3 million annually from the Native Hawaiian Trust Fund to the Fiscal Stabilization Fund. Any withdrawal from the Native Hawaiian Trust Fund can have short- and long-term impacts to the Native Hawaiian Trust Fund, and Trustees should determine and require the Administration to provide them with the financial information necessary for them to make informed decisions about those impacts to the fund.

### Recommendation 3e

**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.**

#### Partially Implemented

#### Comments

In September 2019, the Board approved a new Fiscal Stabilization Fund and Fiscal Stabilization Policy to replace the Fiscal Reserve and the associated Fiscal Reserve Guidelines. Under the current Fiscal Stabilization Policy, which is still a temporary policy, funding request procedures for use of the Fiscal Stabilization Fund require, among other things, an explanation of the reason the request is an authorized use of the fund together with supporting documentation.

According to OHA, the procedure for funding requests for use of the Fiscal Stabilization Fund must, at a minimum, include the following:

- (1) Originator of the request;
- (2) Clear explanation of the reasons the request qualifies as an authorized fund use and address:
  - 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.
  - 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 the maximum withdrawal restrictions will not be violated if the request is granted; and

(3) All supporting documentation that justifies the funding request.

The requirements above set forth the minimum information required to be provided in an action item for a funding request from the Fiscal Stabilization Fund. The Administration can provide additional information, including but not limited to the Native Hawaiian Trust Fund balance, projected revenue, impact to the trust fund, and any other information that would be relevant and necessary for the Board to make an informed decision.

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once Board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been implemented.

### Recommendation 3f

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**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.**

**Partially Implemented**

#### Comments

In September 2019, the Board approved a new Fiscal Stabilization Fund and Fiscal Stabilization Policy to replace the Fiscal Reserve and the associated Fiscal Reserve Guidelines. Under the current Fiscal Stabilization Policy, which is still a temporary policy, funding request procedures for use of the Fiscal Stabilization Fund require, among other things, an explanation of the reason the request is an authorized use of the fund together with supporting documentation. (See comments regarding Recommendation 3e above.)

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once Board policies are completed. According to OHA, the policies being developed will include identifying whether

the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been implemented.

## **Recommendation 4a**

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**OHA Board of Trustees should, with respect to CEO Sponsorships, determine and clearly define the purpose of CEO Sponsorships.**

**Not Implemented**

### **Comments**

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued the CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on the CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

### Recommendation 4b

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**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.**

**Not Implemented**

#### Comments

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued the CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on the CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

### Recommendation 4c

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**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.**

**Not Implemented**

#### Comments

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO

Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued the CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on the CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

#### **Recommendation 4d**

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**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.**

**Not Implemented**

#### **Comments**

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued the CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on the CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

## Recommendation 5a

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**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.**

**Implemented**

### Comments

The Trustee Allowances were originally created in 1991 to cover incidental costs that trustees incurred to develop and maintain ongoing communications with beneficiaries and the general public, as well as to promote a broader understanding of Native Hawaiian issues and to encourage participation in the resolution of those issues. The annual allowance amount of \$7,200 per trustee was issued semi-annually from OHA's special funds. In 2013, OHA established the Trustees' Sponsorship and Annual Allowance Fund (TSAAF) which combined two trustee discretionary spending funds (Trustee Sponsorships and Trustee Allowances) with total funding set at \$22,200 per trustee. Under the TSAAF, each trustee received an advance in the full amount of the trustee's allowance (i.e., \$22,200) at the beginning of each fiscal year and were required to return the unspent balance at the end of the fiscal year.

In February 2018, in response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, the Board placed an immediate moratorium on the use of the TSAAF and required the immediate return of the unused balance of each trustee's portion to OHA.

In May 2019, the Board adopted a Trustee Protocol Allowance (TPA) to establish new criteria and procedures that align with OHA's mission and policies, trustees' fiduciary duties, and applicable state law. With the adoption of the TPA, the moratorium on Trustee Allowances was lifted while the moratorium on trustee sponsorships remains in effect until the Board determines how to disburse those remaining sponsorship funds.

The TPA Policy is subject to OHA's "Code of Conduct and Sanctions for Violations of the Code of Conduct," adopted by the Board in 2016. The TPA Fund is a reimbursable fund in which OHA retains all TPA moneys; each trustee's fiscal year allowance is fixed at \$7,200.

The purpose of the TPA is to:

- Develop and maintain an ongoing communication network with beneficiaries and the general public;
- Promote a broader understanding of Native Hawaiian issues within the Native Hawaiian community and among the general public; and
- Encourage participation in the resolution of those issues, provided that such communications comply with applicable laws and OHA policies.

TPA Internal Guidelines and Procedures define the Administration's role in administering and monitoring the use of the fund to ensure trustee expenditures comply with policy. Trustees are allowed to use the allowance to cover expenses reasonably related to their official duties and responsibilities that are consistent with OHA's mission to better the conditions of Native Hawaiians and that comply with applicable policies and laws.

Procedures require trustees to complete and submit a "Trustee Protocol Allowance Disbursement Form." Trustees must show that the primary purpose of the expenditure is in support of, or a result of, an official trustee duty consistent with the purpose of the TPA and is an allowable expense. The trustee is required to certify that the claimed reimbursement or advance is true and correct and that it complies with applicable laws and OHA policies. Requests for reimbursements require trustees to provide an original receipt or proof of payment that includes a detailed itemization of the purchase. Requests for an advancement of TPA funds require trustees to provide an original itemized invoice and a completed W-9 form for the vendor; advanced funds are payable directly to a merchant or vendor.

Procedures state trustees should provide supporting details for a claimed reimbursement or advance on the TPA Disbursement Form and that the Administration may request additional information necessary to determine compliance of a claimed expenditure with applicable laws and OHA policies. Expenditures that are contrary to OHA's mission to better the conditions of Native Hawaiians or contravene OHA policies or the law are disallowed. Allowances cannot be used to benefit individuals as previously allowed under the prior policy. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed. In the event an expenditure is deemed impermissible by the Administration, trustees may appeal the determination, in writing, to the Board of Trustees Chairperson. Within 7 business days of receipt of the written appeal, the Chairperson must render a written decision on the appeal, which will be final.



Within 30 days after the end of each quarter, the Administration compiles a quarterly report of expenditures made by each trustee and submits the Trustee Quarterly Protocol Allowance Expenditure Report to the Board before posting it on OHA's public website.

### Recommendation 5b

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**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.**

**Implemented**

#### Comments

The new TPA Policy (see discussion page 26) prohibits the use of Trustee Allowances to provide financial support, direct or otherwise, to individuals, groups, or organizations, and requires such requests to be approved by the Board and funded through a program other than Trustee Allowances.

### Recommendation 5c

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**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.**

**Implemented**

#### Comments

The new TPA Policy (see discussion page 26) established criteria and procedures that align with OHA's mission and policies, trustees' fiduciary duties, and applicable state law. TPA Policy is subject to OHA's "Code of Conduct and Sanctions for Violations of the Code of Conduct," adopted by the Board in 2016, which frame the trustees' fiduciary responsibilities, executive policies, and laws applicable to their conduct. TPA Internal Guidelines and Procedures define the Administration's role in administering and monitoring the use of the fund to ensure trustee expenditures comply with policy. Trustees are allowed to use the allowance to cover expenses reasonably related to their official duties and responsibilities that are consistent with OHA's mission to better the conditions of Native Hawaiians and that comply with applicable policies and laws.

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**Recommendation 5d**

**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.**

**Implemented**

**Comments**

Under the new TPA Policy (see discussion page 26), trustees are reimbursed allowable expenses from their respective Trustee Protocol Allowance in accordance with TPA Internal Guidelines and Procedures, and the TPA guidelines define the Administration's role in administering and monitoring the use of the fund to ensure trustee expenditures comply with policy. Procedures require trustees to complete and submit a "Trustee Protocol Allowance Disbursement Form." Trustees must show that the primary purpose of the expenditure is in support of, or a result of, an official trustee duty consistent with the purpose of the TPA and is an allowable expense. The trustee is required to certify that the claimed reimbursement or advance is true and correct and that it complies with applicable laws and OHA policies. Requests for reimbursements require trustees to provide an original receipt or proof of payment that includes a detailed itemization of the purchase. Requests for an advancement of TPA funds require trustees to provide an original itemized invoice and a completed W-9 form for the vendor; advanced funds are payable directly to a merchant or vendor.

Procedures state trustees should provide supporting details for a claimed reimbursement or advance on the TPA Disbursement Form and the Administration may request additional information necessary to determine compliance of a claimed expenditure with applicable laws and OHA policies.

## Recommendation 5e

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**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.**

### Partially Implemented

#### Comments

The Board is in the process of reviewing and amending, as needed, the sanctions established in the Code of Conduct for violations of Trustee Allowance policies and procedures and establishing a process to ensure enforcement of sanctions to appropriately address such violations.

The Trustee Protocol Allowance Policy is subject to OHA's "Code of Conduct and Sanctions for Violations of the Code of Conduct," which is an executive board policy consisting of fiduciary responsibilities, trustees' executive policies, and applicable laws. The Code of Conduct requires each trustee to prudently expend allowance and sponsorship funds in an impartial manner for beneficiaries and to ensure that any personal judgement exercised is consistent with the trustees' fiduciary responsibilities and complies with OHA's policies and procedures.

The sanctions for violations of the Code of Conduct include referring criminal behavior to appropriate law enforcement authorities without undue delay. A trustee who believes that a co-trustee has violated the Code of Conduct may seek resolution of the matter through appropriate conciliatory measures prior to commencing an official complaint under the Code of Conduct, a detailed seven-step process. A trustee or OHA's CEO who wishes to officially file a complaint must do so with a letter to the Board Chairperson within 30 days of the alleged event. The Chairperson will review the allegation and discuss the matter with the Vice Chairperson and trustee to seek a mutually agreeable resolution. Should the trustee continue to violate the Code of Conduct, the Chairperson shall bring information about the violation to the Board of Trustees in executive session. Should the trustee continue to violate the Code of Conduct, the Chairperson will consult with Board Counsel and place the matter on the agenda for appropriate action by the Board for discussion in executive session. The Board may, by majority vote, censure or sanction the offending trustee including but not limited to removing the offending trustee from board committees or disabling the trustee's use of his or her allowance. The Board may, in its sole discretion, make its findings public at a special or regular board meeting.

It is our understanding that *each* trustee has fiduciary responsibilities to Native Hawaiians who are the beneficiaries of the Native Hawaiian Trust Fund, and simply because a majority may approve an expenditure, using trust funds does not mean that the expenditure is consistent with those fiduciary duties. The Code of Conduct allows a majority of trustees to be the arbiter of a minority trustee's concerns that an expenditure or other action by another trustee violates that trustee's fiduciary duties.

According to OHA, the agency has had long discussions regarding trustee accountability and sanctions that continue to be worked on by the Administration, subject to Board approval. The Administration is reviewing the language regarding sanctions provided for in the Board of Trustees' Executive Policy Manual and the Code of Conduct as part of OHA's Board Governance Framework. The Board and the Administration continue to work to update trustee-level policies to align with trustees' fiduciary duties and state laws, including Trustee Allowances. Until a new, permanent policy is adopted, we are unable to address whether the recommendation has been fully implemented.

## Recommendation 5f

**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.**

**Implemented**

### Comments

The new TPA Policy (see discussion page 26) established criteria and procedures to comply with OHA's mission and policies, trustees' fiduciary duties, and applicable state law

We note that, while the Code of Conduct includes procedures for reporting of violations of the Code of Conduct relating to a trustee's breach of his or her fiduciary duties (or violation of state law), these are not matters over which the Board has the ultimate authority to decide. Each trustee – not the Board – has direct fiduciary responsibilities to OHA's beneficiaries. Accordingly, we question whether the Board, by majority vote, should be the final arbiter of a complaint about a trustee's alleged breach of his or her fiduciary duty or violation of his or her legal obligations. We suggest the Board consider providing a trustee with independent legal counsel, if needed, to fulfill his or her fiduciary or legal duties, which may include among other things action to address other trustees' breaches of fiduciary or legal duties.

## OHA Administration

### Recommendation 1a

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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.**

#### Partially Implemented

#### Comments

The Administration does not formally require regular training for its staff, but represents it is an ongoing practice. During orientation of new trustees and executives, the Board's external and in-house legal counsel provide training on trustees' fiduciary duties and other responsibilities, OHA's mandates and duties, and the State Ethics Code.

According to OHA, the Board is in the process of establishing an overarching governance framework that should include a written policy that requires regular training for trustees, trustees' staff, and OHA's administrators, managers, and staff on (i) trustees' fiduciary duties and other responsibilities; (ii) the State Ethics Code; (iii) the Sunshine Law; and (iv) Uniform Information Practices Act. We acknowledge that OHA appears to be providing training; however, that practice is not documented, and for that reason, we consider the recommendation to be only partially implemented.

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**Recommendation 1b**

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**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.**

**Implemented****Comments**

OHA Administration states it supports 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 an individual trustee. OHA's intra-web has a reporting site, accessible by trustees, where the Administration periodically provides reports, updates, and other information, including quarterly reports from investment managers and quarterly budget variances. OHA's investment manager presents the quarterly investment reports of the Native Hawaiian Trust Fund before the Resource Management Committee or the committee's Chairperson and Vice Chairperson. In 2020, OHA's Oracle Fusion implementation of financials went "live," and when staff teleworked during the pandemic caused by COVID-19, the quarterly investment reports and budget variances were emailed to trustees. OHA's grants information database system monitors, tracks, and generates reports on the status and outcomes of grant applications, including a master list of all grants and sponsorships, as well as related approval and award information made available by the Administration to trustees, as requested.

While we deem this recommendation to be implemented, we recommend that OHA document its responsibility to provide information requested by the Board as well as individual trustees in the appropriate policies and procedures.

## Recommendation 2a

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**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.**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA's mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

## Recommendation 2b

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**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.**

**Not Implemented - N/A**

### Comments

Kūlia Initiatives provided non-competitive funding support to eligible organizations whose programs aligned with OHA's mission and benefitted the Native Hawaiian community, and could only be requested by trustees or the Administration on behalf of a recipient. The 2018 report found OHA regularly funded these unplanned expenditures by realigning its budget and drawing from its Fiscal Reserve, which had been spent down rapidly.

In response to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, OHA discontinued the use of Kūlia Initiatives.

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**Recommendation 3a**

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**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.**

**Partially Implemented**

**Comments**

In September 2019, the Board approved a new Fiscal Stabilization Fund and Fiscal Stabilization Policy to replace the Fiscal Reserve and the associated Fiscal Reserve Guidelines. Under the current Fiscal Stabilization Policy, which is still a temporary policy, funding request procedures for use of the Fiscal Stabilization Fund require, among other things, an explanation of the reason the request is an authorized use of the fund together with supporting documentation. (See comments regarding the recommendation for OHA Board of Trustees 3e beginning on page 21.)

According to the Fiscal Stabilization Policy, funding requests for the use of the Fiscal Stabilization Fund must be submitted as an action item. The CEO initiates the action item requesting funding, and the CFO is responsible for reviewing the action item, the release of funds, and any documentation in relation to disbursements. Any action item that does not comply with the requirements of the Fiscal Stabilization Policy will not be considered by the Board.

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been fully implemented.



### Recommendation 3b

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**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.**

#### Partially Implemented

#### Comments

According to OHA, its new Fiscal Stabilization Policy was instituted to address the audit findings while OHA reconciles its objectives with its policies, including a determination of whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed.

OHA states the funding request procedures for use of the Fiscal Stabilization Fund require, among other things, an explanation of the reason the request is an authorized use of the fund together with supporting documentation. The Administration can provide additional information, including but not limited to the Native Hawaiian Trust Fund balance, projected revenue, impact to the trust fund, and any other information that would be relevant and necessary for the Board to make an informed decision.

If trustees have questions or need further information about a request, the Board has the authority to defer voting on the action item until the Administration provides the requested information. Pursuant to the Fiscal Stabilization Policy, any action item that does not comply with the requirements of the policy shall not be considered by the Board. Any non-compliant action item approved by the Board shall be considered void. The Administration uses appropriation codes to ensure each proposed use of the Fiscal Reserve is consistent with the guidelines and purpose of the Fiscal Reserve.

While we acknowledge OHA has made progress in this area, the Fiscal Stabilization Policy (see discussion page 4) is still a temporary policy and will be revisited once board policies are completed. According to OHA, the policies being developed will include identifying whether the agency needs a reserve (rainy day) fund and, if so, the type of reserve fund needed. Until a new, permanent policy is adopted, we are unable to assess whether the recommendation has been fully implemented.

## Recommendation 4a

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**OHA Administration should, with respect to CEO Sponsorships, adhere to Grants Staff recommendations regarding the Administration's requests to fund CEO Sponsorships.**

**Not Implemented**

### Comments

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

## Recommendation 4b

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**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.**

**Not Implemented**

### Comments

CEO Sponsorships provided funding to organizations whose missions aligned with OHA's vision and strategic plan, whose programs and services benefited the Native Hawaiian community, and whose events offered OHA valuable public relations and recognition. CEO Sponsorships did not require a formal application in response to a solicitation, and requests were considered throughout the year and approved by the CEO.

On February 27, 2018, the Board placed a moratorium on the use of CEO Sponsorships but has not permanently discontinued CEO Sponsorships. According to the CEO, the Board's Ad Hoc Committee on Grants and Sponsorships will consider the future use of CEO Sponsorships.

Accordingly, while there continues to be a moratorium on CEO Sponsorships, OHA has not taken any other action to address the recommendation and, given that the program has not been discontinued, we consider this recommendation to be not implemented.

### Recommendation 5a

**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.**

#### Implemented

#### Comments

In May 2019, OHA established new criteria and procedures for Trustee Protocol Allowances that, according to OHA, complies with OHA's mission, OHA's policies, trustees' fiduciary duties, and applicable state law. The TPA Policy is subject to OHA's "Code of Conduct and Sanctions for Violations of the Code of Conduct," adopted by the Board in 2016, which frame the trustees' fiduciary responsibilities, executive policies, and laws applicable to their conduct. Internal Guidelines and Procedures define the Administration's role in administering and monitoring spending to ensure trustee expenditures comply with policy. Trustees are allowed to use the allowance to cover expenses reasonably related to their official duties and responsibilities that are consistent with OHA's mission to better the conditions of Native Hawaiians and that comply with applicable policies and laws.

Procedures require trustees to complete and submit a "Trustee Protocol Allowance Disbursement Form." Trustees must show that the primary purpose of the expenditure is in support of, or a result of, an official trustee duty consistent with the purpose of the TPA and is an allowable expense. The trustee is required to certify that the claimed reimbursement or advance is true and correct and that it complies with applicable laws and OHA policies. Requests for reimbursements require trustees to provide an original receipt or proof of payment that includes a detailed itemization of the purchase. Requests for an advancement of TPA funds require trustees to provide an original itemized invoice and a completed W-9 form for the vendor; advanced funds are payable directly to a merchant or vendor.

Trustees should provide supporting details for a claimed reimbursement or advance on the TPA Disbursement Form. The Administration may request additional information necessary to determine compliance of a claimed expenditure with applicable laws and OHA policies. Expenditures that are contrary to OHA's mission to better the conditions of Native Hawaiians or contravene OHA policies or the law are disallowed. Allowances cannot be used to benefit individuals as previously allowed under the prior policy. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed. In the event an expenditure is deemed impermissible by the Administration, trustees may appeal the determination, in writing, to the Board of Trustees Chairperson. Within 7 business days of receipt of the written appeal, the Chairperson must render a written decision on the appeal, which will be final.

Within 30 days after the end of each quarter, the Administration compiles a quarterly report of expenditures made by each trustee and submits the Trustee Quarterly Protocol Allowance Expenditure Report to the Board before posting it on OHA's public website.

## Recommendation 5b

**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.**

Implemented

### Comments

We were provided a copy of a document titled, "Trustee Protocol Allowance Internal Guidelines and Procedures" dated July 2019. OHA states these guidelines and procedures define the Administration's role in administering and monitoring spending to ensure trustee expenditures comply with policy. Procedures require trustees to complete and submit a "Trustee Protocol Allowance Disbursement Form." Trustees must show that the primary purpose of the expenditure is in support of, or a result of, an official trustee duty consistent with the purpose of the TPA and is an allowable expense. The trustee is required to certify that the claimed reimbursement or advance is true and correct and that it complies with applicable laws and OHA policies. Trustees should provide supporting details for a claimed reimbursement or advance on the TPA Disbursement Form. The Administration may request additional information necessary to determine compliance of a claimed expenditure with applicable laws and OHA policies. Expenditures that are contrary

to OHA's mission to better the conditions of Native Hawaiians or contravene OHA policies or the law are disallowed. Allowances cannot be used to benefit individuals as previously allowed under the prior policy. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed. In the event an expenditure is deemed impermissible by the Administration, trustees may appeal the determination, in writing, to the Board of Trustees Chairperson. Within 7 business days of receipt of the written appeal, the Chairperson must render a written decision on the appeal, which will be final. Within 30 days after the end of each quarter, the Administration compiles a quarterly report of expenditures made by each trustee and submits the Trustee Quarterly Protocol Allowance Expenditure Report to the Board before posting it on OHA's public website.

### Recommendation 5c

**OHA Administration should, with respect to Trustee Allowances, report to the board the specific expenditures approved and reimbursed to each trustee using Trustee Allowances.**

**Implemented**

#### Comments

Trustee Protocol Allowance Internal Guidelines and Procedures require the Administration to compile and transmit a quarterly report of expenditures made by each trustee. Within 30 days after the end of each quarter, the Administration compiles a quarterly report of expenditures made by each trustee and submits the Trustee Quarterly Protocol Allowance Expenditure Report to the Board before posting it on OHA's public website.

Procedures for approval require trustees to complete and submit a "Trustee Protocol Allowance Disbursement Form." Trustees must show that the primary purpose of the expenditure is in support of, or a result of, an official trustee duty consistent with the purpose of the TPA and is an allowable expense. The trustee is required to certify that the claimed reimbursement or advance is true and correct and that it complies with applicable laws and OHA policies. Expenditures that are contrary to OHA's mission to better the conditions of Native Hawaiians or contravene OHA policies or the law are disallowed. Allowances cannot be used to benefit individuals as previously allowed under the prior policy. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed.

## Recommendation 5d

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**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.**

**Implemented**

### Comments

Expenditures that are contrary to OHA's mission to better the conditions of Native Hawaiians or that contravene OHA policies or the law are disallowed. Questionable expenditures are reviewed by the Accounting Manager, Controller, CFO, and CEO as needed. In the event an expenditure is deemed impermissible by the Administration, trustees may appeal the determination, in writing, to the Board of Trustees Chairperson. Within 7 business days of receipt of the written appeal, the Chairperson must render a written decision on the appeal, which will be final.

These provisions are included in the Trustee Protocol Allowance that was adopted by OHA in 2019.

