

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Audit of the Office of Hawaiian Affairs

Summary

The Office of Hawaiian Affairs is a corporate body and public agency that has over \$245 million in cash and investments and conducts programs to improve the conditions of persons of Hawaiian ancestry. State law requires the Auditor to conduct an audit of OHA at least once every four years. Previously we issued audit reports on OHA in February 1990 and December 1993 pursuant to other legislative directives.

The purpose of the present audit was to describe and assess OHA's management controls over its programs, its cash and short-term investments, and its long-term investments.

We concluded that OHA needs better working relationships and clearer direction for its programs. We found that certain practices weaken working relationships, for example some members of OHA's Board of Trustees circumvent OHA's policy of requiring trustees to communicate with staff through the administrator.

OHA's trustees and staff need to rise above internal discontent and discord that could compromise OHA's mission, and move ahead to meet challenges in program planning, monitoring, evaluation, and budgeting. Existing problems include out-of-date plans with uncertain compliance, limited monitoring of organizations that receive funds from OHA, and a need for more productive program evaluations. Also, trustees do not receive adequate financial reports and OHA's budgetary process needs to be more comprehensive and consistent.

We also concluded that OHA should build on its investments. The firm of KPMG Peat Marwick LLP assisted us in reviewing OHA's controls over its cash and investments. The firm found that OHA's approach to its long-term investments has significant strengths and weaknesses. OHA has established a foundation of sound investment policy and investment management, largely by hiring outside experts to assist in this complex area. Now OHA needs to build on this foundation by planning strategically to link investments to programs.

OHA's long-term investment policy document has significantly improved, and its present investment strategy (investing long-term assets in a diversified combination of equity and fixed income securities and reinvesting the dividends and interest payments received from those investments) is reasonable for the time being. But OHA lacks a comprehensive strategic plan for the use of its long-term investments, including specific strategies for assisting native Hawaiians and decisions on which long-term programs will be supported.



OHA shows real strength in the areas of investment managers, custodian of its portfolio, and money monitor. However, arrangements with its broker of record, and communication to and from the Board of Trustees concerning investments, could be improved. In addition, better management of OHA's cash and short-term investments could enhance their value, by transferring excess funds promptly to interest-bearing accounts and by establishing policies for redeploying short-term investment funds to the long-term investment portfolio.

Recommendations and Response

Our report contains detailed recommendations for improving OHA's working relationships and providing clearer direction for its programs through better planning, monitoring, evaluation, and budgeting. We also recommend that OHA's Board of Trustees take pride in significant improvements made through its revised long-term investment policy and develop a comprehensive strategic plan for the use of its long-term investments. Then OHA's Committee on Budget, Finance and Policy should formulate an appropriate investment strategy, asset mix, and approach to meet the needs of the strategic plan. Our report makes additional recommendations concerning other aspects of OHA's management of its cash and investments.

The chair of OHA's Board of Trustees commented that our report provides OHA with useful recommendations and that actions are under way to address most of them. He disagreed with our report in certain areas.

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