



Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

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contribution to
Hawai'i's economy
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from \$87.7 million in
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in 2013**

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Progress, But Transparency Issues Persist: Follow-Up on Recommendations Made in Report No. 12-03, *Management Audit of the Natural Energy Laboratory of Hawai'i* Report No. 15-04, May 2015

The 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports to ensure agency accountability over audit recommendations. The purpose of this change was to apprise the Legislature annually of recommendations not implemented by audited agencies, and to require such agencies to submit a written report not later than 30 days after issuance of our report explaining why the recommendation was not implemented and the estimated date of its implementation.

NELHA continues to develop and diversify the Hawai'i economy but transparency issues remain

Our review focused on NELHA's implementation of 28 audit recommendations made in Report No. 12-03, *Management Audit of the Natural Energy Laboratory of Hawai'i*. This report details each recommendation, its status, and actions taken related to the recommendation. We deemed 17 recommendations closed (61 percent), five open (18 percent), three open but in progress (11 percent), and two no longer applicable (7 percent). One recommendation was made to the Legislature and was not assessed.

New plans, old issues

In 2012, we found that after nearly 40 years of existence, NELHA had yet to live up to its creators' vision. The many shifts in its purpose and focus had the agency struggling to clearly articulate its mission and objectives. The authority was lacking in mission-critical plans and policies such as a master plan, financial plan, and administrative rules; and its policies and procedures manual was seriously out of date. We also found that the authority's board suffered from high turnover and a lack of training. In addition, tenant representatives' voting on items related to rate setting appeared questionable.

We also found the authority continued to struggle with the Sunshine Law. Timely access to minutes was not consistent, and there were problems with both the use and documentation of executive sessions. In addition, we found a number of operational issues. The authority's performance reporting was inadequate; its website was outdated and incomplete; lease rent rates were not uniform; the transparency of seawater pumping rates had improved, but controls on calculations were lacking; and internal fiscal controls were needed.

Our follow-up review found that NELHA has since adopted a master plan, revised its strategic plan, and updated its distributed energy resources strategy. These plans are guiding the authority towards developing the Hawai'i Ocean Science Technology Park's infrastructure for clean energy technology business and investment. We also noted that NELHA has achieved its fourth consecutive year of operational self-sustainability, and the authority's contribution to Hawai'i's economy increased by 40 percent, from \$87.7 million in 2010 to \$122.8 million in 2013. The authority has also updated its Project Initiation Packet for prospective tenants, and implemented a leasing policy as well as a seawater rate analysis methodology. Finally, minutes we reviewed indicate the authority has made significant improvement in its compliance with Sunshine Law requirements.

However, some issues raised in our 2012 audit remain. NELHA has yet to adopt administrative rules, which are necessary for the authority to lawfully carry out and enforce its policies and programs. The authority has still not updated its 1998 policies and procedures manual. In addition, the two tenant representatives on the board have continued to vote on items affecting lease rents and water rates, which may be in violation of statute and the State Ethics Code. NELHA's executive director told us he intends to work on these documents in the coming months.