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**As of November 2015,
the department had
4,996 loans valued at
nearly \$612 million in
its portfolio.**

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Follow-Up on Recommendations Made in Report No. 13-02, *Audit of the Department of Hawaiian Home Lands' Homestead Services Division*

Report No. 16-04, April 2016

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.

DHHL's Loan Administration Has Improved, but Lack of a Risk Ceiling Remains a Concern

Our review focused on the Department of Hawaiian Home Lands' (DHHL) implementation of 20 audit recommendations made in our 2013 Report No. 13-02, *Audit of the Department of Hawaiian Home Lands' Homestead Services Division*. This report details each recommendation, its status, and actions taken related to the recommendation. We deemed five recommendations closed (25 percent), four open (20 percent), ten open but in progress (50 percent), and one open and not likely to be pursued (5 percent).

Commission did not meet fiduciary duty to provide loan program risk guidance

Our 2013 audit found the Hawaiian Homes Commission, as a whole, may not have understood its role as fiduciary and did not assert its authority to set loan program risk policies for the department. Managing loan risk is a key function of the Hawaiian Homes Commission, but we found the commission lacked strategic perspective on loan risk. As a result, the commission had not exercised appropriate leadership and oversight of the department's loan programs. Instead, it assumed loan liabilities without understanding the risk associated with the department's direct loans. We also found the extent of delinquent loan risk was not reflective in department reports to the commission. Departmental policies governing direct loans were vague and internal controls governing loan collections and monitoring compliance with commission orders were weak.

The department has provided clearer guidance but the commission has not followed suit

Our follow-up review found the commission has taken steps to implement 15 of the 20 recommendations but has not actually implemented any of them. The commission has not established a risk management plan and does not have any direct involvement in adopting policies or procedures re-lated to the issuance of direct loans, delinquent loan collections, or monitoring contested case hearing orders. The department has, however, more clearly identified staff responsibilities for collecting and monitoring delinquent loan-related contested cases through amendments to the department's loan policies and procedures manual. It has also established financial requirements for direct loan applicants and reassessed and adjusted departmental direct loan interest rates to help identify qualified loan candidates and to provide financial relief for borrowers. However, the department continues to provide monthly reports to the commission that do not fully reflect the severity of loan delinquencies. The department argues its current reporting method is based on industry practices. However, the department is drafting an additional quarterly report.