
Auditor's Summary

Audit of the Office of Hawaiian Affairs

Report No. 18-03



PHOTO: OHA

IN REPORT NO. 18-03, *Audit of the Office of Hawaiian Affairs*, we found that the Office of Hawaiian Affairs (OHA) has created alternate funding processes that allow the agency to regularly direct money towards a multitude of programs, projects, and individuals. At first glance, these funding opportunities appear to be guided by policies, procedures, and guidelines designed to ensure that funds are distributed fairly and equitably. In reality, however, these expenditures and other forms of discretionary spending do not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Some are approved by the OHA Administration without Board of Trustee vote or even knowledge.

What we found

In FY2015 and FY2016, OHA spent nearly double as much on discretionary disbursements (\$14 million) as it did on planned, budgeted, and properly publicized, vetted, and monitored grants (\$7.7 million). To fund these unplanned expenditures, OHA realigned its budget (by \$8 million) and drew from its Fiscal Reserve (\$6 million). We found that OHA has spent with little restraint, using Native Hawaiian Trust Fund moneys to pay for such things as the retirement benefits for a former trustee (\$56,300), political donations, an international conservation convention (\$500,000), as well as a beneficiary's rent (\$1,000), another beneficiary's funeral-related clothing expenses (\$1,000), and a trustee's personal legal expenses (\$1,500).

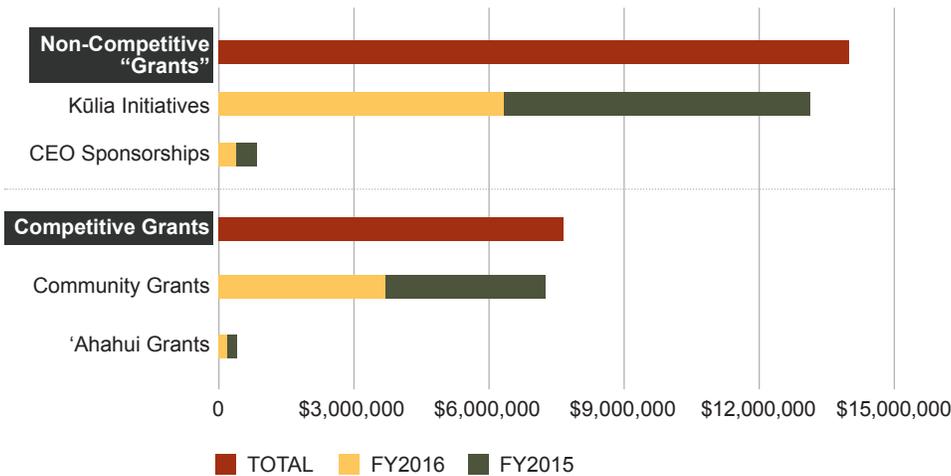
Why did these problems occur?

OHA's vague rules guiding its discretionary spending are broadly interpreted, arbitrarily enforced, and at times, disregarded. For instance, we found several occasions in which OHA's chief executive officer (CEO) ignored "do not fund" recommendations from Administration personnel and funded Sponsorships, contrary to written guidelines. We also found significant irregularities in and abuse of OHA's Trustee Allowance process, which was originally established to cover incidental expenses for trustees to develop and maintain ongoing communication with beneficiaries and the general public, but has evolved to allow a broad range of expenditures. When we asked trustees, the CEO, and other officers about questionable expenditures, the consistent justification provided was that the money helps a Native Hawaiian or Hawaiian beneficiary, thus fulfilling OHA's mission to improve the conditions and well-being of Native Hawaiians and Hawaiians.

Why do these problems matter?

The Fiscal Reserve, the source for much of OHA's discretionary spending, has been spent down rapidly in recent years. From FY2011 to FY2016, the Fiscal Reserve balance fell from \$15.1 million to a little more

Spending on non-competitive versus competitive awards



Source: Information provided by OHA's Transitional Assistance Program.

Fiscal Reserve

FUNDS THAT WERE BUDGETED but remain unspent at the end of the fiscal year stay in the Native Hawaiian Trust Fund and are designated as Fiscal Reserve.

than \$2 million, as the board spent the maximum \$3 million allowed under OHA policy each year. However, not only do OHA's spending irregularities pose risks — both great and small — to the Native Hawaiian Trust Fund, they appear to violate the OHA trustees' solemn fiduciary obligation to their beneficiaries that they will administer the trust fairly, equitably, and without self-interest. In other words, this form of behind-the-scenes giving is inherently inequitable to OHA's many other beneficiaries who may be in need of financial assistance, but are unaware of who and how to ask for help.

We acknowledge that trustees have broad discretion in determining whether a particular expenditure better the conditions of Native Hawaiians and Hawaiians, but their desire to provide assistance to a few should be tempered by their fiduciary duties to all of the beneficiaries, both present and future. Doing so would not only benefit Native Hawaiians and Hawaiians in the long term, it would help ensure that they are treated more equitably in the short term.

“If an organization is denied funding by the administration of OHA, they can come to a trustee to seek funding for their project. There’s something that can be self-defeating in having these two competing processes.”

— OHA trustee

Examples of Questionable Spending



Las Vegas Rodeo

On June 26, 2014, Trustee H circulated a memo to fellow board members, soliciting donations for the recipient to attend a Las Vegas rodeo competition. Trustee H donated \$1,000. Two others, Trustee A and Trustee G, responded with donations of \$500 and \$400 respectively.



Trustee to Trustee's Spouse

Trustee A donated \$1,000 to Trustee B for Trustee B's son's medical expenses. According to OHA's controller, it is possible that Trustee B was not aware that the funds were from OHA.



Spousal Support

Trustee B donated OHA funds to this community leadership program; Trustee B's spouse had been a participant in the program just three months before, from September 2013 – June 2014.



Fund DNC

Political contributions to the Democratic National Committee and the League of Women Voters made by Trustee C were allowed because they pre-dated OHA's March 4, 2014, policy statement.