KIRC Now Relying Heavily on State Funding:

Follow-Up on Recommendations Made in Report No. 13-06, *Audit of the Kahoʻolawe Rehabilitation Trust Fund*

Report No. 16-03, April 2016

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Status of Recommendations

Open
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KIRC's near depletion of the trust fund results in the commission's dependence on state funding to continue operations

In our follow-up of recommendations made in Report No. 13-06, *Audit of the Kahoʻolawe Rehabilitation Trust Fund*, we found that the Kahoʻolawe Island Reserve Commission (KIRC) has not implemented our recommendation to establish a comprehensive and measureable restoration plan with meaningful performance measures. The commission has also not aligned its fundraising and spending plans and has failed to ensure the financial sustainability of the Kahoʻolawe Rehabilitation Trust Fund, which will be depleted by FY2018. Although it has released a Six-Year Financial and Work Plan, the commission cannot support its optimistic projections with reliable financial data. Now relying heavily on state funding, KIRC is not financially self-sufficient.

Background on Report No. 13-06

Title X of the federal *1994 Department of Defense Appropriations Act* conveyed Kahoʻolawe and its surrounding waters to the State of Hawaiʻi, ending military use of Kahoʻolawe and authorizing $400 million for ordnance removal, of which 11 percent ($44 million) was made available to the State of Hawaiʻi to carry out environmental restoration and other archaeological and educational activities. The $44 million established the Kahoʻolawe Rehabilitation Trust Fund.

KIRC was organized to administer the reserve and develop criteria, policies, and controls for permissible uses of the reserve. The commission can solicit and accept grants, donations, and contributions to the trust fund, as well as delegate to its executive director or employees the power and authority to effectively administer its statutory responsibilities.

We released Report No. 13-06, *Audit of the Kahoʻolawe Rehabilitation Trust Fund,* in July 2013. The audit was prompted by the 2012 Legislature, which requested through Senate Concurrent Resolution No. 63, Senate Draft 1, that the Auditor determine whether the trust fund was being used in compliance with state laws and any applicable grant agreements, and to effectuate the purposes of Chapter 6K, Hawaiʻi Revised Statutes (HRS)—including the performance of duties and responsibilities of the commission.

In Report No. 13-06, we found that KIRC had not established a comprehensive plan for its restoration effort. Its resource management plan did not include meaningful performance measures to gauge whether its objectives were being met and lacked cost estimates for actions that the commission wanted to pursue. As a result, spending had outpaced revenues and the trust fund, which contained as much as $33.6 million in FY2004, had been whittled down to $8.1 million in FY2012. We forecasted that KIRC would deplete the fund by 2016.

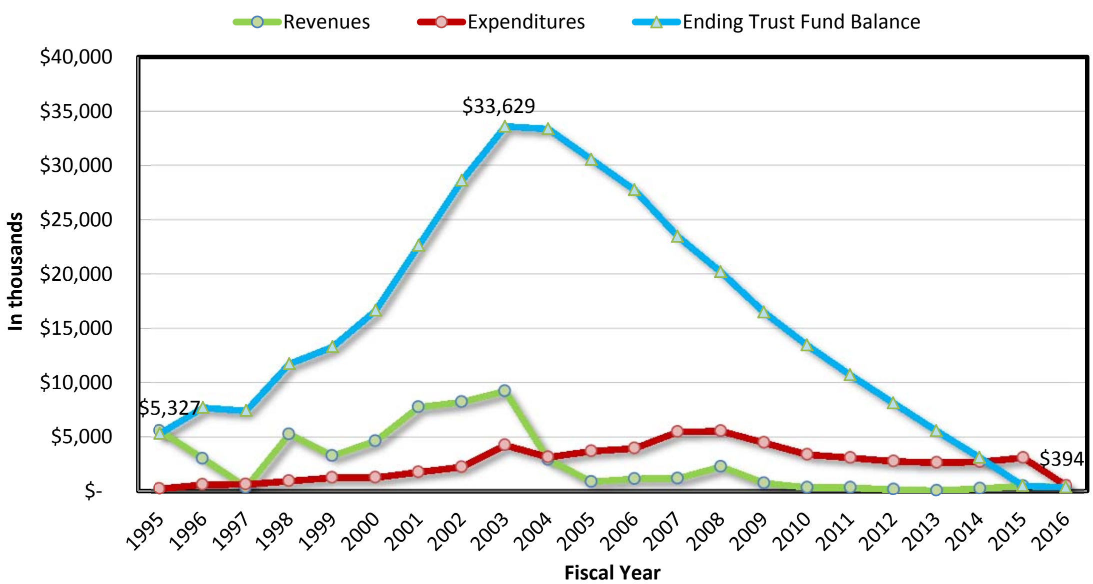
KIRC is not self-sufficient

Our follow-up found that even though KIRC has made staffing cuts and reduced its base camp operations on Kaho'olawe, it has continued to drain the trust fund; the balance has declined by more than 95 percent, from $8.1 million in FY2012 to approximately $394,000 as of January 31, 2016. With the trust fund nearly depleted, KIRC now relies almost completely on state funding to support its operations. For FY2015–FY2016 and FY2016–2017, the commission received $2 million in state general fund appriopriations; however, with general administrative and operational costs totaling more than $724,000, as of December 2015, the commission will exhaust state funding by FY2017. director said that continued state funding is necessary to accomplish KIRC's tasks of managing the island; however, KIRC does not have an alternate plan in the event state funding falls short of amounts requested or is not provided.

Commission still lacks a comprehensive and measureable restoration plan

Our follow-up also found that KIRC has not established a comprehensive and measureable plan for its restoration efforts. Since July 2013, the commission has developed additional planning documents to guide the reserve's future use and restoration plans. *I Ola Kanaloa!* is a community-based planning document that contains

Exhibit 1
Kaho'olawe Rehabilitation Trust Fund Financial Information, Fiscal Years Ending June 30, 1995–January 31, 2016



Source: Office of the Auditor non-general fund reports, Kaho'olawe Island Reserve Commission annual reports, and Status of Appropriation Account Balances reports

We also found that KIRC's Six-Year Financial and Work Plan projects revenues and expenditures for fiscal years 2016 through 2021 and requires additional state funding. We note that the plan is overly optimistic, considering the trust fund's financial position. For example, besides being highly dependent on annual state funding, the plan projects a return to full-time base camp operations and a restoration of four staff positions as soon as FY2020. Even if state funding is continued through FY2020, KIRC does not have additional revenues that could support such an effort. In addition, KIRC's executive director could not provide us with documented support for these projections. As a result, we were unable to assess whether the financial projections were reasonable. Moreover, KIRC's executive goals, programs, and projects up to 2026. The Six-Year Financial and Work Plan prioritizes three programs in *I Ola Kanaloa!* and includes generalized plans by program and fiscal year with financial projections through 2021. The commission is also in the process of developing a Kanaloa Learning Center business plan, which seeks to prioritize two programs in *I Ola Kanaloa!* by creating partnerships with existing organizations. However, the Kanaloa Learning Center business plan is still in draft form and financial projections and partnerships have yet to be determined.

We reviewed the planning documents and found that they do not contain a comprehensive and measureable restoration plan with meaningful performance measures.

I Ola Kanaloa! does not contain a specific action plan with areas to be restored, scope of work, estimated costs, or timeframes for completion. Although the Six-Year Financial and Work Plan contains estimated costs with general areas to be restored and scope of work, it addresses only three of the commission's eight programs. Without a comprehensive restoration plan, it is nearly impossible to assess project feasibility as well as measure progress towards goals, evaluate areas still to be restored, or plan for spending and timing of execution.

Commission continues to deplete the trust fund

We found that KIRC continues to deplete its trust fund. Its minimal funding sources are unable to sustain its high general administrative and operating costs. In FY2015 alone, total revenues of approximately $523,000 were barely able to cover 16 percent of the commission's total costs.

In FY2016, the commission scaled back full-time base camp operations on Kaho'olawe to just two weeks a month.

KIRC implemented budget reductions in FY2008 as expenditures decreased from almost $5.6 million in FY2008 to $3.1 million in FY2015. Personnel costs were reduced as approximately nine positions were cut since FY2009, with remaining employees taking a 5 percent pay cut in FY2016. In addition, KIRC has been unsuccessful at meeting fundraising targets and securing a reliable funding source. In one of its recent fundraising efforts, the commission launched an Aloha Kaho'olawe campaign, which raised approximately $42,000—less than half of its goal of $100,000. According to its executive director, KIRC, at the request of certain state legislators, depleted the trust fund before requesting state funding. At its current rate of spending, KIRC will deplete the trust fund by FY2018.

Status of Report No. 13-06 Recommendations

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 of recommendations not implemented by audited agencies, and to require agencies to submit a written report within 30 days explaining why any recommendation was not implemented and the estimated date of its implementation. The Auditor must report annually, for each unimplemented recommendation: (1) the agency that was audited; (2) the title and number of the report that contained the recommendation; (3) a brief description of the recommendation; (4) the date the report was issued; and (5) the most recent explanation provided by the agency regarding the status of the recommendation.

Both of the recommendations we made in Report No. 13-06 remain open, meaning work on the recommendations has not started, or cannot start because precursor events have not occurred. The following details each recommendation, its status, and actions taken related to the recommendation.

Recommendation No. 1 specified that the commission should more precisely define what its vision for a rehabilitated Kaho'olawe entails, including funding requirements and timelines. Specifically, the commission should create a comprehensive and measureable restoration plan for the island that includes areas to be restored, scope of work, estimated costs, and timeframes for completion.

Our follow-up review found that the commission has not created a comprehensive and measureable restoration plan for the island. The additional planning documents provided by the commission are not comprehensive and do not contain all meaningful performance measures for an action plan. Therefore, we deem Recommendation No. 1 **Open**.

Recommendation No. 2 directed the commission to align its fundraising and spending plans to accommodate the restoration and increase its fundraising and decrease its spending if it intends to preserve the trust.

Our follow-up review found that the commission did not increase its fundraising and decrease its spending to preserve the trust. Despite cutting costs from FY2008, fundraising goals continue to not be met and a reliable funding source has not been secured. The trust fund has dwindled to $394,000 as of January 2016. Therefore, we deem Recommendation No. 2 **Open**.