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**“As far as staffing  
levels, maybe land  
wasn't a must do.”**

— Former OHA  
administrator

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# Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations

Report No. 13-07, September 2013

*Better land planning and grant monitoring would help OHA fulfill its duties*

## **Acquisition and management of real estate holdings are inadequately planned**

As of February 2013, OHA owned or leased 28,206 acres, making it Hawai'i's 13th largest landowner. While these numbers may be impressive, we found that the OHA's land management infrastructure is inadequate, unable to support the office's growing portfolio nor any future land involvements. Without the policies, procedures, and staff to help guide and support the increased real estate activity, OHA's Board of Trustees cannot ensure that its acquisitions are based on a strong financial foundation. For instance, we found that OHA's real estate portfolio is unbalanced, with revenues generated from commercial properties unable to offset expenses from legacy and programmatic land holdings. In 2008, OHA trustees disregarded a consultant's proposal to expand its Land and Property Management division as well as proposals for a real estate business plan and investment policy. Instead, in 2010, the trustees adopted a one-page real estate investment policy.

## **Grant oversight and accountability is lacking**

During FY2012, OHA awarded more than \$14 million in grants and sponsorships, with the largest going to education and housing programs and services. We found that OHA's grant administration has been remiss in developing procedures and guidelines that are in accordance with all applicable statutes and board of trustees policies. This has led to inadequate and inconsistent grant monitoring that fails to ensure that grants are achieving their intended results. For example, files for the 30 grants we examined contained incomplete documentation of monitoring activities, which made it difficult to determine whether such activities were performed and reviewed by management or to determine their nature and extent. In addition, ten of the 30 files contained no evidence that grant monitors fulfilled responsibilities to address inadequate progress by grantees and/or non-compliance with reporting requirements. Finally, the office could not provide the grantee reports or other records for a \$228,000 grant awarded to the Department of Land and Natural Resources in FY2012.

## **Agency Response**

The board chair responded that OHA appreciated our recommendations and intends to further develop land policies to integrate cultural and commercial values that best support its lāhui (people). Regarding our finding about OHA's lack of land policies, the chair said trustees waited until the Kaka'ako Makai land settlement was approved by the State before approving additional positions to manage OHA's land holdings. This misses our broader point that OHA's lack of a policy framework and other infrastructure to implement its real estate vision, mission, and strategy and other best practices is contrary to fulfillment of the board's role as fiduciary and policymaker and undermines the board's ability to ensure that real estate acquisitions are based on a strong financial foundation.

Regarding the significant stewardship costs of OHA-acquired lands, the chair said OHA will at times acquire land with the primary purpose of preservation and protection of "our 'āina and rights," and that the goal of financial return and sustainability must not compromise that purpose. We maintain that OHA is not following best practices for a conservation land trust nor its own stated strategy to ensure financial sustainability.

Regarding our grant-related findings and recommendations, the chair said OHA sincerely appreciates the intent of the audit and views our recommendations as an opportunity to improve its grants program—a process the chair says has been underway since July 2012.

The chair disagreed with our finding that trustees' vote in favor of the Gentry acquisition violated OHA investment policy, and pointed to a State Ethics Commission letter closing its probe into a possible violation of the State ethics code. We maintain that the trustees' action was contrary to OHA's Native Hawaiian Trust Fund investment policy.



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**OHA's most prolific  
year was 2012  
when it acquired  
properties with an  
aggregate value of  
\$224.4 million.**

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## *OHA has taken steps to implement most of our 2009 recommendations*

To ensure agency accountability over audit recommendations, the 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on our audit recommendations. The purpose of this change was to inform the Legislature of unimplemented recommendations and require agencies to submit a written report not later than 30 days after issuance of our follow-up report explaining why the recommendation was not implemented and the estimated date of its implementation. This follow-up covered 19 recommendations made in 2009, 13 of which are closed (68 percent), two open but in progress (11 percent), and four open and not likely to be pursued (21 percent).

### **Management Audit of Information Technology Within the Office of Hawaiian Affairs, Report No. 09-08**

Our 2009 report found OHA had not fully recognized the need for information systems to be managed at a strategic level and was not applying a strategic approach to updating its information systems. We also found that major information technology (IT) components were dispersed throughout OHA without oversight and coordination. Our follow-up found that OHA has taken steps to improve management of information technology. The office has designated CIO responsibilities to its chief financial officer and created an Information Technology Framework. OHA also uses work plans to carry out its high level goals for IT systems.

### **Investment Portfolio Review of the Office of Hawaiian Affairs, Report No. 09-10**

Our 2009 report found that OHA must improve its investment framework and process to ensure it meets its fiduciary duties to beneficiaries and that the board as a whole lacked adequate investment or financial knowledge to properly oversee its trust investments. Our follow-up found oversight of investment management has progressed, but some concerns remain. OHA now assesses its investment advisors' performance annually through year-end evaluations presented to the board. Although trustees are required to abide by an ethics policy in OHA's Investment Policy Statement, they are not required to certify that they abide by the policy. OHA also has no whistleblower policy.