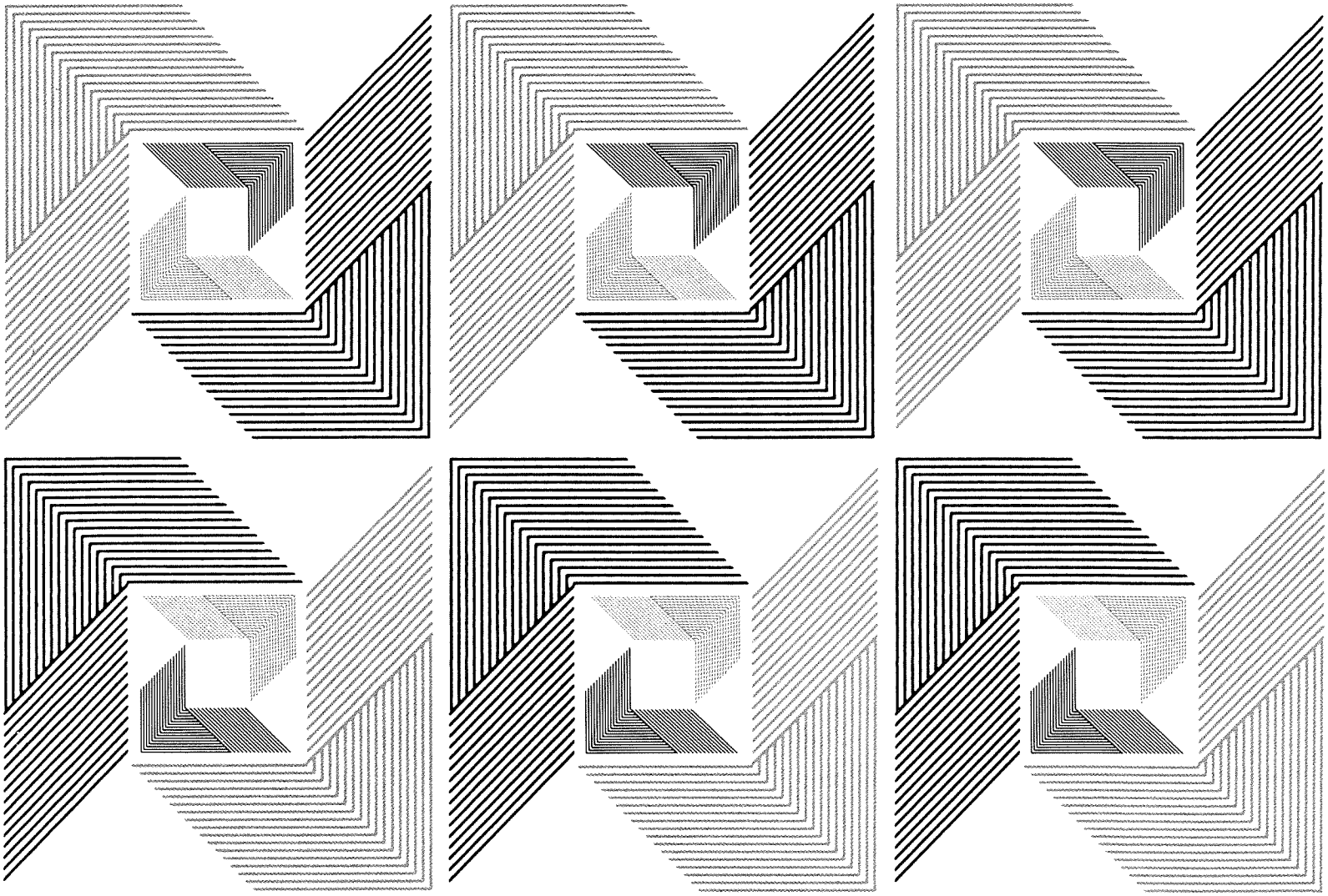
Report No. 90-11
February 1990

MANAGEMENT AND FINANCIAL AUDIT OF THE OFFICE OF HAWAIIAN AFFAIRS

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE OF THE LEGISLATIVE AUDITOR

The missions of the Office of the Legislative Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* are conducted of professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with a schedule and criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Legislative Auditor as to its probable effects.

5. *Health insurance analyses* are conducted on bills which propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Legislative Auditor for an assessment of the social and financial impact of the proposed measures.

6. *Special studies* are conducted when they are requested by both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Legislative Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Legislative Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

LEGISLATIVE AUDITOR

LEGISLATIVE AUDITOR
KEKUANAO'A BUILDING, RM. 500
465 SOUTH KING STREET
HONOLULU, HAWAII 96813

MANAGEMENT AND FINANCIAL AUDIT OF THE OFFICE OF HAWAIIAN AFFAIRS

• •

Conducted by

Office of the Legislative Auditor
State of Hawaii

and

KPMG Peat Marwick
Certified Public Accountants

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

Legislative Auditor of the State of Hawaii
Honolulu, Hawaii

Report No. 90-11
February 1990

FOREWORD

The Office of Hawaiian Affairs (OHA) is a unique organization in government in Hawaii. It was created by the 1978 Constitutional Convention to better the conditions of native Hawaiians and Hawaiians and to manage its share of revenues from the public land trust. It is free of many executive branch controls.

Act 303, *Session Laws of Hawaii 1989*, requested the legislative auditor to conduct a management and financial audit of OHA to ensure the proper expenditure of funds. This report was prepared in response to that request. We were assisted by the certified public accounting firm of KPMG Peat Marwick, which conducted the financial audit.

We wish to acknowledge the cooperation and assistance extended to us by former and present trustees and staff of OHA and by other members of the community. We also wish to express our appreciation to the Department of Accounting and General Services, the Department of Corrections, the Department of Education, the Department of Hawaiian Home Lands, and the Department of Human Services.

Newton Sue
Acting Legislative Auditor
State of Hawaii

February 1990

TABLE OF CONTENTS

Chapter		*Page*
1	INTRODUCTION	1
	Objectives of the Audit	1
	Scope of the Audit	1
	Organization of the Report	2
2	BACKGROUND AND FRAMEWORK	3
	Constitutional Convention of 1978	3
	Statutory Provisions for OHA	4
	Current Organization and Operations	5
	OHA's Rapid Growth and Development	9
	Framework for Evaluation	10
3	SOME ORGANIZATIONAL AND ADMINISTRATIVE ISSUES	11
	Summary of Findings	11
	Background on the Roles of the Board of Trustees and the Administrator	11
	Role of Trustees	12
	Role of the Administrator	15
	Recommendations	19
4	SOME PROGRAM MANAGEMENT ISSUES	21
	Summary of Findings	21
	Need for a System of Program Management	21
	Need for OHA to Publicize Programs Externally and to Improve Staff Communication Internally	27
	Recommendations	28

Chapter *Page*

5 BUDGET PREPARATION AND REPORTING OF EXPENDITURES 31

Summary of Findings 31
Need for a Budget Policy 31
Legislature's Need for Budget Information 34
Need for More Accurate Expenditure Reports 35
Recommendations 39

6 FINANCIAL ACCOUNTING AND INTERNAL CONTROLS 41

Summary of Findings 41
Independent Auditor's Report 41
Incomplete Manual of Guides 42
Lack of Segregation of Duties Over Cash Receipts 42
Requests for Trustees' Compensation 43
Criteria for Separate Health Insurance Plan 43
Explanation for Travel-Related Expenses 44

NOTES 47

APPENDIX 49

RESPONSE OF THE AFFECTED AGENCY 55

LIST OF TABLES

Table *Page*

2.1 OHA Program Expenditures, FY 1983-84 to FY 1988-89 7

2.2 OHA Appropriations, Revenues, and Expenditures, FY 1980-81 Through 1990-91 9

Table *Page*

5.1 OHA Appropriations and Expenditures, Fiscal Year 1987-88 37

5.2 OHA Appropriations and Expenditures, Fiscal Year 1988-89 38

Chapter 1

INTRODUCTION

This is a report on our audit of the management, operations, and financial transactions of the Office of Hawaiian Affairs (OHA). The audit was requested by the Legislature in Act 303, *Session Laws of Hawaii 1989*, which appropriated funds to OHA for the 1989-91 biennium.

The Office of Hawaiian Affairs was proposed by the 1978 Constitutional Convention, ratified by voters, and implemented by statutes enacted in 1979. Its purposes are to better the conditions of native Hawaiians and Hawaiians and to manage its share of revenues from the public land trust. OHA is also to serve as a receptable for reparations and a coordinator and advocate for Hawaiian interests.

Since 1979, OHA has been appropriated state general funds, matching trust funds, federal funds, and other monies. Between 1979 and 1989, these funds, plus unappropriated trust funds at the trustees' disposal, have totaled more than $19 million. OHA's 1989-91 appropriation of $9.37 million represents a substantial increase over previous authorizations. Since OHA is independent of many executive branch controls, the Legislature has asked for this audit to ensure the proper expenditure of funds.

Objectives of the Audit

The objectives of the audit were to:

1. Evaluate OHA's organization and administration;

2. Assess the effectiveness with which it implements its programs;

3. Examine the adequacy of OHA's budget preparation and execution processes; and

4. Make recommendations to improve OHA's performance in these areas.

Scope of the Audit

The audit focused on issues relating to OHA's organization, administration, and program management, including the appropriate roles and functions of the trustees, the administrator, and the staff, and how they exercise their respective responsibilities. Because OHA has not yet applied measures of effectiveness for all its program areas, we did not assess the performance of each of OHA's programs. We looked instead at general areas that could be improved and provided examples from OHA's projects. Our recommendations focused on changes in these areas that would help the office in its long-term development. The emphasis was on activities after 1986, although prior years were reviewed as appropriate. Interviews were conducted with past and present trustees and staff and with numerous individuals with related interests.

The financial audit was conducted by the certified public accounting firm of KPMG Peat Marwick. It included an examination of the financial records and transactions and the related systems of accounting and internal controls of OHA for the fiscal year ended June 30, 1989, as they relate to compliance with applicable provisions of the appropriations acts. It did not include the rendering of an opinion on the fairness of OHA's financial statements since an annual audit is performed by an independent auditor hired by OHA. A summary of OHA's

financial statements for the years ended June 30, 1985 through 1989 is provided in the appendix to this report.

Organization of the Report

This report consists of the following chapters:

Chapter 1 is this introduction.

Chapter 2 provides background on OHA and presents a framework for the review.

Chapter 3 evaluates some organizational and administrative issues.

Chapter 4 assesses some program management issues.

Chapter 5 examines OHA's budget preparation and expenditure reporting.

Chapter 6 presents the findings and recommendations of the financial audit of OHA for the fiscal year 1988-89.

Chapter 2

BACKGROUND AND FRAMEWORK

This chapter traces the history of the Office of Hawaiian Affairs (OHA) from the 1978 Constitutional Convention to the present. It describes OHA's organizational structure, its programs and activities, and concludes with our framework for examining the office.

Constitutional Convention of 1978

In 1978, the delegates to the State Constitutional Convention proposed, and voters of the state agreed, to establish an Office of Hawaiian Affairs (OHA). The creation of this office was hailed as a significant step that would usher in a new and hopeful era for all Hawaiians. A convention delegate stated:

> The primary purpose of proposal 13 is to grant to Hawaiians the right to determine the priorities which will effectuate the betterment of their condition and welfare. . . . It unites Hawaiians as a people and allows Hawaiians to affirmatively better their condition. . . . It is my dream and the dream of my people that the Hawaiian today be given the opportunity to provide for betterment of the condition and well-being of these young Hawaiians, to address the contemporary problems which Hawaiians face--of crime, inadequate housing conditions, welfare rolls, education.[1]

An editorial from one of Honolulu's daily newspapers commented:

> OHA represents the opportunity for Hawaiians to direct their own affirmative action and fulfill their own legitimate aspirations for proper standing in their own land.[2]

The constitutional amendments created a nine-member board of trustees and granted the board the following powers: (1) to manage proceeds and income from whatever sources for native Hawaiians and Hawaiians, including the pro rata revenues of the public land trust; (2) to formulate policy relating to native Hawaiians and Hawaiians; (3) to exercise control over real and personal property transferred to the board; and (4) to exercise control over OHA through its board-appointed executive officer, the administrator.

A "native Hawaiian" was defined as a descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands prior to 1778, as defined by the Hawaiian Homes Commission Act of 1920. A "Hawaiian" was defined as any descendant of the inhabitants of the Hawaiian Islands prior to 1778.

Public land trust. To place OHA in proper context, a brief historical discussion is presented of the public land trust. The public land trust was defined by the 1978 constitutional convention as consisting of ceded lands, excluding Hawaiian home lands, to be held for native Hawaiians and the general public. OHA was given the power to manage its pro rata share of revenues from the public land trust.

In the Great Mahele of 1848, King Kamehameha III set aside approximately 1.5 million acres of Hawaii's 4 million acres to be distributed among the chiefs and konohiki (lesser chiefs). He kept 1 million acres for his own use

and 1.5 million acres for the government's. The former became known as "crown lands"; the latter, as "government lands." Kuleana lands, totaling 30,000 acres, were awarded to tenants who had worked the land in any of the three categories--crown, government, and konohiki lands.

After the overthrow of Queen Liliuokalani in 1893, the crown lands were transferred to the Republic of Hawaii. Five years later, both government and crown lands were "ceded" in the annexation to the United States. The Organic Act of 1900 gave administrative control and use of most of these lands to the Territory of Hawaii, except for some the federal government set aside for its own use. During the next 59 years, the federal government returned some of the lands to the Territory, and in 1920 Congress set aside a total of 187,000 acres to be managed by the Hawaiian Homes Commission.

The Admission Act that granted statehood in 1959 returned most of the ceded lands to the new state and provided that certain public lands should be held as a public trust. It did not specify how the state government should use the rental income and sale proceeds that the trust might generate. The act merely stated that management and disposition should be as called for by the constitution and laws of Hawaii.

Statutory Provisions for OHA

To implement the constitutional amendments, the 1979 Legislature enacted Act 196, now codified as Chapter 10, HRS. Provisions for electing the trustees are included in Chapters 11 and 13D. The law has since been amended several times, most significantly by Act 273, *Session Laws of Hawaii 1980*, which designated 20 percent as OHA's share of the public land trust revenues. The statutes set out the purposes and powers of the office and the board, its organization, budgeting, appropriations, and expenditures, and other requirements.

Purposes and powers of OHA. The office has a broad mandate and is given correspondingly broad powers to carry it out. The statutes establish the following purposes for OHA:

- bettering the conditions of native Hawaiians and Hawaiians;
- serving as the principal public agency responsible for the performance, development, and coordination of programs relating to native Hawaiians and Hawaiians;
- assessing the policies and practices of other agencies impacting on native Hawaiians and Hawaiians and conducting advocacy efforts on their behalf;
- applying for, receiving, and disbursing grants and donations for native Hawaiian and Hawaiian programs and services; and
- serving as a receptacle for reparations.

The office is to carry out these purposes as a body corporate and as an entity independent of the executive branch. The powers and responsibilities of the elected board of trustees are numerous and broad in keeping with the broad mandate of the office. Under the board's direction, the office is empowered to adopt bylaws governing its business and to acquire and dispose of tangible or intangible property. It may expend funds subject to laws specifically applicable to it. The office may enter into any agreements or transactions it deems appropriate and necessary.

The statutes highlight for the board a trust responsibility over OHA's assets and the formulation of policy. The board may disseminate funds for pilot projects when such projects meet its criteria. It may make technical and financial assistance and advice available to any agency or private organization for Hawaiian programs.

The board is authorized to delegate its functions as appropriate to the administrator and staff.

The statutes also spell out a number of duties and requirements. Among other things, the board is to develop, implement, and continally update a comprehensive master plan; maintain an inventory of federal, state, county, and private programs and services; conduct and encourage research; act as a clearinghouse for applications for federal or state assistance; and promote and assist the establishment of agencies to serve native Hawaiians and Hawaiians. It is required to submit an annual report of its activities, income, and expenditures to the governor and Legislature prior to each regular session of the Legislature.

Current Organization and Operations

The board of trustees. The nine trustees serve four-year staggered terms. Four are elected in one general election year and five are elected in the next general election year. The board is organized into two leadership positions and four standing committees. The board annually selects its chair and vice chair. There is no limit on the number of terms any trustee can serve in the leadership positions. The four standing committees are: (1) external affairs; (2) programs; (3) operations and development; and (4) reparations and entitlements. The board also creates ad hoc committees and task forces as needed.

The board has adopted and amended its bylaws numerous times. It meets at least monthly, with some of these meetings on the neighbor islands. Most of the meetings outside the Honolulu office include a community session for open-ended discussions with constituents. The standing committees meet at least monthly.

Trustees were paid $50 per day for attending official events until July 1, 1989, when Act 290, SLH 1989, raised their compensation to $100 per day. In 1988-89, trustees' compensation ranged from $950 to $7900 each. The trustees also receive per diem payments when away from their residences. The office pays for their travel and other expenses with the chair's approval.

The OHA staff. The staff is led by an administrator who is appointed by majority vote of the board. The administrator can be removed at any time by a two-thirds vote of the board. The board sets the salary, but the salary cannot exceed that of state cabinet officers. The current administrator began in February 1989 and is compensated at the cabinet officer rate. The administrator is assisted by a deputy administrator who is also appointed by the board. The deputy administrator is paid at a deputy cabinet officer rate. The administrator recommends the hiring of staff, and the board makes the hiring and firing decisions.

The office is organized into nine divisions: (1) office of the administrator, (2) administrative services, (3) public information, (4) health and human services, (5) planning, (6) economic development, (7) government and community affairs, (8) land and natural resources, and (9) education.

Each division, except for the office of the administrator, typically consists of a division officer and one or more specialists. The majority of the staff are housed in leased space at 1600 Kapiolani Boulevard in Honolulu. OHA also leases five field offices on the neighbor islands, each staffed by a liaison. Three of the field offices also have clerk typist positions. A state deputy attorney general reviews contracts for form only. Clerical staff were reorganized recently into a pool arrangement instead of being assigned separately to the divisions.

The authorized position count for OHA in FY 1988-89 was 43 positions. This was increased to 53 for the 1989-91 biennium. The additional positions are for both professional and clerical staff. Not all have been filled.

While not part of the OHA staff, one other entity carries out a significant portion of OHA's work. The Native Hawaiian Legal Corporation

is a nonprofit legal services agency that grew out of the Legal Aid Society of Hawaii. Approximately three-fourths of its funding comes from OHA through a contract to defend Hawaiians being sued over title to land. The other one-fourth consists of federal grant funds for which income eligibility criteria exist.

OHA also secures legal services through contracts with attorneys in private practice. The board has hired its own legal counsel. Contracts for personal services for OHA programs and projects are also extensively utilized.

The OHA program. The OHA program consists of all of the activities of the office, whether carried out by its staff or its contractors. The program is divided into ten program areas--six consisting of services and activities for beneficiaries, and four established to administer and support the organization. All program areas are administered by their respective divisions with the exception of the culture program, which was subsumed under the education division in 1989.

The program areas encompass numerous and diverse projects. Program area expenditures through fiscal year 1988-89 are shown in Table 2.1. Program objectives and activities are summarized below.

Land and natural resources program area. In expenditures, this is one of OHA's major program areas, with approximately $2.5 million spent since 1983-84. This represents 19.5 percent of program expenditures in that period of time. Its main objective is to represent native Hawaiian and Hawaiian rights and concerns related to natural resources. The program has monitored ceded lands, acquired individual land titles through a contract with the Native Hawaiian Legal Corporation, funded the publication of a *Native Hawaiian Rights Handbook*, and conducted advocacy activities on issues related to historic and natural resources.

Economic development program area. The objectives of the economic development program are to maintain a Hawaiian segment in the state's economy. The expenditures have been 4 percent of all program expenditures. The program gives technical and direct assistance to businesses and individuals, and administers the Native Hawaiian Revolving Loan Fund, its main project.

Education program area. The education program seeks to enable Hawaiian youths to become as fully educated as possible and to promote the study of Hawaiian culture, history and language. The $861,000 spent in this program area since 1983-84 are 6.6 percent of program expenditures. Activities have included a tutoring project in basic skills, instruction in Hawaiian culture, youth leadership training, and substance abuse education.

Culture program area. This program area is intended to increase awareness, understanding, and preservation of Hawaiian culture and to advise governments on plans that relate to Hawaiian culture. The expenditures of $545,000 since 1983-84 are 4 percent of program expenditures. The staff has published booklets, responded to requests for translation and historical information, reviewed environmental impact statements, and advocated the preservation of historic and religious sites.

Health and human services program area. This is the smallest program in terms of recent expenditures. In fiscal year 1988-89, $71,864 was spent on this program area. Over the years, it has accounted for 6 percent of OHA program expenditures. For OHA beneficiaries, the objectives here are to assure that they participate in health and social progams in the public and private sector. Projects have included funding a self-help housing grant, sponsoring a genealogy project, donating books to prison facilities, funding a mediation project for incarcerated women, and providing administrative funds for Papa Ola Lokahi (a federal grant project for health services).

Table 2.1. OHA Program Expenditures, FY 1983-84 to FY 1988-89.

Program	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89*	Total
Land and Natural Resources	$435,060	$410,453	$424,802	$456,146	$392,677	$427,230	$2,546,368
Economic Development	40,800	41,937	93,362	94,471	71,908	181,397	523,875
Education	85,477	85,086	120,554	187,962	158,213	223,455	860,747
Culture	54,625	62,736	110,750	96,867	142,203	78,079	545,260
Health and Human Services	88,677	131,251	158,976	209,955	115,154	71,864	775,877
Government and Community Affairs	207,572	158,639	149,705	226,463	243,525	310,696	1,296,600
Public Information	124,935	164,771	148,309	191,198	289,310	315,657	1,234,180
Planning and Development	130,715	94,177	98,620	117,128	192,819	190,193	823,652
Administrative Services	258,668	277,621	358,105	403,443	545,787	528,432	2,372,056
Office of the Administrator	301,649	342,983	294,320	323,475	326,758	477,486	2,066,671
Total	$1,728,178	$1,769,654	$1,957,503	$2,307,108	$2,478,354	$2,804,489	$13,045,286

Note: Totals do not include capital outlay and debt service expenditures.

*Expenditures per OHA internal financial statements.

Sources: Annual Reports, Office of Hawaiian Affairs, 1983-88.

Government and community affairs program area. The primary objectives of this program are to lead OHA's advocacy activities in government and to promote the involvement of Hawaiians. The 1983-89 expenditures of $1.3 million represent 10 percent of program expenditures. Activities have included monitoring and participating in legislative activity, representing OHA on the State Election Advisory Council, and providing liaisons for neighbor island offices.

Public information program area. The public information program disseminates information to the Hawaiian community and general public about OHA's activities and accomplishments and also about issues affecting its beneficiaries. The $1.23 million spent since 1983 comprise 9.5 percent of program expenditures. These objectives are accomplished through its monthly newspaper, *Ka Wai Ola O Oha*, a weekly half-hour radio program, press releases, and the annual report.

Planning and development program area. This area is intended to enhance OHA's effectiveness and efficiency by providing services in comprehensive planning, data compilation and analysis, policy formulation, and grants management. The program area has accounted for 6.3 percent of program expenditures or $820,000. The program area is supposed to evaluate the effectiveness of OHA's activities. The staff has revised OHA's master plan, compiled an appendix to it, and developed four planning reports.

Administrative services program area. This program area provides management assistance, policy development, resource allocation, personnel management services, and fiscal control for OHA. The expenditures of $2.4 million since 1983 represent 18 percent of program expenditures. The program prepares reports for management and the Legislature, drafts contracts, and exercises administrative control over all OHA funds.

Office of the administrator. The office provides executive direction and management and other related services for OHA. The $2 million spent by this program area since 1983 accounts for 15.8 percent of program expenditures. It supervises broad areas of policy, planning, directing, and evaluating. The administrator oversees all OHA operations.

The budget. OHA operates with state general funds, land trust revenues, interest and investment income, federal grants, revenues generated by the Native Hawaiian Legal Corporation, donations, and miscellaneous income. Table 2.2 displays the appropriations and reported revenues and expenditures for fiscal years 1980-81 through 1987-89 and appropriations for fiscal years 1989-90 and 1990-91.

The Legislature has appropriated general funds since OHA's inception and has required OHA to match those amounts with its special fund revenues. General fund support has totaled $9.8 million from 1980 through 1991. Between 1981 and 1987, provisos in the OHA appropriations acts simply required OHA to match the general fund appropriation levels with special funds. From 1987-88 onward, the Legislature has appropriated specific special fund amounts, usually at matching levels.

As can be seen in Table 2.2, special fund revenues have consistently exceeded what OHA needed to match general fund appropriations. OHA is free to decide on the disposition of these excess revenues. The trustees have expended and invested the excess revenues in various ways--including conferences, contracts, programs, projects, stocks, bonds, and certificates of deposit. OHA's audited financial statements report an investment portfolio of $4.09 million at market value as of June 30, 1988.

Table 2.2. OHA Appropriations, Revenues, and Expenditures FY 1980-81 Through 1990-91.

Fiscal Year	Appropriations: General Fund	Appropriations: Special and Federal Funds	Revenues	Expenditures
1980-81	$ 225,000		$1,589,884	$ 186,825
1981-82	415,466	$ 415,466	1,369,577	1,175,795
1982-83	540,785	540,785	1,579,269	1,356,232
1983-84	535,861	535,861	1,676,563	1,849,199
1984-85	567,178	567,178	1,674,658	1,810,250
1985-86	589,310	589,310	1,687,333	2,081,482
1986-87	596,881	596,881	1,998,416	2,401,034
1987-88	1,297,395	1,476,350	1,472,686	2,542,575
1988-89	1,327,208	1,527,208	2,538,537 *	2,804,489
1989-90	2,066,742	2,865,217**		
1990-91	1,738,380	2,695,376**		

Note: Includes appropriations, revenues, and expenditures from 1980-81 through 1987-88, and appropriations for 1989-90 through 1990-91.

* Includes federal grant for loan fund received but not appropriated.
** Includes appropriation for loan fund.

Sources: Appropriations acts for OHA and for collective bargaining augmentation for exempt employees; combined statements of revenues, expenditures and changes in fund balances, OHA, fiscal years ended 1981 through 1989.

OHA's Rapid Growth and Development

OHA's first decade was marked by rapid growth, numerous changes, and organizational instability. When first established, OHA had no administrator, staff, or office space. In January 1981, the board of trustees secured office space at Kawaiahao Plaza. Starting with 900 square feet of space and one employee, OHA quickly expanded to a 3,000 square foot office with a staff of 23. Within a few months the OHA office had been "transformed from a large empty room with three pieces of surplus military furniture, to a modern and well-furnished office operating in downtown Honolulu."[3]

OHA soon involved itself in a variety of areas including: ceded land disposition and entitlements; federal surplus lands; water and mineral resource rights; educational opportunities for beneficiaries; the study of Hawaiian culture, history, and language; historic

preservation; other Polynesian peoples and cultures; health, social, and other services for Hawaiians; business assistance programs; various legislative issues; and memoranda of agreement with selected state and private agencies and with indigenous peoples.

In 1981, OHA structured itself into five administrative sections and six program areas. Each program area was headed by a trustee with some authority over staff. Since then, OHA has continued to experience numerous administrative, personnel, organizational, and structural changes. In its ten-year history, OHA has had 4 different administrators and 18 different trustees. There have been numerous staff changes; few employees have been with OHA since its inception. The organizational structure has been changed several times. In 1987, the board reduced its standing committees and relinquished authority over program area staff.

OHA currently uses a *Policy and Procedure Manual* and *Board of Trustees Bylaws*. Both have undergone numerous changes. Additionally, new manuals and guidelines are being developed by the organization. In 1982, OHA developed a master plan "to provide a framework for the definition, delineation, and implementation of specific objectives, policies, and programs which lead to the betterment of conditions for Hawaiians and Native Hawaiians."[4] That plan was revised in 1988. The plan sees OHA serving as an advocate, coordinator, facilitator, monitor, policy-maker, researcher, trustee, and provider of services. The master plan presents goals, objectives, and policies. It lays out a planning process that encompasses the master plan with its long-range goals, division plans for the next four to five years, and operating plans with one to two-year time frames. These operating plans are to be the basis for OHA's budget requests.

OHA's rapid growth becomes readily apparent when examining the funding history of the organization. During the past decade, OHA has received a significant increase in state funding (see Table 2.2). For example, in fiscal year 1980-81 OHA received a state general fund appropriation of $225,000. This was augmented by nearly $1.6 million in revenues. OHA had expenditures of approximately $187,000 that fiscal year. By fiscal year 1984-85, OHA's general fund appropriation more than doubled. OHA received about $567,000 from the State that year. OHA's expenditures for fiscal year 1984-85 were over $1.8 million. By fiscal year 1989-90, OHA's general fund appropriation topped the $2 million mark. These funds were augmented by nearly $3 million in special and federal funds.[5]

Framework for Evaluation

The request for a management and financial audit of OHA comes at an appropriate time. The office has been operating for a decade. It has ventured into many new areas, explored different ways of providing services, and framed different ways to manage itself. During the same time, the office has had extensive turnover in trustees, administrators, and staff. The decade has been a period of dynamic growth and change. Inevitably, OHA has had growing pains.

The office has had to come to grips with many difficult issues. These include finding its own niche among the numerous ongoing services provided by other agencies, determining how to translate its broad mission into realistic and achievable objectives, establishing programs that would meet the diverse needs of its constituents, and attempting to establish an appropriate organizational structure and administrative process that would enable it to carry out these functions.

The office is still in its developing stages. It remains open to new initiatives and experimentation. Our audit of the office took into consideration the constraints and opportunities within which the office operates. Our primary focus was on the changes that are needed at this time to assist the agency in its long-term development.

Chapter 3

SOME ORGANIZATIONAL AND ADMINISTRATIVE ISSUES

In this chapter, we review issues related mainly to the organization and administrative processes of the Office of Hawaiian Affairs (OHA). We discuss the roles and functions of the Board of Trustees, the OHA administrator, and OHA staff.

Summary of Findings

1. *The board of trustees has taken some important steps in creating a role for itself within the broad guidelines of the State Constitution and the statutes. However, it has not yet fully clarified and implemented what it sees as its role in the following areas:*

   - *The board's oversight role over OHA projects is not clear. This has resulted in some confusion over lines of authority and responsibility.*

   - *The board's relationship with the administrator and OHA staff is sometimes blurred, and work assignments do not always follow the chain of command.*

   - *Further clarification is needed on the board's role in contracts, grants, and agreements. Some confusion exists among staff as to the level of involvement of trustees.*

2. *The need continues for the administrator to exercise the role established by law and policy. The office needs to implement the approved reorganization, make the necessary administrative changes, and attend to certain personnel matters.*

Background on the Roles of the Board of Trustees and the Administrator

The general functions of the OHA board of trustees and the administrator and the relationship between the two are set forth in the State Constitution and statutes. The board is a policy-making and oversight body responsible for carrying out the broad powers assigned by law to the Office of Hawaiian Affairs. According to the constitution, the board is to exercise its control over OHA *through* the administrator that it appoints.[1] In defining the relationship between the administrator and the board, the statutes state that the board delegates to the administrator and staff the necessary powers and duties to carry out "the powers and duties vested in the board."[2]

It is important that the policymaking and oversight function of the board be clearly distinguished from the executive function of the administrator. This point has been made by several earlier reports on OHA. A 1986 audit noted that the board of trustees had become too involved with the day-to-day administration and operation of OHA and had set aside what was felt to be its primary role. The audit noted:

> We believe the trustees have become too involved with the administration and operation of OHA. We recommend they assume a higher role of establishing policy

for implementation by the Administrator and professional staff. We believe the board could be more effective in focusing on broader issues such as establishing priorities, fostering external relationships, and providing better advocacy of Hawaiian concerns.[3]

Subsequently, OHA took several steps to clarify the respective functions and roles of the trustees and the administrator and staff. It updated and revised the *OHA Policy and Procedure Manual* to reflect the commitment of the board of trustees to focus on policy formulation and to delegate to the administrator greater control and authority over day-to-day operations."[4] OHA also updated and amended the *OHA Board of Trustees Bylaws* to say that the board will exercise control *through* the administrator. The administrator would be the principal executive and would operate and conduct the business and affairs of the Agency according to the policies adopted by the board.[5]

A 1988 report by a management consultant reiterated the importance of clarifying and differentiating the various roles and responsibilities within OHA. The report designated the administrator as the manager of OHA's operations. It said that the office of the administrator directs, coordinates, supervises and manages OHA's operations and staff activities."[6]

During the 1989 legislative session, OHA testified that it had amended its by-laws and adopted polices that allow the administrator to implement its policies with staff assistance. OHA stated that these changes "have resulted in the delegation of more management control to the administrator and clearer lines of authority. Generally, the board depends on the administrator to implement policies with the trustees' responsibility being focused on oversight."[7]

Role of Trustees

Since its inception, the Office of Hawaiian Affairs has worked at crafting an organization within the broad guidelines set by statute and constitutional amendment. It now has formal policies differentiating the roles of its board of trustees, its administrator, and staff. OHA now needs to implement what it has formally shaped and continue to clarify certain areas as needed.

Discussed below are several areas where the board of trustees might further strengthen its role as the heart of the organization. These areas relate to its oversight function, its relationship with OHA staff, and its responsibilities for contracts, grants, and agreements.

Clarify and implement its oversight function. To use wisely the resources given to the office, an important responsibility of the board is to ensure that all projects have been properly authorized and are being appropriately implemented. It should know the objectives of the projects and review regular reports on their activities and progress. This would inform the board about whether the projects it authorizes are properly structured and administered. The board could then report annually to the Legislature on the status of its program. This oversight function is sound management practice and is required by law and OHA's bylaws, plans, and policies.

The manual states that OHA is responsible for monitoring and assessing the activities that impact upon native Hawaiians and Hawaiians. According to the bylaws, the board of trustees is supposed to exercise its oversight through standing committees. The committee on programs, for example, establishes programs to implement OHA's goals and priorities, provides oversight, functions as a clearinghouse, monitors other agencies, and awards scholarships.[8]

Native Hawaiian Revolving Loan Fund. To illustrate how OHA could better perform its oversight function, we examined one of OHA's major projects, the Native Hawaiian Revolving Loan Fund (NHRLF). In implementing the project, the board is responsible for clarifying the roles of all parties involved in the project, specifying how decision making responsibilities are divided, and setting forth the kinds of information that should be provided for review of project actions.

The NHRLF is a $3 million, four-year, low-interest loan program that targets Hawaiians who want to start, expand, or improve their businesses but are unable to qualify for loans at conventional financial institutions. Funding is provided by the Administration for Native Americans (ANA), a federal agency. OHA was awarded a grant and is responsible for administering the project. The ANA approved a 10-member board of directors to set policy and approve loans. The loan fund board has adopted its operational plan and major loan policies. To staff the project, OHA has hired a loan manager, two loan officers, and a secretary/bookkeeper.

Loans are made for a maximum of five years at an interest rate that is two percent below the Treasury Bill rate at the time of the loan. The policies of the loan fund board provide for a maximum loan of $100,000 per applicant, but the preferred range is from $25,000 to $50,000. Loans under $10,000 are usually not considered. The policies also state that loans will be granted only if the applicant cannot obtain financing from other sources and only if there is a reasonable prospect that the loan will be repaid.

Eligible applicants must prove that they are Hawaiian or that the business or organization requesting the loan is entirely owned by individuals of Hawaiian ancestry. Loans can be used to acquire fixed assets such as equipment and machinery or to provide working capital for inventory and operations. All applicants are screened by the NHRLF staff and a three-member loan committee chosen by the loan manager. The loan fund board approves the loans.

Since opening for business in mid-1989, the NHRLF has received over 1,700 inquiries and close to 300 formal applications for loans. The first group of loans ranged from $17,600 to $50,000. The loan recipients include such businesses as a guard services firm, a school of gymnastics, and a tropical fruit farm.

Organizational questions. In July 1989, the NHRLF was officially placed under OHA's economic development division and all files were transferred to the officer in charge of the division. However, the trustees have not clarified whether the office or NHRLF has final control over the activities of the project. Also needing clarification are the responsibilities of the several key parties--OHA's board of trustees, its administrator, the officer of OHA's economic development division, the NHRLF board of directors, the loan officer, project staff, and the committee that reviews applications. How far NHRLF's board of directors should become involved in operational, administrative, and personnel matters should also be settled.

The authority of OHA's economic development officer over the loan project needs to be clarified. Although the project has been placed in the economic development division, the loan manager answers to the loan fund board, believing that the fund is placed in the economic development division for administrative purposes only. At the same time, the OHA division officer is responsible for completing a job performance evaluation of the project's loan manager. Lines of communication between the project and OHA's economic development division are not in place and should be developed.

Administrative control. Poor administrative control and oversight of the project have contributed to difficulties in maintaining reporting requirements, reviewing loan

applicants, requiring collateral security, and publicizing the program. The project has not been able to meet the ANA reporting requirements for complete and updated files on board minutes and other documents. The loan fund board has drafted an organization plan but has not yet assembled all of the required exhibits.

Even though the formal reporting mechanisms are in place, OHA's access to information on project activities will remain limited until organizational questions are settled. Because the board is ultimately responsible for OHA's assets, it needs to clarify and implement its oversight function over all projects.

Clarify relationship with OHA staff and support chain of command. OHA's board of trustees, in its master plan, bylaws, and manual of policy and procedure, has formalized to a large extent its role in relationship to the administrator and staff. However, the lines between operations and decision making are blurred at times. Two examples are direction over OHA staff and the role of liaisons.

Direction over OHA staff. According to OHA's bylaws, the administrator has general supervision and direction over the staff and is responsible for their performance and duties. (Trustees have a small clerical staff.) On occasion, the trustees have bypassed the administrator in assigning work to staff. It is important that work assignments for the administrator's staff follow the accepted chain of command--through the administrator who can then assign them to the appropriate staff member. It is also important that the administrator and his staff continue to be responsible for screening, interviewing, and testing job applicants. The accepted chain of command through the organization should be made clear to employees, particularly in cases where employees have grievances.

Functions of liaisons in OHA's branch offices. OHA would benefit if the functions, responsibilities, and reporting relationships of liaisons were agreed upon and understood by the board, administrator, and liaisons. Created to serve the needs of residents on each island, they are a valuable link with the public and with OHA's beneficiaries. OHA could improve its use of and support for these employees.

OHA maintains two branch offices on Hawaii (Hilo and Kona), and one office on Maui, Molokai, and Kauai. Each of these five offices is staffed by a liaison who is supposed to help OHA meet the needs of respective island residents. The Molokai liaison also serves the Kalaupapa community and the island of Lanai.

The liaisons are placed organizationally under the government and community affairs division. Their duties include establishing and promoting a cooperative relationship between the office, its beneficiaries, and the larger community; disseminating information to beneficiaries; identifying individual and community needs; and maintaining an effective channel of communication with the Hawaiian and community organizations and government agencies.[9]

Clarification of role and functions. Although OHA has formally established their responsibilities, it has not fully clarified their function and role. As a result, liaison activities are not appropriately controlled or adequately coordinated.

The field offices often serve as a base of operations for neighbor island trustees. Because liaisons are geographically separated from the home office, they often serve as personal staff to the trustees. At the same time, OHA's official expectation is for these employees to work closely with the community to better identify community concerns and needs. They are to generate better communication and cooperation between OHA and the general public, beneficiaries, and government and private agencies. They are sometimes called upon to help implement OHA projects. The liaisons, however, cannot meet the expectations of the trustees, those of the

administrator, and also the demands of in-office work. This last responsibility includes answering telephone calls, meeting with walk-ins, taking care of correspondence and filing, and undertaking other administrative and clerical duties.

Organizational placement of liaisons. The uncertainty about the organizational placement of the liaison program should be cleared up so that these employees can fulfill their intended function. Under the existing structure, they fall under the government and community affairs division. However, given the nature of the work, the liaisons serve as front-line representatives of OHA. They are expected to work with and assist board of trustee members and staff personnel from each of OHA's divisions or offices. To ensure proper management controls and improved coordination, OHA might consider placing liaisons directly under the administrator or deputy administrator.

Clarify board's role in overseeing contracts, leases, and agreements. It is not clear what the board of trustees sees as its role in approving and overseeing contracts, leases, and agreements. The statutes give OHA broad powers to apply for, receive, and disburse grants and donations from all sources for native Hawaiian and Hawaiian programs and services. Section 10-4(4), HRS gives OHA the general power, under the direction of the board of trustees, to "enter into and perform such contracts, leases, cooperative agreements, or other transactions with any agency or instrumentality of the United States, or with the State, or with any political subdivision thereof, or with any person, firm, association, or corporation, as may be necessary in the conduct of its business and on such terms as it may deem appropriate."[10]

Within this broad mandate, the board has not yet clarified its role for its members or adequately communicated it to the staff. Some staff have operated under the belief that specific trustee approval may not be necessary for some contracts. This view is contrary to that of some members of the board. Some trustees have requested that all contracts be subject to board approval, and some even prefer that the appropriate standing committee also be involved in the approval process.

It would be beneficial for the board of trustees to clarify how its members will direct the approval of contracts and grants, when they will be involved, who will be involved, and at what point the administrator becomes responsible.

Role of the Administrator

The role established by OHA for its administrator makes the position responsible for carrying out the policies and directives established by the board. The role of staff is to assist and support the administrator in meeting those directives. The bylaws contain the following description of the administrator's duties:

> The Administrator of the Office of Hawaiian Affairs shall be the principal executive of the Agency, and shall be responsible for the management of the Agency. The Administrator shall operate and conduct the business and affairs of the Agency according to the policies adopted by the Board. The Administrator shall have general supervision and direction of all other employees of the Agency and shall be responsible for the proper performance of their respective duties, with the exception of employees whose duties shall require supervision and direction by the Board.[11]

Viewed organizationally, the administrator carries out and implements the decisions of the board, and the staff carries out and implements the decisions of the administrator. Put simply, the administrator is a channel for the board's directives and policies. The administrator also supports the board by providing it with information to make its decisions and shape its policies. Finally, the administrator is a manager

of staff. The administrator sets up the means for accomplishing the decisions of the board.

Reorganizing to better serve the board. The reorganization of OHA to improve operational and management efficiency has been a priority for the new administrator. The administrator believes that organizational and administrative changes would help improve the administrative and staff response needed to implement the many and complex decisions and directives identified by the board. Consequently, a few months after being hired, the administrator presented a reorganization plan to the board which was subsequently approved.

Among the key changes made by the administrator were to recruit and hire a deputy administrator who would be responsible for overseeing and monitoring the offices of administrative services (accounting, grants, personnel, support services), public information, and planning and research. The education and culture divisions were combined since the areas were felt to be closely related, with many shared issues. The secretarial pool was developed to increase the efficiency and maximize the effectiveness of OHA's support personnel and to address some of the morale problems that appeared to stem from uneven distribution of work among the secretaries.

As can be expected in any reorganization effort, the changes created concerns among some trustees and staff. Not everyone agreed with the new structure, nor were all changes popular. Nevertheless, time is needed before their success can be measured. It would benefit the office for the trustees and staff to give these actions sufficient support in the interim.

Other administrative improvements. There is need for the administrator to complete the manual of guides, implement a centralized filing system, and complete the office procedures manual.

Administrative and Financial Manual of Guides. The manual of guides is an important organizational and management document. Along with the *OHA Policy and Procedure Manual* and the *Board of Trustees Bylaws*, the manual contains the basic procedural and policy guidelines for the organization. It is expected to consist of nine titles. To date, only four of the titles have been completed (Title 1: Trustee Compensation and General Allowances and OHA Protocol Fund; Title 2: Travel and Travel Allowance; Title 8: Property Control; and Title 9: Recovery of Money Owed to OHA).

The administrator should try to complete the manual of guides as expeditiously as possible, and to include the *OHA Employee Handbook* and *OHA Office Procedures Manual* as planned.

Centralized filing system. Part of the administrator's job is to provide the board with the information it needs to carry out its functions and responsibilities. A centralized filing system would enhance management by making information more readily accessible to the staff and trustees. OHA currently has no centralized filing system. Each divison maintains its own files and saves material it deems to be needed. This has resulted in delays in retrieving information, inconsistent practices in retaining information, and lost or misplaced files. Now that the reorganization has been approved, a central filing system would help support that effort.

OHA should decide what documents should go into a central file and what should be maintained at the division and project levels.

Confidential files. Many projects use, and eventually accumulate, confidential material such as legal documents, loan applications, and personal information on individuals. OHA needs to identify what kinds of confidential information comes into its possession, which individuals need access to the information, and how the information will be stored. The confidential documents should include such records as individual business plans entrusted by applicants to the OHA business grant program. Business plans are an organization's confidential working

papers based on research and data projections that are used in evaluating loan requests. Sometimes an organization puts a great deal of effort and many resources in developing its business plans. These plans should not be accessible to anyone except those specifically responsible for administering the relevant project or activity.

OHA needs to institute procedures to secure confidential files. Documents should be physically secured and access to them limited. While a project is still under way, the program staff may need access. But once a project is terminated or if files are closed, the physical location of the confidential documents should be identified and the contents secured.

Office procedures manual. OHA has been operating without any formal office procedures manual. This has resulted in such inefficient office practices as inconsistent routing practices, misrouted or misplaced correspondence, inconsistent filing requirements, and delays in responding. The administrator has recognized the need for a manual to help systematize the activities of the staff. He has prepared a manual but it is currently in draft form. He intends to incorporate it into OHA's *Manual of Guides.*

The purpose of the manual, according to the draft, is to provide all secretarial and clerical personnel with consistant guidelines and procedures to "facilitate the flow of paperwork in an effective, efficient, and economical manner."[12] The manual covers such areas as OHA acronyms, internal communications, and correspondence controls. To date, the manual has not been officially adopted. The administrator should ensure that the manual is properly approved and implemented as part of the *Manual of Guides* as planned.

Personnel management. With its broad mandate, limited staff resources, and many recent changes, OHA's successes will depend on the proper management and support of its staff. Personnel management is concerned with meeting the staffing requirements of different segments of the organization and addressing the legitimate concerns of employees. Large organizations find it useful to compile their personnel policies and procedures, to maintain official descriptions of the duties and responsibilities of staff, and to encourage employee development through regular evaluation and training.

Personnel policies. OHA's personnel policies were based on the rules developed by the State's Department of Personnel Services. These policies were contained in an employee handbook. In April 1989, the board of trustees repealed the handbook. Since new policies have not yet been adopted, OHA employees have no formal guidelines, nor any official statement of their legal responsibilities and rights.

The board of trustees has agreed that the administrator should complete the employee handbook. With this responsibility now delegated to the deputy administrator, a draft should be completed as expeditiously as possible for the board's approval.

Position descriptions. In March 1988, OHA completed a major revision of its position descriptions to reflect current responsibilities for each position, to ensure that the job titles were consistent with titles on the organization chart, and to develop minimum qualifications. Recent changes in organizational structure, however, require that certain descriptions be updated or otherwise revised. New descriptions also need to be drafted and approved.

In large or complex organizations, a position description is important because it ensures the proper recruitment, compensation, placement, evaluation, and training of employees. It is a written statement of the major duties and responsibilities, placement, and qualifications of a particular position. It need not be long or complicated. But it should be clear and up to date to show what is expected of that position and how it relates to the whole organization. Some examples of needed changes are discussed here.

Under the new organizational structure, the grants application and management specialist position now falls under the administrative services office and should be revised to reflect that. The planning officer position description should also be revised since that position no longer prepares grant applications.

The consolidation of the education and culture divisions makes it necessary to revise several descriptions. The description for culture officer is no longer needed. The descriptions for the education-culture officer, culture specialist, and education specialist will also have to be amended to accurately reflect new duties and responsibilities.

A new office manager position was created under the new reorganization plan. A description needs to be developed for that staff member.

Job performance evaluations. A job performance evaluation policy sets out such guidance as the responsibilities for job performance evaluations, when they should be done and the procedures to be followed. A job performance evaluation is used to assess the quality of an employee's work performance. Used appropriately, it can improve work performance, clarify job standards, strengthen the relationship between employees and supervisors, recognize an employee's work accomplishments, identify training and development needs, and provide the basis for promotions and pay increases. Most organizations can always find room for improvement in this area. OHA does not yet have a job performance evaluation policy in place.

OHA's 1986 evaluations were the first for many employees. Although improvements have been made since then, a few areas need attention. Interviews with staff indicate that not all employees have been evaluated annually, as is the general practice. Some staff would prefer being evaluated twice a year. Some division officers may benefit from training in conducting evaluations, working with their staff in setting goals, developing training plans, and maintaining communication. This would make the evaluation process more supportive.

Staff should be informed about how performance evaluations tie into pay raises. Adequate time should be provided to conduct evaluations with care and sensitivity. A 1989 memorandum instructed all division officers to complete performance evaluations within four days after receiving the memorandum. This will not allow enough time for each officer to discuss the evaluations with staff. A staggered approach might help.

Staff training. Most organizations recognize the importance of training but often find it difficult to commit the time and resources to this effort. Yet training can help improve morale and ensure the effectiveness of employees.

OHA currently has no comprehensive training program or written policies in this area. A staff member (or members) could be assigned the responsibility of training coordinator and help set up a program for the organization. This person would be responsible for planning, developing, and coordinating a program; disseminating training information; overseeing activities; helping division officers with on-the-job training; and setting up a procedure to monitor and evaluate training activities.

OHA might also find it useful to have an orientation program to acquaint new employees with the general purpose, mission, and goals of the organization and the specific functions and responsibilities of the various divisions. New employees would benefit from being introduced to the administrators, division officers, and members of the board of trustees.

A training program need not be expensive. For example, the office has sophisticated office equipment but few staff who are properly trained to use it. The office might use its own staff to conduct training, develop exchange programs

with other agencies or organizations, and use the training opportunities provided by the Department of Personnel Services.

Recommendations

1. *The Office of Hawaiian Affairs should continue to clarify and exercise the role it has shaped for the board of trustees, the administrator, and the staff.*

2. *The board of trustees should give attention to the following:*

   - *comply fully with its mandated responsibility to provide appropriate oversight controls over all OHA projects and activities, with particular attention to the Native Hawaiian Revolving Loan Fund;*

   - *clarify and appropriately exercise its relationship to the administrator and staff, with particular attention to matters of personnel and the function and role of liaisons;*

   - *strengthen its oversight of contracts, agreements, and leases by clarifying how it will direct the approval of contracts, when it will be involved, and at what point the administrator becomes responsible.*

3. *The administrator should continue to carry out the functions of the position, with particular attention to the following:*

   - *ensure that all reorganization initiatives, including the consolidation of the education and culture divisions and development of the secretarial pool, are being properly complied with, monitored, evaluated, and improved as necessary;*

   - *base office practices on formal procedures that encourage efficient operations and appropriate accountability by implementing a central filing system, developing procedures to secure confidential files and control access to them, completing the Administrative and Financial Manual of Guides, and instituting the Office Procedures Manual;*

   - *take appropriate action to strengthen the office's pesonnel management system by completing the employee handbook, updating position descriptions, adopting and implementing a job performance evaluation policy, evaluation, and setting up a training program for staff.*

Chapter 4

SOME PROGRAM MANAGEMENT ISSUES

The trustees and staff of the Office of Hawaiian Affairs (OHA) engage in numerous activities while carrying out the mission of the office. These activities range from administrative and support services for funded projects and programs to conferences and other direct services for beneficiaries. Taken together, these activities constitute OHA's overall program. In this chapter we discuss some general improvements that can be made in program management at all levels.

Summary of Findings

1. *OHA does not have in place a program management system to ensure that activities and projects are adequately planned and appropriately initiated, and that trustees and administrators are apprised of progress. In developing a program management system OHA needs to do the following:*

   - *In planning its activities, the office needs to coordinate with other agencies having related concerns. There is some avoidable duplication of effort, particularly in the area of health and social services.*

   - *Better reporting and record keeping of projects is needed to account for activities.*

   - *In initiating projects, OHA should consider providing for continuity for projects that show promise.*

2. *The office should improve both external and internal communication about program activities. It needs to publicize its activities more widely and time the releases appropriately. It also needs to improve internal communication and teamwork among its staff.*

Need for a System of Program Management

Need for program management system. OHA carries out numerous activities in each of its six program areas. However, there is no process in place that informs staff about how to carry out its program management responsibilities, ensures that projects are adequately justified with clear objectives before they are implemented, and provides sufficient information to the administrator and the trustees about the effectiveness and value of these projects.

It is therefore difficult for the administrator to ensure that programs are managed appropriately. He is also unable to present the appropriate information to the trustees for them to carry out their appropriate policy and oversight role. The trustees need information on what projects intend to accomplish, how they intend to accomplish the end results and what they are actually doing. Both the trustees and the staff need a systematic approach to managing OHA's many activities.

Program staff should be made responsible for making sure projects are properly justified before they are implemented, planning for the implementation of projects, and providing

periodic status reports on the progress of projects. Periodic review of each program area should be scheduled as part of the trustees' agenda. Without appropriate management and oversight of projects within each program area, funds could be expended for activities and projects that may not be yielding the best results or that may provide no tangible results. We present some examples where program management could result in more effective use of resources or a shift in program focus.

Quiet title project. The Native Hawaiian Legal Corporation (NHLC) has been contracted since 1982 to file quiet title claims for individual Hawaiians. NHLC's legal staff does title searches at the Bureau of Conveyances and other legal research that will support its clients' property claims. NHLC was originally funded by the federal Legal Services Corporation to represent indigent Hawaiians in all legal matters. Now three-fourths of its budget of over $400,000 consists of OHA funds.[1] The project is administered by the land and natural resources division.

Clear title to land holdings has been a problem especially for what are called kuleana lands. These are lands that had been awarded to tenant farmers during the Great Mahele. Some title disputes have been resolved only through the courts. The impetus for quiet title cases had often come from development projects proposed for properties with disputed titles. NHLC initially represented both plaintiffs and defendants, which meant that in some cases Hawaiians were suing other Hawaiians. NHLC now represents only quiet title defendants. Since 1987, NHLC has been serving all Hawaiians without regard to their blood quantum. Clients are charged fees on the basis of their ability to pay. If funds are recovered as the result of NHLC action, the corporation takes its costs and fees from the recovery.

From 1981 through 1989, OHA's contract with NHLC has totaled $2,182,037.[2] As of December 1986, NHLC had served 1,169 clients, filed 204 quiet title cases, litigated 114 cases, and settled nine cases.[3]

The project has met the needs of some Hawaiians but its overall impact or effectiveness has not been monitored or assessed. As early as 1983, OHA's financial auditor recommended an evaluation of NHLC's services based on cost versus benefits, alternative means, and future consequences of the contractual agreement. OHA was urged to consider whether the future contract costs would be reduced proportionately as more cases went to court and were settled, or whether OHA really intended to continue disbursing more than the then-annual fee of $200,000 until the last case was settled.[4]

In its program management function, OHA needs to assess what this project could and should accomplish, for which beneficiaries, and by what alternatives. If legal assistance to individual beneficiaries is the purpose of the project, OHA could consider such alternatives as estate planning or helping beneficiaries secure those existing governmental services to which they are entitled. Estate planning would safeguard assets and liabilities, encompassing more than determining property titles. Estate planning might affect greater numbers of Hawaiians, at a cost possibly lower than litigating land titles for individual Hawaiians.

The state ombudsman reported in August 1989 to the U.S. Senate Subcommittee on Indian Affairs that OHA and NHLC could better serve their beneficiaries by educating them about the government complaints process. The ombudsman urged that beneficiaries complain first to an agency, then the ombudsman, then the courts, using the latter as the last resort instead of the first. The ombudsman pointed out that OHA and NHLC could mediate recurring problems by reviewing past complaints, tracking unethical conduct, and following through on agency impropriety on behalf of beneficiaries. For example, the ombudsman reported that the office received 36 complaints against the Department of Hawaiian Home Lands. Ten of these were

sustained and eight were rectified.[5] Channeling complaints first through the ombudsman's office could save some of the money now being spent for legal sevices.

Whatever OHA might decide after reviewing its legal program, it should also consider improving program management by enforcing reporting requirements for the contractor. OHA's contracts with NHLC require it to report quarterly on moneys expended, status of cases, and assets recovered that should be transmitted to OHA. In June 1988, OHA had no knowledge of the amounts it was due from the land title recoveries. After considerable discussion, NHLC and OHA agreed that $34,000 was due.[6] Subsequent records indicate that the reporting requirements still needed to be met.[7] The current administration is making a greater effort to obtain the reports, but the more basic issue to be considered by the trustees is whether OHA should continue with the current direction taken by NHLC or whether it should consider other alternatives.

Entrepreneur training project. OHA is mandated to undertake demonstration projects to test the worthiness of ideas and programs. The essence of a pilot project is that an evaluation of the demonstration be done before it is expanded or made permanent. The following example illustrates the need for more care in authorizing expansions of pilot projects.

On March 8, 1988, OHA signed a contract with a firm to conduct a pilot test of an entrepreneur training project on Molokai. The contract was for $4,500 and the classes had actually been started in the previous month, before the contract was signed. The pilot test was criticized by attendees. Almost 50 percent dropped out or cancelled. Poor communication between OHA and the contractor led to misunderstandings over book fees and registration. The OHA economic development officer gave the pilot test a poor evaluation and recommended that it not be continued.

On March 10, 1988, two days after the first contract was signed for the pilot test, OHA trustees and the administrator signed a second contract with the same firm for a *statewide* entrepreneur training program. The contract was for $53,962. The statewide expansion proceeded despite the lack of results from the pilot test. It also proceeded without sufficient planning.

The neighbor island liaisons were engaged in activities that were outside their function and should have been the responsibility of the contractor. They were pressed into service to recruit students, to secure class sites, and to chauffeur the firm's instructors to and from airports. Some classes began in August 1988, but two series were postponed until February 1989 because of low enrollments. Student evaluations indicated dissatisfaction with the instructors' preparation and the quality of instruction. Some instructors failed to appear for classes. Some classes were rescheduled or cancelled without prior notice.

Expenditure of almost $54,000 for a disappointing project could have been avoided if the pilot testing had been properly developed and then monitored.

Network and communication project. In February 1989, OHA contracted with an individual to study the concept of a statewide satellite system. The proposal was to develop island networks and communication methods, and to evaluate the role, function, and performance of each neighbor island OHA office.

The purpose of this $10,000 study was not clear. Records about the project at the public information division and the government affairs division provide little information about the contract. In reviewing the draft report, neighbor island staff commented that no contact had been made with their offices. Wrong information, unrealistic projections, and poor data were used in the draft report.

The contract required that progress be monitored monthly, but the contractor did not submit either work-in-progress reports or periodic vouchers for expenses. The contractor has been paid $9,000, and the remaining $1,000 has been retained pending satisfactory completion of the contract. When a draft report was submitted in June 1989, it was returned for redrafting. To date, no redraft has been submitted. The contractor did not meet with the trustees as scheduled to discuss the status of the project. If the project had been properly managed, OHA might have received a better product.

Need for better coordination. As part of program planning, OHA needs to coordinate activities so that they complement those of other public and private agencies. Since most of these agencies predate OHA, the office is in the difficult position of finding its own niche as well as bringing about change on the part of the other agencies. OHA must take a stronger coordinating role to avoid duplicating the work of other agencies and to help agencies provide services that are more relevant to the needs of Hawaiians.

Use data from existing sources. In some of its data-gathering projects, OHA has duplicated unnecessarily the efforts of other state agencies.

The health status of Hawaiians has been well-documented for some time. By 1980, the Department of Health already had data by ethnicity showing that Hawaiians were at risk for such health conditions as low birth weight, acute respiratory illnesses, and diabetes.[8]

Yet soon after its establishment, OHA gathered data of its own that duplicated what was already known. Its report on teenage pregnancy confirmed Department of Health data.

In 1982, OHA established the Comprehensive Services for Hawaiians Office (CSHO) with a federal grant of $227,000. It was intended to make Hawaiians aware of existing services. In an early phase of the project, OHA published a directory of public and private agencies which in part duplicated another Oahu directory. The information was not consistently updated and the focus was not on coordinating services for Hawaiians. A later phase involved the hiring of three information and referral specialists whose functions were never made clear. This phase was short-lived and the project was officially terminated in 1986.

Time and resources could be saved by looking at ways to use the wealth of information collected by state agencies. Using available data, OHA's health and human services program could do more to coordinate and refocus services provided by public and private agencies. It could push for more programs targeted specifically at Hawaiian beneficiaries. It could show agencies how to reach these recipients and how to carry out their programs with ethnic sensitivity.

For example, in 1984 OHA contracted for its Population Survey Needs Assessment at a cost of $150,000. The survey found Hawaiians needing housing, transportation, and social welfare services. OHA could have helped state agencies already providing these services by specifying how their services were not meeting the needs of Hawaiians.

Need for better reporting and record keeping. An organization must maintain records of past and present activities. Specifically, a public agency must have complete and updated files on projects, conferences, meetings, and other significant agency activities to ensure continuity and accountability. Program staff should be assigned responsibility for preparing status reports on projects and keeping records generated by the project. Without these records, an agency has no documentation of its history or accomplishments upon which it can build its program. We present several examples to show where improvements are needed: conference proceedings, revolving loan fund activities, and community grants.

Record keeping for conferences. Three recent conferences illustrate the need for OHA to improve reporting and record keeping. Published final reports or conference proceedings could provide valuable information to those who could not attend. Currently, there is little information about these conferences or their impact.

A Hawaiian healer's conference was held in Kona in February 1988 at a cost of $32,000. Its purpose was to share traditional Hawaiian healing methods and record them for posterity. The conference was to result in the publication of the proceedings or an oral history document. OHA underwrote travel, hotel and honorarium expenses for the 54 participants. To date no information has been published. It would have been helpful to have a conference report with a summary, evaluation, or set of recommendations.

OHA trustees sponsored a conference for administrators of indigenous peoples in Kona in December 1987. The purpose was to share general administrative information. Forty-nine delegates from indigenous communities in Alaska, New Zealand, Seattle and other areas attended at a cost of $20,000. Although a spring reconvening was discussed, none was held. There are no written recordings of the sessions and a complete file has not been maintained. Partial information was located in the files of the government affairs division, a neighbor island liaison, and the bookkeeping staff.

OHA has sponsored several conferences and workshops through its kupuna program. This program was begun in 1981 to supplement the Department of Education's Hawaiian studies program. OHA was to assist DOE in recruiting kupuna and preparing them to conduct lessons on Hawaiiana. Preparation was to be done through workshops and conferences. The kupuna workshops have focused on instruction on culturally symbolic stones and plants. The conferences, averaging $8,000 or more each, have featured self-enrichment programs on traditional Hawaiian values.

There is little documentation on objectives, the key OHA policies being pursued, the measures of effectiveness, all costs, including in-kind contributions, the activities carried out, program size in terms of attendees, and the relationship of the project with that of other agencies. The evaluation reports consist of narratives of activities but do not assess the effectiveness of the presentations. Without information of this sort, the administrator and the trustees receive little meaningful feedback. They have little basis for deciding whether certain activities should be continued or whether they should be improved or changed.

Record keeping for the revolving loan fund. Keeping good records is especially important in projects that involve large amounts of money. As described earlier, the Native Hawaiian Revolving Loan Fund is a $3 million, four-year, low interest loan program for Hawaiian entrepreneurs. Funding for this project is provided by the federal Administration for Native Americans (ANA) with OHA responsible for administering the project. Loan applications are screened by staff and reviewed by a three-member loan review committee. The committee members are appointed by the loan manager and approved by the loan fund board. The loan fund board then approves loans at its monthly meetings as a final loan approval step.

The loan fund project is operating with incomplete records. The loan review committee does not keep minutes, and the board meeting minutes files are not in one place. Loan closing information is similarly incomplete.

The lack of good records has diminished the contributions of the loan review committee. The committee is only advisory, but its recommendations are based on the members' professional experiences and should be recorded.

Without minutes of these loan review committee meetings, the board of directors does not have the benefit of prior deliberations on loan applications when it meets to approve loans. Being mutually exclusive bodies that do not share information, both groups have to depend on the memory of the loan manager.

The records also do not indicate whether the loan fund is following customary business practices used in commercial loan transactions such as securing liens--or legal claims--on collateral. Liens can be attached, for example, on real or personal property, inventory, motor vehicles, and other assets. Other conventional means to secure loans include the assigning of income, accounts receivable, or insurance on property. Private industry and state agencies file Uniform Commercial Code (UCC) financing statements to establish liens as a standard procedure. These are then recorded with the Department of Land and Natural Resources.

The fund board has provided in its operational plan that liens may be established as collateral security. In some instances the loan officers did prepare the necessary financing statements. However, they did not complete them with the required double signatures at the time of closing, nor did they file and record the statements.

Record keeping for community grants. OHA has undertaken two grants programs: business grants in 1982-85 and community grants in 1985-87. The first program disbursed approximately $117,000 and the second program granted $450,000. There were also a few loans in the first program. Although OHA does not currently give grants, the need for better record keeping is noted to prevent the recurrence of problems that appeared in these two programs.

The first grant program had no formal policies, procedures or criteria for awarding of grants and loans. Grants were awarded on a case by case basis by OHA staff, a former trustee committee, and the board as a whole. OHA did adopt policies in 1984 but did not implement them. Few records remain.

The second grant program was much larger in funding and program scope. Trustee committees disbursed grants in five program areas. Because the funds were trust funds, the grant recipients were supposed to be native Hawaiians. However, there was no process for verifying the 50 percent ethnicity.

Some of the contracts were executed without any performance requirements and the required grantee signatures. Some were not notarized. Disbursements were made without receipt of reports or invoices, or documentation of progress. Some files remain completely missing. There are no follow up reports on business operations or a record of what was achieved by this program.

Need for continuity. OHA is empowered to experiment with projects to fill program needs that it identifies. In undertaking projects, OHA should plan for their eventual disposition. For example, useful projects should not be terminated abruptly but provisions should be made for established agencies to take them over. OHA should provide a transition for funds, administration, and personnel to run programs that prove useful. OHA could then ensure the continuity of its efforts and avoid disappointing those with a stake in the experiments.

Aha Opio Conferences. In 1987 and 1988, OHA sponsored leadership development conferences for Hawaiian and part Hawaiian high school juniors. The conferences were to foster leadership development by educating them in parliamentary and political procedures and Hawaiian culture. The agenda included an introduction to legislative and administrative officials and processes at the State Capitol. The students were taken on tours to Oahu historical sites as well as to West Beach to view

a resort development. Approximately 50 students were recruited statewide each year by the education officer and the planning committee.

The Aha Opio conferences appear to have met their purpose and might warrant repeating. However, there are no plans at present to have an established agency take over the operation and funding of the conference.

Scholarship program. In 1985, OHA began a scholarship program for graduate students. Since the Kamehameha Schools gave scholarships for high school and college students, OHA targeted graduate students. OHA set aside $25,000 per semester to be awarded to native Hawaiian graduate students already enrolled in a graduate program. Application requirements were general; a personal essay and Hawaiian ethnicity were the only criteria. OHA staff did the initial screening and the trustees gave the final approval on each award.

A ceiling of $1,000 per year per student was set by the trustees, which was paid directly to the schools for tuition and books. Any moneys left over went to the student. Most students were enrolled at the University of Hawaii although any graduate school program qualified. Approximately 40 students who applied received assistance. After the first year, surplus funds from the allotted $50,000 was used to sponsor summer school tuition for six students.[9]

In late spring 1987, during the second year of the program, students were abruptly informed that the scholarship program had been terminated. Records do not indicate the reasons for this termination. Since the deadline to apply for other financial aid for the following fall had passed, at least two of the 40 students had to drop out of school while others had to find other funding sources. It would have been helpful if OHA had made provisions for other aid, or informed the students earlier that it was terminating the program.

Need for OHA to Publicize Programs Externally and to Improve Staff Communication Internally

The public as well as OHA would benefit from information about what the office is doing. Greater publicity would increase public awareness of OHA's programs. OHA's own staff would also benefit from information about what is going on in the organization and work together more as a team on projects.

External communications. OHA needs to communicate more effectively with its beneficiaries through its newspaper and the public media. These avenues of external communication could be used to fuller advantage. For example, they could be used to tell beneficiaries about the loan fund programs in a way that would meet the public's need for accurate and timely information. In publicizing its activities, however, OHA should also consider the nature of the information it presents and the timing of the release.

In October 1988 OHA publicized the loan fund before staff positions and board directorships for the project were filled. From January through June 1989 the program was publicized in the major newspapers and *Ka Wai Ola O Oha,* but the press releases contained no information on types of loans, loan ceilings, collateral requirements, and document requirements (general excise tax license, tax records, business plans, etc.) for the program.

The publicity generated a huge number of queries that had to be answered by two staff members. Neighbor island liaisons were not given loan fund information but were asked, instead, to refer all calls to Honolulu. Because of the response from the publicity, loan officers began processing applications before forms were approved and before the board adopted criteria for awarding the loans. OHA reported in its newspaper that "1,700 inquired for loans and fourteen loans have been approved . . . [and]

funds will be given out as soon as internal documentation procedures are completed."[10] The loan fund files show that loan applicants received financing authorization from OHA as early as May even though loan forms were not approved by the federal grant agency until July 1989.

Better public information on the revolving loan fund and better timing of the release could have avoided some of the confusion that ensued at the project's start.

Internal communication. Good communication among staff is important in a developing organization. It supports coordination of activities and morale in general. OHA should take some time to set up the means to improve internal communications.

Teamwork should be fostered within each program area and among the six program areas. Each program is led by a program officer and supported by specialists. Program officers should routinely share information with their specialists or check if programs are "on target." Regular division meetings or meetings of the entire staff would foster collaboration among all program areas and help to allay employees' concern that they are not fully aware of what OHA is doing at all program levels. Administrators and officers should routinely share information with subordinates and involve them in decision making.

It is important that budget and expenditure information be kept current and shared appropriately. If staff are expected to defend their budget requests within the organization or at the Legislature, they should be kept apprised if revisions have been made to their original figures or if expenditure plans change. For example, unknown to staff who had proceeded to make travel plans, funds for travel were unavailable for the U.S. Senate sub-committee hearings on the neighbor islands in August 1989.

Recommendations

1. *The Office of Hawaiian Affairs should develop a stronger program management system. Program management should include periodic reviews of the purposes of activities or projects, the nature of the activities, whether the intended beneficiaries have in fact been helped, what the project or activity has cost, and whether reports have been submitted. These responsibilities should be clearly assigned to program staff. As part of the program management system, OHA should:*

   - *plan programs that do not duplicate those of other agencies. Rather, OHA needs to seek programs that complement and enhance.*

   - *require better reporting and record keeping of program operations by program officers including reports and records of the office's projects, conferences, and contracts. Minutes should be kept of the deliberations of boards and committees. Records of proceedings and reports should be made to ensure accountability and documentation for posterity. OHA should enforce its contractual reporting provisions as an integral part of doing business. Trustees should be provided with updated information.*

   - *ensure the continuity of its successful projects by providing for transitional funding and administration. It should avoid*

abrupt terminations of promising projects and seek alternative funds and agencies to continue worthy programs.

With regard to its contract with the Native Hawaiian Legal Corporation, OHA should review the direction of this program. It could consider alternatives such as estate planning services and educating its beneficiaries in the use of governmental services, as suggested by the ombudsman.

2. *OHA should work on improving external communications to ensure that the public clearly understands its programs and has accurate and timely information. Programs should be organized and in place prior to the issuance of press releases in fairness to both the staff and public. OHA should improve internal communications to foster teamwork and to ensure that significant information is shared, duties are clarified, and projects are on target within the agency.*

Chapter 5

BUDGET PREPARATION AND REPORTING OF EXPENDITURES

The Office of Hawaiian Affairs (OHA) prepares a budget and spends its funds in a process unique to itself. OHA submits its budget requests directly to the Legislature. It is not subject to the requirements and scrutiny of the executive branch. Except for one report required by statute to be submitted to the comptroller, its expenditure reports are also outside the executive process. In this chapter we discuss the adjustments in this unique process that would assist both OHA and the Legislature in making decisions on OHA's budget.

Summary of Findings

1. *Although the Office of Hawaiian Affairs has taken steps to formalize its budget process, it does not yet have a budget policy adopted by the trustees. This budget policy would assist the office in preparing a stronger budget request.*

2. *Since 1983, the Office of Hawaiian Affairs has submitted its budget request to the Legislature in a format similar to the executive branch. However, certain differences in presentation cause problems for the Legislature. The Legislature's information needs could be filled if the office followed more closely the principles and format of Chapter 37, Hawaii Revised Statutes.*

3. *More accurate expenditure reports would give the Office of Hawaiian Affairs more credibility and a better base for developing its budgets.*

Need for a Budget Policy

The Office of Hawaiian Affairs has made some strides in formalizing its budget process both for its own operations as well as for its external public. In adopting the work of its consultants in 1986 and 1989, the trustees approved much of the process used by the executive branch. The next step that would bring more cohesion to this process is the adoption of a budget policy.

Progress thus far. The *OHA Policy and Procedure Manual,* updated in February 1989, calls for OHA to establish a budgetary process that insures fiscal accountability through a monthly accounting of expenditures. This policy was enacted within the context of policies governing OHA's trust assets. Among the policies governing staff operational activities, the trustees also adopted the policies on program and operational plans. These policies call for the administrator to prepare program plans for four-year periods and operational plans for annual and biennial periods. The board is to do semiannual reviews of reports on those plans.

In addition, in adopting the work of its management consultants in April 1989, the trustees approved a planning and budgeting process for the organization. This process entails setting a basis with OHA's master plan, updating functional plans each year if necessary, implementing the plans, and conducting research and evaluation.

The next step. In both these efforts, the trustees have approved an overall approach to budgeting which is rational and systematic. The approach is similar to that followed by the executive branch. The next step, the adoption

of a budget policy, would strengthen OHA's budgeting process.

In the executive branch, the director of finance, on behalf of the governor, issues budget preparation instructions for the biennial and supplemental budget submissions. These instructions are usually prefaced by overall directions that provide guidance to the executive departments. For example, the departments may be instructed to prepare current services budgets adjusted only by inflation. The budget policy of the administration is formally communicated to the Legislature in the governor's message in the executive program and financial plan.

Another model, and perhaps one more applicable to OHA, is the budget policy adopted by the Board of Regents of the University of Hawaii (BOR). It has been the practice of the University administration to submit to the BOR a set of proposed budget objectives for the subsequent biennium. These budget objectives are developed in the context of the University's strategic plans and agendas for action.

For example, in December 1987, the University president submitted for the BOR's review a "Biennium Budget Policy Paper, 1989-91 Budget Objectives." The BOR adopted this policy paper to guide the University administration in preparing the operating and capital improvement program budgets. The policy paper included a description of the state and university context in which budgeting would occur, the specific objectives and priorities to be pursued in the biennium, and the budget preparation guidelines.

This budget policy paper provides guidance by presenting the budget objectives for the biennium, grouped by the five categories in which its strategic plan is cast. For example, under the category of "serving the State of Hawaii," the University proposed to "provide educational opportunities throughout the state, giving attention to communities remote from UH campuses, populations underrepresented in higher education, especially those of Hawaiian ancestry, and the special needs of inadequately prepared students."[1]

The budget policy paper provides further guidance by specifying three priorities for the biennium. The first concerned full funding of the current services base, the second concerned major program initiatives already underway, and the third concerned infrastructure support. More specific priorities are also included. Finally, the 1989-91 budget policy paper also includes budget preparation guidelines such as telling the University's units to find ways to improve quality without undue demands and in a manner which reflects sound judgment.

Previous BOR budget policies have also included a budget calendar giving the dates that various functions were to be completed. These functions included the submission of program change requests, the president's issuance of budget ceilings, the submission of requests by the operating units to the vice presidents, and so on. The calendar ended with the submission of the University's budget to the Department of Budget and Finance.

OHA's budget policy. Similarly, the OHA board of trustees should adopt a budget policy that sets the overall direction that the organization will take for the ensuing biennium. And, if major changes are being proposed in the supplemental budget year, the board should also adopt a supplemental budget policy.

OHA's budget policy should reflect a theme that could well be drawn from its functional plan review. The OHA planning and budget process requires the office to do annual reviews of its functional plans, but OHA has not yet done so. Once those functional plan reviews become part of the process, they could be incorporated into an overall budget policy without too much effort. For example, one theme might be to assess how far it has already come, what basic organizational needs still need to be met,

and how it can poise itself for more significant impacts in some systematic fashion.

Themes can then be translated to objectives that can set a clear direction for programming and decision making about resources. A budget, as a plan for marshalling and spending human and material resources, should take an organization in a particular direction. If that direction is not one that is coherent and defensible, and if the parts of the budget are not in some order of priority, an organization will face great difficulties as it defends both its budget requests and its expenditures.

Policy on general funds and special funds. OHA's budget policy should also include a statement and justification on how much of its budget request it will seek from general funds and how much from special funds. In the first year of OHA's existence, it was appropriated only general funds but also received a much higher sum in land trust revenues. Between fiscal years 1981-82 through 1986-87, the Legislature appropriated general funds with the proviso that OHA match those moneys with funds from its land trust revenues. From fiscal year 1987-88 to the present, OHA was appropriated specific amounts of special fund moneys. These special fund appropriations, aside from federal loan fund moneys, generally matched the general fund appropriations.

In three of these years, however, OHA has sought a much greater proportion of general funds than special funds, as shown below:

1987-88	general fund request:	$2,780,629
	special fund request:	738,523
1988-89	general fund request:	$2,647,082
	special fund request:	738,523
1990-91	general fund request:	$2,923,029
	special fund request:	1,837,280

It should be noted that the fiscal year 1990-91 supplemental budget request asks for an increase of $1,293,553 over what was appropriated by the 1989 Legislature. This increase consists of $1,184,649 in general funds and $108,904 in special funds.

The reason for the disproportion between the request for general funds and the request for special funds should be stated in the budget policy adopted by the trustees. Twice before, the Legislature has denied this kind of disproportionate funding. In fiscal year 1987-88, the Legislature appropriated $1.5 million *less* in general funds than OHA requested, and authorized it to spend $700,000 more in special funds. In fiscal year 1988-89, the respective figures were $1.3 million and $800,000. A budget policy would give the Legislature some rationale for considering requests for disproportionate funding from general and special funds.

The OHA administrator, with the assistance of staff, should prepare a budget policy for the trustees' review and approval. It need not be long. The University's budget policy for 1989-91 covered 13 pages, of which nine discussed the context for budgeting. Its policy for 1987-89 covered three pages, including a calendar page. All a budget policy must do is to convey a sense that an organization knows where it is headed and what its priorities are for the next year or two. The preparation of this budget policy should precede by a comfortable margin the specific budget planning that staff undertakes.

More timely and better justified budget requests. The adoption and adherence to a budget policy would help OHA avoid the kinds of difficulties it experienced with its 1989 budget submission. The budget was late and contained many miscellaneous requests that were not adequately justified. The Fifteenth Legislature convened on January 18, 1989. The OHA budget request was due December 28, 1988 but it was not reviewed and approved by the trustee committee on operations and development until January 5, 1989. On January 6, 1989, the board of trustees approved the OHA budget request for transmittal

to the Legislature but it did not also submit a program and financial plan.

As late as January 5, 1989, trustees were trying to insert new items into the budget request. Some of these had not been researched, analyzed, or planned. The Legislature received a second set of requests from OHA a few weeks into the 1989 session. Several items in the original budget and the subsequent requests did not survive legislative scrutiny because there was little substantive information or justification.

For example, one new budget item that was quickly deleted for lack of justification was $6 million for Hawaiian Affairs, Inc. This is a for-profit entity already established on paper for which OHA sought capitalization. The $6 million, consisting of $3 million each in general and special funds, would have bought shares in Hawaiian Affairs, Inc. The Legislature received little information on where this request fit in OHA's overall plans.

OHA's testimony to justify this request was vague about the business plans of Hawaiian Affairs, Inc.--that is, whether it was to be a business entity producing goods and services, and if so, what kinds of goods and services these might be, or whether it was to be a vehicle for making business grants or loans. OHA testified mostly about the underrepresentation of Hawaiians in business, but was silent on what $6 million would buy.

A budget policy could serve as the glue that holds OHA's budget requests together. Past difficulties with its budget requests could be corrected with the adoption of a budget policy as a regular course of action.

Legislature's Need for Budget Information

Chapter 37, *Hawaii Revised Statutes*, governs the State's budget preparation and execution processes. A key portion of this statute is Part IV, the Executive Budget Act. The Executive Budget Act, enacted originally in 1970 and modified slightly since then, attempts to bring a more analytic approach to state budgeting. All of the State's activities, primarily that of the executive branch, are grouped into programs according to the objectives to be attained. Evaluation of success in reaching those objectives is to be the basis for further budget decisions. The act requires particular kinds of information and reports to be submitted to the Legislature. The Legislature in turn makes its appropriations in a program format.

Since 1983, the OHA has submitted its budget request by program categories in a program budget format somewhat similar to that of the executive branch. However, there are certain differences in its presentation that cause problems for the Legislature. If corrected, OHA's budget submissions to the Legislature should be much strengthened.

Chapter 37 requirements. Chapter 37, HRS, requires the executive branch to submit a multiyear program and financial plan (PFP) as well as a budget request for a biennium. The statute also permits a supplemental request for the second year of a biennium.

The PFP must contain such information as the objectives of a program; the key policies being pursued; the measures of effectiveness in meeting those objectives; all program costs, including those for research and development, operations, and capital improvements, all identified by source of funding; a description of the kinds of activities to be carried out; the size of the program in terms of participants or scope; and the identification of relationships with other programs or organizations.

The PFP for a biennium must be submitted 20 days prior to the convening of the Legislature in the odd-numbered years. Over the last several bienniums, it has become the practice of the executive branch to incorporate its budget request for the biennium in the six-year PFP. In addition to the PFP, each of the departments

subsequently submits testimony on its budget request in formats determined by the respective financial committees of the Legislature. These formats focus more specifically on the amounts being requested, and why.

Act 202, *Session Laws of Hawaii 1983*, instructed OHA to follow the budgetary guidelines of Chapter 37. The Act called for OHA to initiate a plan and budget which would contain the kinds of information called for by Chapter 37, address the problems facing the office in its general and special funds, and show an accounting of all funds within the office. The plan and budget were to be submitted to the 1984 Legislature and implemented in fiscal year 1984-85.

The impetus for Act 202 appears to have been OHA's budget submission to the 1983 Legislature. The submission was more like the departmental testimonies rather than the PFP of the executive branch. There were no measures of effectiveness or any information about program size.

In 1985, 1987, and 1990, OHA has submitted PFPs which are similar to the executive branch multiyear PFPs. No PFP was prepared for the 1989 session. This break in the sequence is reportedly due to the changeover in OHA administrators.

Supplemental budget request. OHA has submitted a supplemental budget request to the 1990 legislative session. OHA's budget request was late and left out explanations for the supplemental budget requests. The PFPs are due 20 days prior to the convening of the Legislature. This means that in most years they are due sometime at the end of December. Testimonies are rarely submitted until just prior to a budget hearing--usually sometime after the Legislature convenes in the third week of January.

The executive supplemental request contains a narrative discussion of the reasons for the supplemental request and a column titled "adjustment." This enables the Legislature to zero in quickly on the supplemental portion. The purpose of the supplemental budget should be to make minor program changes. OHA's supplemental budget request would be strengthened by this information.

Variance reports. One other requirement of Chapter 37 needs OHA's attention: the variance report. Section 37-75 requires that the executive branch submit, 20 days prior to convening each year, a report of program performance. This variance report, organized generally in the same format as the PFP, should provide information on the last completed fiscal year and the year in progress. In terms of program costs, the variance report should contain the budgeted expenditures and positions authorized and the actual expenditures and positions filled. In terms of program size and of measures of effectiveness, the variance report should contain what was planned and what actually happened. Significant differences in any of these figures should be explained in some narrative fashion.

Enact requirements in statute. It should be noted that Act 202 did not require OHA to submit its program and financial plans beyond 1984 nor did Act 202 require that OHA follow Chapter 37. Section 10-14, HRS, only provides that OHA shall submit its biennial budget requests not less than 20 days prior to convening in the odd-numbered years, and permits OHA to submit supplemental requests again by the same schedule. The statute is silent on what kinds of information shall be provided in those requests. Although OHA has voluntarily attempted to bring its requests into the pattern established by the executive branch, the Legislature may want to consider spelling out in statute or through some other expression what information it wants from OHA.

Need for More Accurate Expenditure Reports

The Legislature has received some expenditure information from OHA, but these

have not been consistently accurate or timely. In some instances, OHA did not respond to requests for expenditure information. OHA would enhance its credibility with the Legislature and strengthen the acceptability of its requests if its expenditure base were more accurate.

Need for compliance with annual report requirement. Section 10-15, HRS, requires the OHA board of trustees to prepare and make public an annual report. The annual report is supposed to enumerate OHA's activities, income, and expenditures for the year. The annual report must be submitted to the governor and the Legislature ten days prior to the convening of each regular session.

OHA has published annual reports since its inception, although the dates of publication cannot be determined. The reports are not consistently dated. The annual report for 1987-88 was to be submitted to the 1989 Legislature on January 8, 1989, but was not published until Fall 1989. The annual report for 1988-89 was due to the 1990 Legislature on January 7, 1990. It has not yet been submitted.

Annual report contains audited expenditure information. Information in OHA's annual report is particularly crucial for the Legislature because it contains OHA's financial statements and supplemental schedules. It also includes an independent auditor's report on the fairness of those financial statements and supplemental schedules.

Among the supplemental schedules is a schedule of total expenditures by program. This information is important since new budgets are usually built on current expenditures. Workload increases and program change requests are usually approved "on the margins." But sometimes the expenditure base must be examined more carefully. For example, significant funds may be lapsed, substanial amounts may have been drawn from trust assets, or large transfers may have occurred. This supplemental schedule may facilitate the Legislature's examination and review of the base expenditures.

In the 1989 session, the Legislature had to rely on OHA's "budget justification" (BJ) tables in the absence of a current annual report. As does the executive branch, OHA submits a set of BJ tables that is supposed to contain in some detail the actual expenditures for the previous fiscal year, the budgeted amounts for the current fiscal year, and the requested amounts for each of the next two fiscal years.

In 1989, OHA's BJ tables reported 1988 expenditures which differed from the expenditures detailed in its annual report and reported upon by its auditors. Even the budget figures differ from those appropriated by Act 218, SLH 1987. Table 5.1 presents these numbers.

In the 1990 session, again in the absence of OHA's annual report for 1988-89, the Legislature may want to use the expenditure figures we obtained in the course of this management and financial audit. The supplemental schedule of expenditures is included in the appendix of this report. Table 5.2 summarizes and displays OHA's appropriations and expenditures by program for 1988-89.

Annual report contains trust fund information. Another reason why the Legislature should receive OHA's annual report when required is that it does not routinely receive information on OHA's trust fund revenues and reserves, its assets and liabilities, or its investment portfolio--except through the annual report.

Section 10-13, HRS, requires OHA to comply with Section 40-81, HRS. The latter statute calls for all agencies of the State that receive moneys not required to be deposited into the state treasury to submit quarterly reports to the comptroller on all receipts and disbursements from those moneys. According to the Department of Accounting and General Services (DAGS), OHA has been complying with the quarterly reporting requirement. DAGS incorporates

Table 5.1. OHA Appropriations and Expenditures, Fiscal Year 1987-88

Program ID	Program	Appropriations By Act 218, SLH 1987	Budget As Reported By BJ Tables	Expenditures Reported By BJ Tables	Expenditures Reported By Accounting Firm in OHA Annual Report
OHA 100	Office of Administrator	$336,931	$296,187	$267,224	$326,758
OHA 101	Administrative Services	472,135	448,406	537,564	545,787
OHA 102	Public Information	242,693	227,704	306,850	289,310
OHA 103	Health and Human Resources	160,160	148,754	105,136	115,154
OHA 104	Planning and Development	270,548	254,970	189,175	192,819
OHA 105	Culture	165,178	153,744	159,761	142,203
OHA 106	Government Affairs	318,844	290,114	277,130	243,525
OHA 107	Land and Natural Resources	407,339	398,216	381,663	392,677
OHA 108	Economic Development	162,075	150,714	120,644	71,908
OHA 109	Education	172,190	160,756	152,917	158,213

Table 5.2. OHA Appropriations and Expenditures Fiscal Year 1988-89

Program ID	Program	Appropriations By Act 376, SLH 1988	Expenditures per OHA*
OHA 100	Office of Administrator	$ 375,744	$ 477,486
OHA 101	Administrative Services	444,831	528,432
OHA 102	Public Information	240,477	315,657
OHA 103	Health and Human Resources	153,968	71,864
OHA 104	Planning and Development	282,409	190,193
OHA 105	Culture	94,708	78,079
OHA 106	Government Affairs	261,987	310,696
OHA 107	Land and Natural Resources	484,255	427,230
OHA 108	Economic Development	187,083	181,397
OHA 109	Education	214,042	223,455

*Source: OHA internal financial statements.

these reports into its annual financial report of the State, indicating what was appropriated and what was spent from all of OHA's revenues. The annual DAGS report, however, does not display the accumulated funds in OHA's accounts, although those are on record with DAGS.

For budgeting purposes, the Legislature particularly needs to know the trust fund picture because of its policy of requiring a special fund match for general fund appropriations. The annual report would reveal how much of the special fund revenues had actually been transferred from reserves to operating funds to provide this match. For example, had the 1989 Legislature received OHA's 1987-88 annual report, it would have known that, for the third year in a row, OHA had unreserved fund balances of approximately $4.5 million in its special fund. The annual report would also have shown how much of the fund balance was already set aside to match the *following* year's general fund appropriation.

Recommendations

1. *The Office of Hawaiian Affairs should develop, adopt and carry out a budget policy for itself. A budget policy would give cohesion to its budget preparation and enable the office to defend its budget requests with greater credibility. The policy should include the objectives and priorities to be pursued through the budget. There should be some discussion of the relationship of the budget to the master plan. If major new directions are being proposed for the office, the budget policy should present the rationale for these changes. If a disproportionate share of the budget request will be in general funds, the budget policy should justify this request.*

2. *The Office of Hawaiian Affairs should make an effort to submit as much information as desired by the Legislature and in the form requested by the Legislature.*

3. *The Legislature may want to consider putting in statute the budget and expenditure information that it needs from the Office of Hawaiian Affairs. This information may be modeled on the executive budget act.*

4. *The Office of Hawaiian Affairs should make sure that its annual report is submitted as required.*

Chapter 6

FINANCIAL ACCOUNTING AND INTERNAL CONTROLS

This chapter presents the results of a financial audit of the accounting records and internal controls of the Office of Hawaiian Affairs (OHA). It contains the report of KPMG Peat Marwick (Peat Marwick) regarding OHA's compliance with applicable provisions of the appropriations acts. It also contains our findings and recommendations on OHA's financial accounting and internal control practices and procedures.

Summary of Findings

1. *Based on the audit of OHA's financial records and internal controls systems, Peat Marwick reports that OHA has complied with provisions of the appropriations acts for OHA.*

2. *The exercise of necessary fiscal controls is deficient due in part to the absence of a complete manual of fiscal policies and procedures.*

3. *There is a need for appropriate segregation of duties over the cash receipts function.*

4. *Request for compensation forms are not always signed, nor submitted in a timely manner by trustees.*

5. *There is need to clarify the use of a separate health plan by trustees.*

6. *Established procedures that require explanations for changes in travel plans and for unusual travel expenses are not being followed.*

Independent Auditor's Report

Peat Marwick filed the following report with the Legislative Auditor on OHA's compliance with applicable laws and regulations.

Independent Auditor's Report

To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have audited the Office of Hawaiian Affairs compliance with the provisions specified in Sections 4, 5, 8, and 9 of Act 218, Session Laws of Hawaii (SLH) 1987, as amended by Act 376, SLH 1988, for the year ended June 30, 1989. The management of the Office of Hawaiian Affairs is responsible for the Office of Hawaiian Affairs compliance with those provisions. Our responsibility is to express an opinion on compliance with those provisions based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the provisions referred to above occurred. An audit includes examining, on a test basis, evidence about the Office of Hawaiian Affairs compliance with those

provisions. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Office of Hawaiian Affairs complied, in all material respects, with the provisions specified in Sections 4, 5, 8, and 9 of Act 218, SLH 1987, as amended by Act 376, SLH 1988 for the year ended June 30, 1989.

/s/ KPMG Peat Marwick

Honolulu, Hawaii
December 15, 1989

Incomplete Manual of Guides

In 1986, OHA contracted with an accounting firm to conduct a management audit. One of the recommendations of the audit report addressed the need for a manual of policies that was lacking in the management of OHA. This manual of policies would provide, among other things, uniform guidelines on accounting and operational procedures. It would permit the organization to implement procedures and evaluate performance on a consistent basis.

As a result of the management audit recommendation, OHA began to develop the *Administrative and Financial Manual of Guides*. Almost three years after the initial recommendation, only four of nine titles planned for the manual have been completed.

A review of the completed titles indicates that the most recent titles were approved as of July 23, 1988. The completed titles cover policies and procedures relating to the following areas: 1) trustees' compensation and general allowances, 2) travel and travel allowances, 3) property control, and 4) recovery of money owed to OHA. The uncompleted titles are expected to include policies and procedures relating to cash receipts, purchasing, cash disbursements, and payroll processing.

During the course of our audit, we noted deficiencies in procedures, and some of our findings on internal controls are due, in part, to the absence of written policies and procedures.

We were informed by the OHA administrative staff that there was no estimated completion date for the remaining titles. We believe sufficient priority should be given to this project to effect a timely completion.

Recommendation. OHA should address the importance of establishing and documenting policies and procedures and, accordingly, employ assertive efforts to complete the remaining titles of the Administrative and Financial Manual of Guides.

Lack of Segregation of Duties Over Cash Receipts

Monies from federal grants, dividends, Native Hawaiian Legal Corporation proceeds, donations, and newspaper advertisement sales are usually received and processed by the administrative services division.

One of the basic principles of internal controls is that duties should be appropriately segregated and assigned in a manner such that no one individual controls all phases of a transaction without the interrelated function of a cross check by some other individual. Ideally, the function of receiving cash, depositing the cash, and recording the cash receipts in the accounting records would be separated and performed by different individuals.

Such segregation of duties would provide a mechanism to detect errors in recording cash receipts and prevent irregularities from being concealed by one individual. Although there is sufficient staff to permit the segregation of duties at the administrative services division, such separation of duties does not exist. The same account clerk is responsible for receiving

the cash, preparing the treasury deposit receipt, and recording the cash receipts in the accounting records.

Recommendation. The cash receipt duties at the administrative services division should be separated and performed by different individuals.

Requests for Trustees' Compensation

In accordance with Section 10-9, *Hawaii Revised Statutes*, OHA's trustees received compensation of $50 for each day's actual attendance at meetings or official OHA business functions. Act 290, SLH 1989 increased this compensation to $100 a day effective July 1, 1989. In order for trustees to receive this compensation, OHA has developed a compensation request form which contains the date, a brief description of the meeting or official business function attended, the signature of the trustee requesting the compensation and the signature of the chairperson for approval. These request forms serve as supporting documentation for the payment of trustees' compensation.

During our audit, we noted that compensation request forms were often not signed by the trustee requesting the compensation and that the requests are not submitted in a timely manner.

Absence of trustees' signatures. Completed compensation request forms should be signed by the trustee prior to processing the forms for approval and payment. By signing the requests, the trustees are attesting to the fact that they attended the OHA activity for which compensation is being requested.

In numerous instances, we noted that the signatures of the trustees were missing on the compensation request forms. In one pay period noted, 13 out of 24 requests submitted were not signed by the trustees requesting the compensation.

Lack of timely submittal of compensation requests by the trustees. As with all employees of OHA, the trustees are paid on a semi-monthly basis. Standard business practice dictates that trustees should submit compensation requests on a scheduled and timely basis so that reported activities can be adequately reviewed and approved.

We found that there is no policy governing when or how often compensation requests should be submitted for payment. Consequently, trustees submit requests sporadically, which often results in a considerable time lag between the dates of service (official business dates) and the submission date.

For example, we noted an instance where a trustee requested compensation for 24 official activities which spanned a period of three months. Under these circumstances, the review and approval processes are difficult and time consuming because so much time has elapsed between the date of the reported activity and the date the request is submitted.

Recommendations. Trustees should be required to sign all compensation requests prior to processing for approval and payment. In addition, all trustees' compensation requests should be submitted on a regular and timely basis, ideally semi-monthly.

Criteria for Separate Health Insurance Plan

Section 10-12, HRS, provides that the officers and staff of OHA shall be included in any employee benefit program available to state officers and employees. Until the end of calendar year 1989, the public employee health fund provided only medical insurance, dental care for minor children, and life insurance. The medical premiums were paid for by both the State and the employee. OHA employees pay approximately 40 percent of the premiums, as do all other state employees.

Membership in the health fund is open to the trustees just as it is open to members of the board of education, another elected board. The OHA trustees, however, have purchased coverage outside the health fund that is more comprehensive than that made available to its employees. Trustee's coverage included vision and dental insurance for adults before OHA staff obtained these benefits in 1990. Their coverage is entirely paid by OHA. In contrast, the employees' 40 percent share of the medical premiums, for example, amounts to approximately $87 per month for family coverage or about $1044 per year.

While OHA may be authorized by statutes to transfer and spend funds as it determines, especially its trust funds, it may be advisable for the board to clarify the criteria it used for deciding on a separate health benefit program.

Recommendation: OHA should clarify the criteria used for having a separate health benefit program.

Explanation for Travel-Related Expenses

The Office of Hawaiian Affairs' *Administrative and Financial Manual of Guides* provides guidelines for allowable travel expenses, per diem advances, travel and car rental arrangements, and final accounting and settlement of travel expenses.

We found that procedures established in the manual for documentation of travel-related expenses were not being followed. Specifically, we found there was a lack of explanations for changes to approved travel plans and for unusual travel expenses.

Lack of explanation for changes in travel plans. OHA's *Administrative and Financial Manual of Guides* states that, "if the travel deviated from the travel plan initially approved, . . . the completed OHA Form No. OHA-OBF-002 shall be submitted to the Chairperson . . . for approval." This form requires that changes in travel be explained as to the manner and the reason for the change. The manual also requires that ground transportation be made using the most economical means.

During our audit, we found that trustees were not providing explanations for changes in travel plans. In several instances, no explanation was provided when automobiles were rented for periods longer than that requested in the approved travel plans. Of 16 samples found where the period of automobile rentals differed from the approved travel plans, 11 were not supported by explanations to substantiate that the excess rental periods were for official business activities. Generally, the excess rental periods ranged from 1 to 5 days. However, in one extreme case, the rental car was requested and approved for two days but the car was rented for 12 days.

In the cases noted, we also found that on two occasions the car rentals were upgraded from an authorized compact car to a Lincoln Towncar (luxury car). There was no supporting explanation for the business reasons which necessitated the additional costs for the upgrades.

Lack of explanations supporting unusual charges. The manual states that authorized personal travel expenses payable by OHA include the costs of meals, lodging, laundry, tips, and other personal expenditures reasonably and necessarily incurred while traveling in the conduct of official OHA business. The manual further states that, "For all other expenses, a detailed expenditure statement shall be attached to OHA Form No. OHA-OBF-002, supported by receipts."

On occasion, trustees have been charged for additional car rental services such as car cleaning, lost keys, and drop-off and pick-up charges. There were no explanations or other supporting documentation stating why these additional services should be charged to OHA as business expenses.

Recommendation. Trustees should be required to submit explanations for changes in approved travel plans and unusual travel expenses as provided by the manual.

NOTES

Chapter 2

1. Hawaii, *Proceedings of the Constitutional Convention of Hawaii of 1978*, Volume II, Committee of the Whole Debates, Honolulu, September 2, 1978, pp. 457-58.

2. "OHA Established: Kamehameha's People," *Honolulu Advertiser*, June 11, 1979.

3. Hawaii, Office of Hawaiian Affairs, *Annual Report to the Governor and Legislature for the Fiscal Year 1980-81*, Honolulu, January 1981, p. 4.

4. Hawaii, Office of Hawaiian Affairs, *Master Plan*, Honolulu, 1982, p. 1.

5. Sources: Appropriations acts for OHA and for collective bargaining augmentation for exempt employees; combined statements of revenues, expenditures and changes in fund balances, OHA, fiscal years ended 1981 through 1989.

Chapter 3

1. Hawaii, *Constitution*, Article XII, Section 6.

2. Section 10-5(6), HRS.

3. Arthur Young, *Management Audit of the Office of Hawaiian Affairs*, Honolulu, November 1986, p. ii.

4. Hawaii, Office of Hawaiian Affairs, *Policy and Procedure Manual,* Honolulu, February 1989, p. 7.

5. Hawaii, Office of Hawaiian Affairs, *Board of Trustees Bylaws,* Honolulu, February 1989, p. 4.

6. Arthur Young, *Management Audit*, p. 12.

7. Testimony on House Bill No. 646 submitted by Office of Hawaiian Affairs to the Honorable Joseph M. Souki, Chairman, House Committee on Finance, January 11, 1989.

8. Office of Hawaiian Affairs, *Trustees Bylaws*, p. 4.

9. Hawaii, Office of Hawaiian Affairs, "Position Description--OHA Liaison," Honolulu, March 1988.

10. Section 10-4(4), HRS.

11. Office of Hawaiian Affairs, *Trustees Bylaws*, p. 4.

12. Hawaii, Office of Hawaiian Affairs, *Office Procedures Manual* (draft), Honolulu, November 1989, introduction.

Chapter 4

1. Act 303, *Session Laws of Hawaii 1989,* Section 4.

2. Office of Hawaiian Affairs, *Annual Report*, 1981-1989.

3. Native Hawaiian Legal Corporation, *Report*, December 10, 1986.

4. Management letter to Office of Hawaiian Affairs from Deloitte Haskins and Sells, August 1983.

5. Testimony submitted by Wayne Matsuo, Ombudsman, to U.S. Senate Select Committee on Indian Affairs, August 1989.

6. Management letter to Office of Hawaiian Affairs from Deloitte Haskins and Sells, September 2, 1988.

7. Arthur Young, *Management Audit,* November 26, 1986, p. 94; see also Minutes of the Committee on Operations and Development, Office of Hawaiian Affairs, Honolulu, February 17, 1988, p. 6; and management letter, Deloitte Haskins and Sells, September 1988, p. 4.

8. Department of Health, *Statistical Report*, 1980.

9. Interview with S. Apuna, Honolulu, November 7, 1989.

10. *Ka Wai Ola O Oha*, vol. 6, No. 10, October 1989, p. 1.

Chapter 5

1. University of Hawaii Biennium Budget Policy Paper, 1989-91, December 31, 1987, p. 10.

APPENDIX

APPENDIX

This appendix contains summary financial statements of the Office of Hawaiian Affairs for the year ended June 30, 1989, with comparative statements for the years ended June 30, 1985, through June 30, 1988. The statements for 1989 have not been audited. The statements from the prior years were obtained from OHA's annual reports, which contained financial statements audited by an independent auditor hired by OHA.

OFFICE OF HAWAIIAN AFFAIRS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1989

	GOVERNMENTAL ------FUND TYPES------		--ACCOUNT GROUPS--		TOTAL ----------(MEMORANDUM ONLY)----------				
ASSETS	GENERAL	SPECIAL REVENUE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	1989	1988	1987	1986	1985
Cash in State treasury	$ 258,632	629,083			$ 887,715	$ 1,088,627	$ 956,905	$ 621,322	$ 547,194
Cash in banks - interest bearing	0	1,370,348			1,370,348	336,610	315,082	636,586	1,535,266
Petty cash	10,000	0			10,000	10,000	10,600	10,600	10,600
Notes receivable (less allowance for doubtful accounts of $15,000)	0	2,952			2,952	3,573	4,127	4,665	20,157
Other receivables	0	2,544			2,544	34,041	72	0	73,784
Due from special revenue fund	2,544	0			2,544	0	0	0	0
Prepaid expenses	15,621	7,160			22,781	28,156	28,122	29,924	12,041
Security deposits	9,589	0			9,589	9,589	9,589	3,384	3,384
Investments (market value, $4,577,637)	0	4,322,122			4,322,122	3,904,596	3,617,010	3,211,283	1,902,007
Land	0	0	$ 84,100		84,100	0	0	0	0
Leasehold improvements	0	0	13,632		13,632	10,750	10,750	11,819	11,819
Machinery, equipment, furniture and fixtures	0	0	576,466		576,466	465,819	412,563	340,632	223,003
Amount to be provided for payment of:									
Installment purchase contracts	0	0		$ 5,317	5,317	13,654	22,430	5,273	10,464
Vacation benefits and compensatory time off	0	0		176,064	176,064	144,627	114,717	85,134	86,998
TOTAL ASSETS	$ 296,386	$ 6,334,209	$ 674,198	$ 181,381	$ 7,486,174	$ 6,050,042	$ 5,501,967	$ 4,960,622	$ 4,436,717
LIABILITIES AND FUND EQUITY									
Liabilities:									
Due to State	$ 10,000				$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Accounts payable	38,162				38,162	14,088	1,837	1,150	3,219
Deferred revenue	0				0	0	0	1,462	12,157
Due to General Fund	0	$ 2,544			2,544	0	0	0	73,784
Installment purchase contracts payable and vacation benefits and compensatory time off:									
General Fund	0	0		$ 160,952	160,952	158,281	134,114	81,488	78,950
Special Revenue Fund	0	0		20,429	20,429	0	3,033	8,919	18,512
Total liabilities	48,162	2,544		181,381	232,087	182,369	148,984	103,019	196,622
Fund equity:									
Investments in general fixed assets	0	0	$ 674,198		674,198	476,569	423,313	352,451	234,822
Fund balances:									
Reserved for encumbrances	137,218	279,662			416,880	609,752	82,176	243,114	438,019
Reserved for notes receivable	0	2,952			2,952	3,573	4,199	4,665	20,157
Reserved for prepaid expenses and security deposits	25,210	7,160			32,370	37,745	37,711	25,584	11,110
Unreserved:									
Designated for Native Hawaiian revolving loans	0	957,000			957,000	0	0	0	0
Designated for investments	0	1,500,000			1,500,000	1,500,000	1,500,000	3,211,283	1,902,007
Designated for Hawaiian Affairs, Inc.	0	0			0	500,000	500,000	0	0
Designated for Hawaiian projects	85,796	0			85,796	41,938	0	0	0
Designated for MESBIC	0				0	0	0	450,000	450,000
Designated for subsequent year's expenditures	0	2,451,893			2,451,893	1,491,167	1,529,350	0	851,116
Undesignated	0	1,132,998			1,132,998	1,206,929	1,276,234	570,506	332,864
Total fund equity	248,224	6,331,665	674,198	0	7,254,087	5,867,673	5,352,983	4,857,603	4,240,095
TOTAL LIABILITIES AND FUND EQUITY	$ 296,386	$ 6,334,209	$ 674,198	$ 181,381	$ 7,486,174	$ 6,050,042	$ 5,501,967	$ 4,960,622	$ 4,436,717

OFFICE OF HAWAIIAN AFFAIRS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1989

	---GOVERNMENTAL FUND TYPES---			TOTAL ----------(MEMORANDUM ONLY)----------				
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	1989	1988	1987	1986	1985
REVENUES:								
Appropriations	$ 1,347,638			$ 1,347,638	$ 1,297,395	$ 596,881	$ 589,310	$ 567,178
Public land trust	0	$ 1,238,429		1,238,429	1,188,960	1,691,827	1,452,541	1,368,834
Dividend and interest income	0	312,421		312,421	249,635	214,347	210,219	290,876
Federal grant	43,349	957,000		1,000,349	69,881	0	49,261	57,830
Native Hawaiian Legal Corporation	0	6,215		6,215	34,041	79,994	19,111	0
Donations	3,021	36		3,057	99,171	537	100	25
Other	43,973	24,436		68,409	28,311	11,711	5,362	14,923
Total revenues	1,437,981	2,538,537		3,976,518	2,967,394	2,595,297	2,325,904	2,299,666
EXPENDITURES:								
Current - Programs:								
Office of the Administrator	$ 451,535	$ 25,951		$ 477,486	$ 326,758	$ 323,475	$ 294,320	$ 342,983
Administrative Services	493,270	35,162		528,432	545,787	403,443	358,105	277,621
Public Information	306,242	9,415		315,657	289,310	191,198	148,309	164,771
Health and Human Resources	71,864	0		71,864	115,154	209,955	158,976	131,251
Planning and Development	190,193	0		190,193	192,819	117,128	98,620	94,177
Culture	78,079	0		78,079	142,203	96,867	110,750	62,736
Government Affairs	303,832	6,864		310,696	243,525	226,463	149,705	158,639
Land and Natural Resources	424,539	2,691		427,230	392,677	456,146	424,802	410,453
Economic Development	181,347	50		181,397	71,908	94,471	93,362	41,937
Education	223,455	0		223,455	158,213	187,962	120,554	85,086
Capital outlay	134,455	0		134,455	53,559	85,330	117,945	16,400
Debt service:								
Principal payments	0	0	$ 8,337	8,337	8,854	7,304	5,189	22,340
Interest charges	0	0	867	867	1,808	1,292	845	1,856
Total expenditures	2,858,811	80,133	9,204	2,948,148	2,542,575	2,401,034	2,081,482	1,810,250
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,420,830)	2,458,404	(9,204)	1,028,370	424,819	194,263	244,422	489,416
OTHER FINANCING SOURCES (USES):								
Increase in installment purchase contracts	0	0		0	0	24,461	0	0
Realized gain on sale of investments and marketable equity securities	0	189,151		189,151	59,935	208,479	261,835	71,574
Unrealized gain on marketable equity securities	0	0		0	0	0	0	30,360
Proceeds from sale of property	0	0		0	0	0	0	0
Lapse of cash to State General Fund	(28,736)	0		(28,736)	(23,320)	(2,685)	(6,378)	(4,840)
Operating transfers in	1,415,429	0	9,204	1,424,633	1,189,615	787,074	589,366	501,242
Operating transfers out	(9,204)	(1,415,429)		(1,424,633)	(1,189,615)	(787,074)	(589,366)	(501,242)
Total other financing sources (uses)	1,377,489	(1,226,278)	9,204	160,415	36,615	230,255	255,457	97,094
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(43,341)	1,232,126	0	1,188,785	461,434	424,518	499,879	586,510
FUND BALANCE, BEGINNING OF YEAR	291,565	5,099,539	0	5,391,104	4,929,670	4,505,152	4,005,273	3,418,763
FUND BALANCE, END OF YEAR	$ 248,224	$ 6,331,665	$ 0	$ 6,579,889	$ 5,391,104	$ 4,929,670	$ 4,505,152	$ 4,005,273

OFFICE OF HAWAIIAN AFFAIRS
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 1989

	STATE APPROPRIATIONS	HAWAIIAN PROJECTS	FEDERAL GRANTS	TOTAL 1989	TOTAL 1988	TOTAL 1987	TOTAL 1986	TOTAL 1985
ASSETS								
Cash in State treasury	$ 140,980	$ 85,796	$ 31,856	$ 258,632	$ 267,251	$ 10,296	$ 69,804	$ 83,503
Petty cash	10,000			10,000	10,000	10,000	10,000	10,000
Due from Special Revenue Fund	2,544			2,544			0	73,784
Prepaid expenses	15,621			15,621	28,010	28,122	22,200	7,726
Security deposits	9,589			9,589	9,589	9,589	3,384	3,384
TOTAL ASSETS	$ 178,734	$ 85,796	$ 31,856	$ 296,386	$ 314,850	$ 58,007	$ 105,388	$ 178,397
LIABILITIES AND FUND EQUITY								
Liabilities:								
Due to State	$ 10,000			$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Accounts payable	6,306		$ 31,856	38,162	13,285	1,837	1,150	2,974
Total liabilities	16,306		31,856	48,162	23,285	11,837	11,150	12,974
Fund equity:								
Fund balances:								
Reserved for encumbrances	137,218			137,218	212,028	8,459	68,654	154,313
Reserved for prepaid expenses and security deposits	25,210			25,210	37,599	37,711	25,584	11,110
Unreserved:								
Designated for Hawaiian projects	0	$ 85,796		85,796	41,938	0	0	0
Total fund equity	162,428	85,796	0	248,224	291,565	46,170	94,238	165,423
TOTAL LIABILITIES AND FUND EQUITY	$ 178,734	$ 85,796	$ 31,856	$ 296,386	$ 314,850	$ 58,007	$ 105,388	$ 178,397

OFFICE OF HAWAIIAN AFFAIRS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1989

	STATE APPROPRIATIONS	HAWAIIAN PROJECTS	FEDERAL GRANTS	TOTAL 1989	TOTAL 1988	TOTAL 1987	TOTAL 1986	TOTAL 1985
REVENUES:								
Appropriations	$ 1,347,638			$ 1,347,638	$ 1,297,395	$ 596,881	$ 589,310	$ 567,178
Federal grant	0		$ 43,349	43,349	69,881	0	0	0
Donations	0	$ 1,833	1,188	3,021	99,121	0	0	0
Other	0	13,116	0	13,116	10,494	0	0	0
Newspaper ads	0	30,857	0	30,857	12,522	0	0	0
Registration fees	0	0	0	0	5,295	0	0	0
Total revenues	1,347,638	45,806	44,537	1,437,981	1,494,708	596,881	589,310	567,178
EXPENDITURES:								
Current - Programs:								
Office of the Administrator	$ 451,535	0	0	$ 451,535	$ 281,017	$ 255,186	$ 255,229	$ 228,045
Administrative Services	493,270	0	0	493,270	511,444	371,890	314,509	245,627
Public Information	306,102	140	0	306,242	289,310	190,502	136,741	109,300
Health and Human Resources	71,864	0	0	71,864	106,404	71,088	69,843	51,134
Planning and Development	187,035	280	2,878	190,193	192,819	98,816	87,395	86,849
Culture	78,079	0	0	78,079	131,278	63,099	61,506	54,662
Government Affairs	303,832	0	0	303,832	231,264	206,052	131,064	141,511
Land and Natural Resources	423,351	0	1,188	424,539	379,323	0	1,800	6,078
Economic Development	181,347	0	0	181,347	71,908	48,881	38,739	36,512
Education	181,456	1,528	40,471	223,455	145,958	52,527	22,678	40,973
Capital outlay	134,455	0	0	134,455	53,559	83,825	117,945	16,400
Total expenditures	2,812,326	1,948	44,537	2,858,811	2,394,284	1,441,866	1,237,449	1,017,091
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,464,688)	43,858	0	(1,420,830)	(899,576)	(844,985)	(648,139)	(449,913)
OTHER FINANCING SOURCES (USES):								
Increase in installment purchase contracts	0	0	0	0	0	24,192	0	0
Proceeds from sale of property	0	0	0	0	0	0	0	0
Lapse of cash to State General Fund	(28,736)	0	0	(28,736)	(23,320)	(2,685)	(6,378)	(4,840)
Operating transfers in	1,415,429	0	0	1,415,429	1,178,953	778,478	583,332	477,046
Operating transfers out	(9,204)	0	0	(9,204)	(10,662)	(3,068)	0	(20,487)
Total other financing sources (uses)	1,377,489	0	0	1,377,489	1,144,971	796,917	576,954	451,719
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(87,199)	43,858	0	(43,341)	245,395	(48,068)	(71,185)	1,806
FUND BALANCE, BEGINNING OF YEAR	249,627	41,938	0	291,565	46,170	94,238	165,423	163,617
FUND BALANCE, END OF YEAR	$ 162,428	$ 85,796	$ 0	$ 248,224	$ 291,565	$ 46,170	$ 94,238	$ 165,423

OFFICE OF HAWAIIAN AFFAIRS
SUPPLEMENTAL SCHEDULE OF TOTAL EXPENDITURES BY PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1989

	OFFICE OF THE ADMINISTRATOR	ADMINIS-TRATIVE SERVICES	PUBLIC INFORMATION	HEALTH AND HUMAN RESOURCES	PLANNING AND DEVELOPMENT	CULTURE	GOVERNMENT AFFAIRS	LAND AND NATURAL RESOURCES	ECONOMIC DEVELOPMENT	EDUCATION	Total
Salaries and wages	$ 197,126	$ 234,819	$ 83,197	$ 49,108	$ 86,309	$ 64,163	$ 183,518	$ 46,910	$ 87,477	$ 67,094	$ 1,099,721
Native Hawaiian Legal Corporation	0	0	0	0	0	0	0	356,521	0	0	356,521
Services on a fee basis	27,663	13,931	11,946	1,248	41,155	1,454	83,804	84	6,340	85,550	273,175
Rent	24,245	142,342	107	0	0	334	1,276	0	8,574	1,438	178,316
Grants	0	0	9,415	0	44,033	250	0	0	0	40,173	93,871
Fringe benefits	11,087	10,885	6,279	4,280	6,363	5,170	16,870	3,942	6,293	6,415	77,584
Travel and subsistence	87,583	414	2,258	153	545	1,607	10,201	1,642	2,487	11,393	118,283
Seminars and conferences	2,219	5,389	413	5,653	554	2,004	0	220	54,439	6,704	77,595
Training	0	0	0	0	0	0	652	0	0	0	652
Ho'Olokahi	0	0	0	0	0	0	0	0	0	0	0
Ka Wai Ola O Hawaii	0	0	79,967	0	0	0	0	0	0	0	79,967
Postage	1,098	1,123	46,358	209	453	522	1,399	145	663	892	52,862
Community Organization Planning	0	0	0	0	0	0	0	0	0	0	0
Graduate scholarship	0	0	0	0	0	0	0	0	0	0	0
Repairs and maintenance	0	33,813	42	0	0	1,776	0	2,338	250	0	38,219
Investment advisory services	0	35,162	0	0	0	0	0	0	0	0	35,162
Advertising	1,397	5,429	62,256	3,602	4,100	0	6,864	2,001	7,694	0	93,343
IPI Conference	0	0	0	0	0	0	0	0	0	0	0
Unemployment compensation	0	0	0	0	0	0	0	0	0	0	0
Telephone	0	21,781	0	0	39	0	0	0	1,192	0	23,012
Printing	994	2,624	9,976	123	125	30	564	2,610	428	0	17,474
Insurance	17,401	0	0	0	0	0	0	0	0	0	17,401
Ad Hoc Ceded Lands	24,625	0	0	0	0	0	0	0	0	0	24,625
Supplies	1,506	17,439	0	0	0	41	768	0	1,383	9	21,146
Ad Hoc Ceded Land Entitlements	0	0	0	0	0	0	0	2,691	0	0	2,691
Historical Preservation Task Force	3,389	0	0	0	0	0	0	0	0	0	3,389
Referendum	67,600	0	0	0	0	0	0	0	0	0	67,600
Population survey	0	0	0	0	0	0	0	0	0	0	0
ANA Grant	0	0	0	0	0	0	0	0	0	0	0
Kupuna Coordinator	0	0	0	0	0	0	0	0	0	0	0
Bad debt expense	0	0	0	0	0	0	0	0	0	0	0
Other	9,553	3,281	3,443	7,488	6,517	728	4,780	8,126	4,177	3,787	51,880
	$ 477,486	$ 528,432	$ 315,657	$ 71,864	$ 190,193	$ 78,079	$ 310,696	$ 427,230	$ 181,397	$ 223,455	$ 2,804,489

RESPONSE OF THE AFFECTED AGENCY

COMMENTS ON AGENCY RESPONSE

A preliminary draft of this report was transmitted on January 29, 1990, to the Office of Hawaiian Affairs (OHA). A copy of the transmittal letter is included as Attachment 1. As is our practice, we invited OHA to comment on the recommendations made in the report. OHA's response is included as Attachment 2.

The office noted that it has operated under several constraints, and it reiterated its commitment to give priority attention to bettering the conditions of native Hawaiians and Hawaiians while it sorts out some of the issues raised in the report. OHA viewed the recommendations concerning organizational and administrative issues to be "reasonable and acceptable" and also accepted the recommendations concerning program management issues.

OHA did not specifically address the recommendations on budget preparation, expenditure reporting, and various aspects of financial accounting and internal controls. Rather, OHA provided updated information on its endeavors since our field work was completed.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813

(808) 548-2450
FAX: (808) 548-2693

January 29, 1990

C O P Y

Mr. Thomas Kaulukukui, Sr.
Chairman
Board of Trustees
Office of Hawaiian Affairs
1600 Kapiolani Boulevard, Suite 1500
Honolulu, Hawaii 96813

Dear Mr. Kaulukukui:

Enclosed are three copies, numbers 6 to 8 of our draft report, *Management and Financial Audit of the Office of Hawaiian Affairs.* Shoud you decide to comment on our recommendations, please transmit the written comments to us by February 12, 1990. We will append your response to the report submitted to the Legislature.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

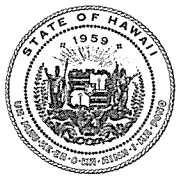
Since the report is not in final form and changes may be made, access to this report should be restricted to those whom you might wish to assist you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Newton Sue
Newton Sue
Acting Legislative Auditor

Enclosures

ATTACHMENT 2



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
1600 KAPIOLANI BLVD., SUITE 1500
HONOLULU, HAWAII 96814
(808) 548-8960
(808) 946-2642

RECEIVED
FEB 14 4 21 PM '90
OFC. OF THE AUDITOR
STATE OF HAWAII

February 14, 1990

The Honorable Newton Sue
Acting Legislative Auditor
State of Hawaii
465 S. King Street, Ste. 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for the opportunity to respond to the preliminary report issued by your Office entitled "Management and Financial Audit of the Office of Hawaiian Affairs." We regret the delay in responding, but as we explained to Marion Higa, through some strange quirk, the report copy that we received was not accompanied by a transmittal letter. As a result , we did not learn until later that a February 12 reply date had been asked. We appreciate Marion's kind gesture in allowing us additional time.

We are generally pleased that the report recognizes that OHA's first "decade has been a period of dynamic growth and change" and that "inevitably, OHA has had growing pains." (p. 10) We appreciate your acknowledgment that OHA "is still in its developing stages" and "remains open to new initiatives and experimentation." (p. 10) It is within this framework of mutual understanding that we respond to recommendations.

We recognize that specific areas of concern outlined in your summary of findings are worthy of our serious attention and consideration. Indeed, much of your report highlights a number of endeavors by OHA to resolve these issues. Not all of these efforts have lived up to our or your expectations, but they are evidence of our shared concern and objectives, and we shall continue to address them. In doing so, we should note that our future endeavors will continue to be conditioned by constraints that have been with us in the past and that may not have been adequately considered in your report. These include:

The fact that a decade has gone by and that the issue of OHA's twenty per cent share of all funds derived from the public land trust remains unsettled.

Our complex and sometimes ambiguous relationships with other agencies of state government, and the fact that resolution of the ambiguities is not solely under our control.

The subtleties involved in maintaining OHA as a self-governing corporate body with a separate elected Board of Trustees, a right of all native Americans which we believe should not be set aside lightly, alongside the framework of traditional state government.

Within these constraints, and with the understanding that we must give priority attention to our foremost goal of bettering the conditions of native Hawaiians and Hawaiians while we are sorting out administrative and organizational issues, we will continue to address the concerns expressed in your report. We would like to offer the following comments on your summary of findings and recommendations:

Chapter 3
Some Organizational and Administrative Issues

The Board's oversight role over OHA projects; its relationship with the Administrator and OHA staff; its role in contracts and agreements.

These are issues under active consideration. Over the past year, there has been continuing dialogue between the Administrator and the Board to clarify roles and relationships. The Board's role as a policy-maker rather than an administrative body has been generally accepted and understood. The process of translating that from management philosophy to management practice continues and, we believe, with growing success.

We are awaiting the results of a study by the consultant firm of Ernest and Young, dealing with the operations of the Board. That study is the last phase of a comprehensive management review and is expected to deal with role relationships, functional areas of the Board, and recommendations on activities and operations. It should be helpful in dealing precisely with the organizational issues raised by the Legislative Auditor.

As for the Board's role in contracts and agreements, policies and procedural requirements in purchases and contracts were adopted for use in December 1989. These requirements, which could be collectively termed a "manual", does indeed delineate the role and place of the Board in contracting and acquisition matters.

Finally, with respect to the organizational questions raised regarding the Native Hawaiian Revolving Loan Fund (NHRLF), the Administrator and the Trustee member of the NHRLF Advisory Board have clarified the relationship as between the Loan Program and the OHA, the Loan Program and the Advisory Board, and OHA and the Advisory Board. By that we mean that the basic organizational principles and the functional areas of responsibility have been articulated in writing. The details for observing those principles and the work activities associated with functional responsibilities, particularly those that relate to "administrative control and oversight", are being refined.

The Office of Hawaiian Affairs views the recommendations of the Legislative Auditor regarding organizational and administrative issues raised as reasonable and acceptable. They will be guides for actions by this office.

Chapter 4
Some Program Management Issues

OHA has been actively pursuing an effective, efficient program management system. First, the planning process that is an integral part of program management is under review. We anticipate development of more detailed programs within the ambit of the 1988 OHA Master Plan. An evaluation component will be a part of OHA's planning, programming, budgetary, and reporting system.

The office has within its staffing complement, a program analyst position, whose task will be to examine programs and assist in the development of program indicators and means of reporting and assessing effectiveness.

A program management system will be an item of special attention, particularly given the multiplicity of operational initiatives of the past calendar year, with more of the same anticipated for the foreseeable future.

The Legislative Auditors' recommendations with respect to program management issues are reasonable and accepted.

Chapter 5
Budget Preparation and Reporting of Expenditures

Budget Preparation. Since February of 1986 budget instructions and guidelines, similar to instructions and guidelines issued by the Director of Finance, have been used by OHA. With the completion of the Population Survey/ Needs Assessment in June of 1986, adoption of the Office of Hawaiian Affairs Master Plan in January of 1988, Results of the Management Consultant in April of 1989, and the hiring of a planning consultant in December of 1989, OHA will have a comprehensive system for program and resource management which will further the capacity of the board and the legislature to plan, program and finance the programs of OHA.

Reporting of Expenditures. Key to public budgeting, may it be line-item budgeting, program budgeting or performance budgeting is the ability to provide current and historical cost information. During the period FY81 to FY90, OHA has operated with a manual accounting system. The manual system is used to account for expenses for ten programs with each program financed by general and special funds, a total of twenty appropriations.

From this manual system various internal reports are generated for use by trustees, administration, and program managers. Act 218/SLH 1987, which appropriates moneys to OHA, includes in the special fund appropriation fringe

benefit cost. Since fringe benefit costs are calculated and paid through the payroll process and not available for any other use by program officers, budget reported by BJ tables, as July 1, 1987, reflect the special fund appropriation less the fringe cost or an amount equal to the general fund appropriation. Expenditures reported on BJ tables, as of June 30, 1988, reflect expenditures and encumbrances of funds appropriated by Act 218/SLH 1987, (less fringe cost) including transfers between programs as authorized by the appropriation act.

OHA's annual financial audit, conducted by an independent certified accounting firm, audits all governmental fund types and related expenditures. The expenditures reported by the accounting firm in OHA annual reports includes expenditure of appropriations by Act 218, SLH 1987, and expenditures by all governmental fund types. Included in the reported expenditures are special fund expenditures authorized by the board and payments made against encumbrances of the previous fiscal year. Likewise, fiscal year 1987-88 program encumbrances are excluded from the expenditure report. Those encumbrances will appear as expenditures in the supplemental schedule of total expenditures by programs for the year ended June 30, 1989, if the goods or services were delivered and accepted.

Chapter 6
Financial Accounting and Internal Controls

Internal Controls On December 22, 1989, the board approved Title 3 - Purchasing of the Administrative and Financial Manual of Guides. By adopting polices and procedures on purchasing the board has now adopted 5 of 9 titles that make up the Administrative and Financial Manual of Guides. The four remaining titles are as follows: Title 4. Payments and Receipts; Title 5. Budgeting; Financial Accounting and Reporting; Title 6. Employee Classification; and, Title 7. Personnel Administration.

A draft of Title 7. Personnel Administration was completed in June of 1989. The draft has been reviewed by legal counsel and a staff committee. Their recommendations will be considered by the Administrator for possible amendments to the draft prior to presentation to the trustees in the near future. Once adopted by the board, work on the remaining three titles will commence. Administrative and Financial Manual of Guides will be and operational over the next few months.

In conclusion, we call attention to the fact that, administrative and managerial issues aside, there has been considerable success in carrying out the statutory mandate for the office. In the last five years alone, OHA brought to the public's attention the fact that native Hawaiians are entitled to special treatment and a portion of all funds derived from the public land trust shall be held and used solely as a public trust for the betterment of conditions of native Hawaiians. OHA has also addressed the complex issue of a single definition and yet within that single definition being able to protect

and preserve the rights and entitlements of native Hawaiians. Also in those last five years OHA increasingly has acted on behalf of Hawaiians at the county, legislative, administrative, judicial and federal levels of government. The "blue print" for federal entitlements is but one of several major endeavors of OHA that will impact on the lives of many Hawaiians. We have explored and implemented new social advocacy directions. In the process, we have created a unique mode for native American self-governance, one that continues to provoke interest and attention nationwide and in other parts of the world where native peoples desire to, and will be, masters of their own destiny.

Sincerely,

for RICHARD K. PAGLINAWAN
Administrator

RKP:klr