
Audit of the Kaho‘olawe Rehabilitation Trust Fund

A Report to the
Governor
and the
Legislature of
the State of
Hawai‘i

Report No. 13-06
July 2013



THE AUDITOR
STATE OF HAWAI‘I

Office of the Auditor

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5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
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State of Hawai'i

"...Initial plans may project restoration for the first 40 years, while looking forward toward the following 400 years, and then to the next 4,000 years."

—language from one of KIRC's planning documents

Recommendations

Response

Prior Audits

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Audit of the Kaho'olawe Rehabilitation Trust Fund

Report No. 13-06, July 2013

Ill-defined restoration project will exhaust the trust fund

The trust fund will be depleted by 2016

Title X of the 1994 Department of Defense Appropriations Act conveyed Kaho'olawe and its surrounding waters back to the State of Hawai'i, ending military use of Kaho'olawe and authorizing \$400 million for ordnance removal, of which 11 percent (\$44 million) was made available to the State to carry out environmental restoration and other archaeological and educational activities on the Kaho'olawe Island Reserve. The \$44 million became the Kaho'olawe Rehabilitation Trust Fund, and our audit focused on whether moneys in the fund were being used in compliance with applicable state laws and grant agreements and to effectuate the performance of duties and responsibilities of the Kaho'olawe Island Reserve Commission (KIRC).

After 18 years and \$51 million, the commission has partially restored approximately 13 percent of its planned restoration area, but is a long way from its vision of returning the island and surrounding waters to pristine conditions. We found that the commission has not established a comprehensive plan for its restoration effort, including forecasts regarding how much the project will cost and when it will likely be completed. As a result, spending has outpaced revenues and the trust fund, which contained as much as \$33.6 million in FY2004, has been whittled down to \$6.5 million. Despite the commission's efforts to curtail operations and fundraise, at its current rate of spending the trust fund will be depleted by 2016.

Commission lacks a comprehensive and measurable restoration plan

One of the commission's six major planning documents, Ho'ola Hou I Ke Kino O Kanoaloa, Kaho'olawe Environmental Restoration Plan, introduced the commission's comprehensive restoration strategies for the island and is intended to serve as a blueprint for the restoration process. The commission's strategic plan also defines its goal for the island's restoration as "to systematically restore the natural resources of the Reserve, including the island and its surrounding waters." However, we found that the resource management plan does not include meaningful performance measures to gauge whether objectives are being met, and lacks cost estimates for the actions the commission wants to pursue.

Without a comprehensive restoration plan, it is nearly impossible to assess project feasibility as well as definitively measure progress towards goals, evaluate the areas still to be restored, or plan for spending and timing of execution. To avoid depletion of the fund and to provide Kaho'olawe with proper stewardship well into the future, the commission needs to align its vision of the Kaho'olawe of tomorrow with the fiscal realities of today, and plan accordingly.

Agency response

The commission acknowledged that it faces very serious financial challenges, including the impending total depletion of its trust fund; however, it did not specifically address how it plans to secure additional funding, besides calling for state assistance. The commission also did not address our finding that it lacks a comprehensive and measurable restoration plan for the island, which includes estimated costs and timeframes for completion.

Audit of the Kaho‘olawe Rehabilitation Trust Fund

A Report to the
Governor
and the
Legislature of
the State of
Hawai‘i

Conducted by

The Auditor
State of Hawai‘i
and
PKF Pacific Hawai‘i
LLP

Submitted by

THE AUDITOR
STATE OF HAWAI‘I

Report No. 13-06
July 2013

Foreword

This is a report on the fiscal audit of the Kaho‘olawe Rehabilitation Trust Fund, State of Hawai‘i, for the fiscal years ended June 30, 2011, and June 30, 2012. The audit was conducted in response to Senate Concurrent Resolution No. 63, Senate Draft 1 of the 2012 legislative session and pursuant to Article VII, Section 10 of the Hawai‘i State Constitution and Section 23-4, Hawai‘i Revised Statutes, which require the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. The audit was conducted by the Office of the Auditor and the certified public accounting firm of PKF Pacific Hawai‘i LLP.

We wish to express our appreciation for the cooperation and assistance extended by the director and staff of the Department of Land and Natural Resources, the Kaho‘olawe Island Reserve Commission, and others whom we contacted during the course of the audit.

Jan K. Yamane
Acting State Auditor

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Chapter 1

Introduction

This report responds to Senate Concurrent Resolution No. 63, Senate Draft 1 (SCR No. 63, SD 1), of the 2012 legislative session, which asked the Auditor to conduct a fiscal audit of the Kaho‘olawe Rehabilitation Trust Fund. The Legislature requested that the audit include a determination of whether trust funds are being used in compliance with state laws and any applicable grant agreements, and to effectuate the purposes of Chapter 6K, Hawai‘i Revised Statutes (HRS)—including the performance of duties and responsibilities of the Kaho‘olawe Island Reserve Commission. The audit was conducted with the assistance of the independent certified public accounting firm PKF Pacific Hawai‘i LLP, and pursuant to Section 23-4, HRS, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State of Hawai‘i and its political subdivisions.

Background

Kaho‘olawe is the smallest of eight main islands in the Hawaiian archipelago, located just southwest of Maui. The island is culturally and historically significant. Archeological evidence suggests that Hawaiians came to Kaho‘olawe as early as 400 A.D. and used it as a base for ocean voyaging, an adze quarry, an agricultural center, and a site for religious and cultural ceremonies. Starting in the late 1700s, Kaho‘olawe was used as a place to raise goats, cattle, and sheep; and later served as a penal colony from 1826 to 1853. In 1941, Kaho‘olawe came under the jurisdiction of the federal government and was used as a bombing range by the U.S. Navy. In 1990, President George H. W. Bush discontinued this practice; however, decades of bombing left the island and its surrounding waters littered with unexploded munitions, or ordnance (UXO). Although the island has been significantly cleaned up by the U.S. Navy, the presence of lingering UXO continues to be dangerous to island visitors. Exhibit 1.1 shows a chronology of environmental events in the history of Kaho‘olawe.

Exhibit 1.1

Timeline of Kaho‘olawe’s Environmental Events, 1793–present

| Year | Event |
|-------------|---|
| 1793 | Goats are introduced to Kaho‘olawe, a gift from explorer Captain George Vancouver to Chief Kahekili of Maui. |
| 1858–1941 | In 1858, the Hawaiian government issues the first of many ranch leases for the island. Overgrazing by cattle, sheep and goats results in substantial loss of soil through accelerated erosion. By the late 1890s, there are 900 cattle and 15,000 sheep on the island. |
| 1941 | After the attack on Pearl Harbor, the United States declares martial law, which leads to use of Kaho‘olawe as a bombing range. |
| 1941–1988 | Goat population on Kaho‘olawe reaches about 50,000. |
| 1953 | President Eisenhower transfers title of Kaho‘olawe to the U.S. Navy with the provision that it be returned to the Territory of Hawai‘i in a condition for “suitable habitation” when no longer needed by the military. |
| 1976–1977 | Protect Kaho‘olawe ‘Ohana (PKO) begins a series of occupations of the island in an effort to halt bombing. PKO files suit in Federal District Court to stop the U.S. Navy’s bombing activities. In 1977, the court orders a partial summary judgment requiring the U.S. Navy to conduct an environmental impact statement and supply an inventory of the historic sites on the island that should be protected. |
| 1980 | A consent decree is signed between the U.S. Navy and PKO, which results in a memorandum of understanding requiring the U.S. Navy to begin soil conservation, revegetation, and goat eradication programs. |
| 1981 | Kaho‘olawe is listed on the National Register of Historic Places and designated the Kaho‘olawe Archaeological District. |
| 1990 | President George H. W. Bush orders a stop to the bombing of Kaho‘olawe. |
| 1993 | Title X of the 1994 Department of Defense Appropriations Act conveys Kaho‘olawe and its surrounding waters back to the State of Hawai‘i. Congress ends military use of Kaho‘olawe and authorizes \$400 million for ordnance removal, of which 11 percent (\$44 million) is made available to the State to carry out environmental restoration and other archaeological and educational activities. |
| 1994 | U.S. Navy conveys deed of ownership of Kaho‘olawe to the State of Hawai‘i. The Legislature establishes the Kaho‘olawe Island Reserve Commission to manage activities on the island. |
| 2003 | U.S. Navy transfers control of the island to the State of Hawai‘i. |
| 2004 | U.S. Navy ends the Kaho‘olawe UXO clearance project. Approximately 75 percent of the island is surface-cleared of unexploded ordnance. Of this area, 10 percent of the island (2,647 acres) is additionally cleared to a depth of four feet. Unescorted access to the 25 percent of the island (6,692 acres) left uncleared remains unsafe. |

Source: Kaho‘olawe Island Reserve Commission

Kaho‘olawe Island Reserve

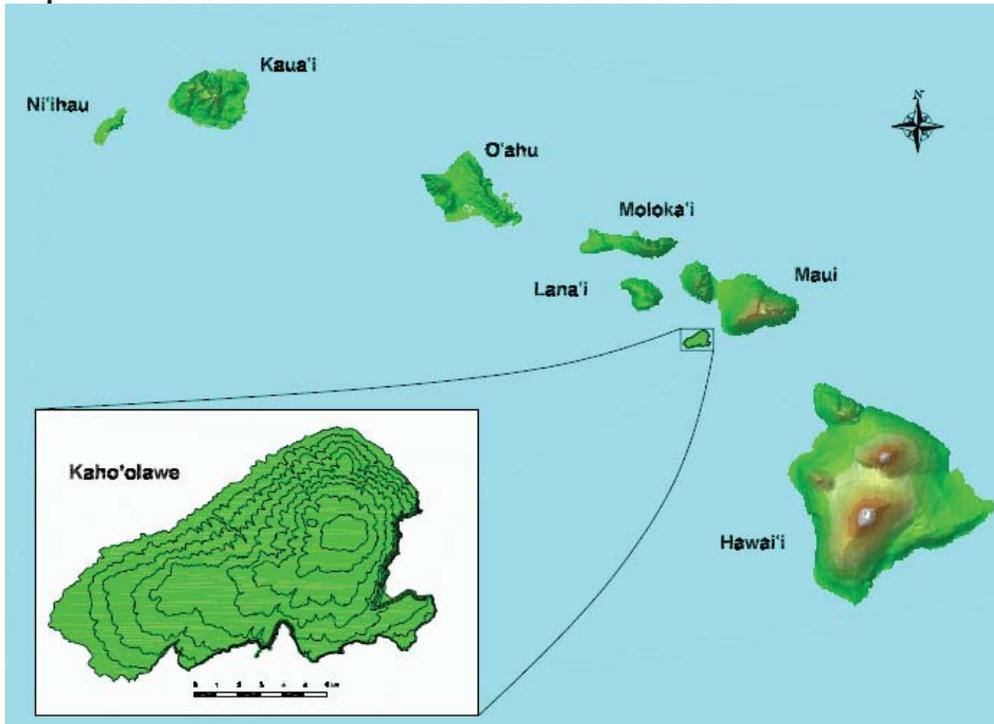
The Kaho‘olawe Island Reserve was established by Chapter 6K, HRS. The reserve is designated as the island of Kaho‘olawe plus the submerged lands and waters surrounding the island for two miles from its shoreline. The island is approximately 11 miles long, seven miles wide, and comprised of about 28,800 acres. The submerged land and ocean area surrounding the island is approximately 49,200 acres; the

total reserve covers about 78,000 acres. Around 30 percent of the island is barren due to severe erosion. By law, the reserve is to be used exclusively for:

- Preservation and practice of all rights customarily and traditionally exercised by native Hawaiians for cultural, spiritual, and subsistence purposes;
- Preservation and protection of the island's archaeological, historical, and environmental resources;
- Rehabilitation, revegetation, habitat restoration, and preservation; and
- Education.

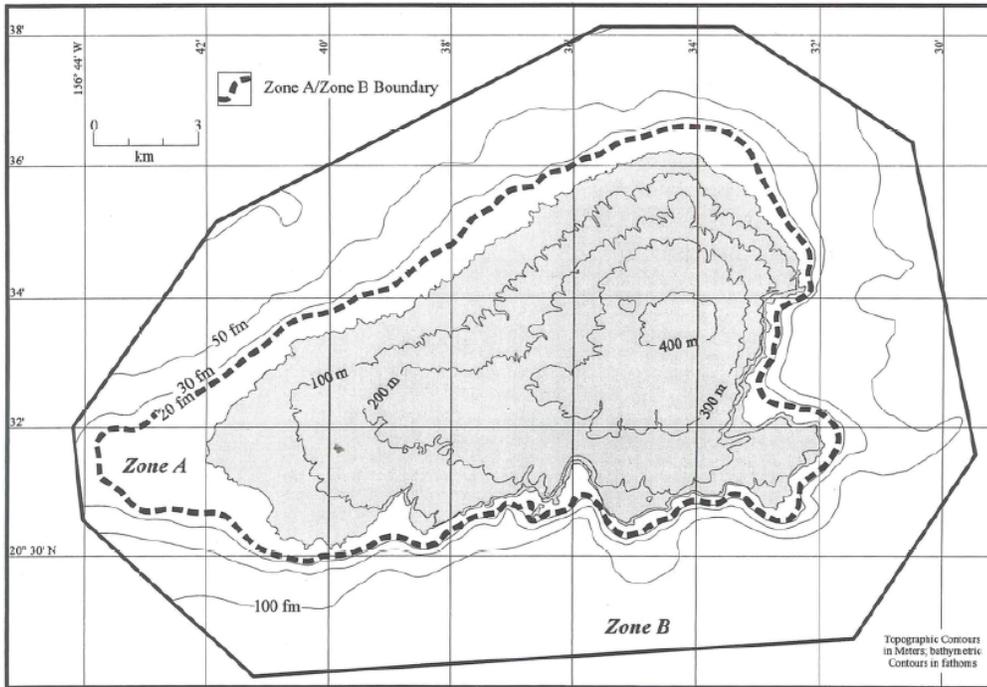
Commercial use is prohibited on the reserve. The reserve is also held in trust as part of the State's public land trust, with the State to transfer management and control of the reserve to a sovereign native Hawaiian entity upon recognition by the United States and the State of Hawai'i. Exhibits 1.2 and 1.3 show the island of Kaho'olawe and the reserve.

Exhibit 1.2
Map of Main Hawaiian Islands and Kaho'olawe Detail



Source: Access and Risk Management Plan, November 2005, Kaho'olawe Island Reserve Commission

Exhibit 1.3
Map of Kaho‘olawe Island Reserve



Note: Zone A represents all the area within the reserve, including the island, and the waters from the shoreline to a depth of 20 fathoms. Zone B is the area within the reserve from a depth of 20 fathoms to the boundary of the reserve. Trolling is permitted in Zone B on two weekends per month, provided the vessel remains underway at all times.

Source: Kaho‘olawe Ocean Management Plan, July 1997, Kaho‘olawe Island Reserve Commission

Kaho‘olawe Island Reserve Commission and related entities

Along with the Kaho‘olawe Island Reserve, Chapter 6K, HRS, also established the Kaho‘olawe Island Reserve Commission (KIRC). The commission is responsible for administering the reserve, including establishing criteria, policies, and controls for permissible uses of the reserve. The commission can solicit and accept grants, donations, and contributions towards the Kaho‘olawe Rehabilitation Trust Fund, as well as delegate to its executive director or employees the power and authority to effectively administer its statutory responsibilities. The commission’s mission is to implement the vision for the island of Kaho‘olawe, where “forests and shrublands of native plants and other biota clothe its slopes and valleys” and “pristine ocean waters and healthy reef ecosystems are the foundation that supports and surrounds the island.” The commission’s pledge is to provide for meaningful, safe use of Kaho‘olawe for the purposes of the traditional and cultural practices of the native Hawaiian people, and to undertake restoration of the island and its waters.

Protect Kaho‘olawe ‘Ohana

In addition to KIRC, the Protect Kaho‘olawe ‘Ohana (PKO) is a grassroots organization dedicated to providing education on the historical, cultural, religious, and social significance of Kaho‘olawe. In 1976, members of PKO filed suit in Federal District Court seeking to stop the U.S. Navy’s bombing activities on Kaho‘olawe. In 1980, a settlement was reached, which limited the U.S. Navy’s ordnance impact training and allowed monthly PKO access to the island for religious, cultural, revegetation, and conservation purposes. Other than the commission, PKO is the only organization with stewardship responsibilities and access to the island.

In 1995, PKO and the commission signed a memorandum of understanding recognizing PKO’s ongoing role in relation to the reserve. In 2006, the first PKO stewardship agreement was signed, which allowed the organization access to the reserve to provide mutual support for commission-sponsored and -approved activities. In 2009, the stewardship agreement was extended for five years.

The PKO currently maintains a base at Hakioawa, on the northeast side of Kaho‘olawe. The commission’s base is located at Honokanai‘a, on the southwest side of the island. Exhibit 1.4 shows the location of both bases.

Exhibit 1.4

Map of Kaho‘olawe, Showing PKO and Commission Bases

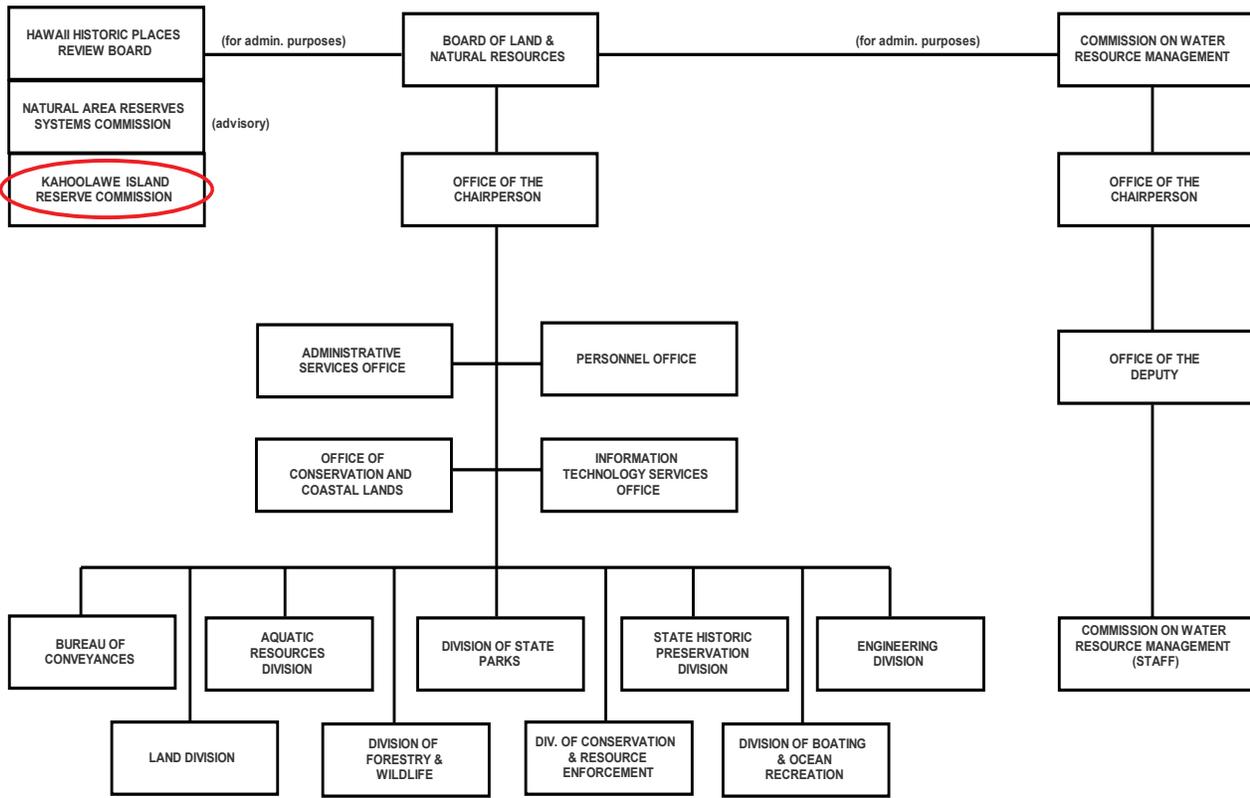


Source: Google Maps/PKF Pacific Hawai‘i LLP

Kaho‘olawe Island Reserve Commission organizational structure

The KIRC is administratively attached to the Department of Land and Natural Resources (DLNR). According to Section 6K-4, HRS, the department is responsible for implementing controls and permitted uses for the reserve; enforcing Chapter 6K, HRS, *Kaho‘olawe Island Reserve*; providing administrative support to the commission; and all matters relating to enforcing the laws and rules applicable to the reserve. Exhibit 1.5 shows where the commission falls within the department’s organizational structure.

Exhibit 1.5
Department of Land and Natural Resources Organizational Chart

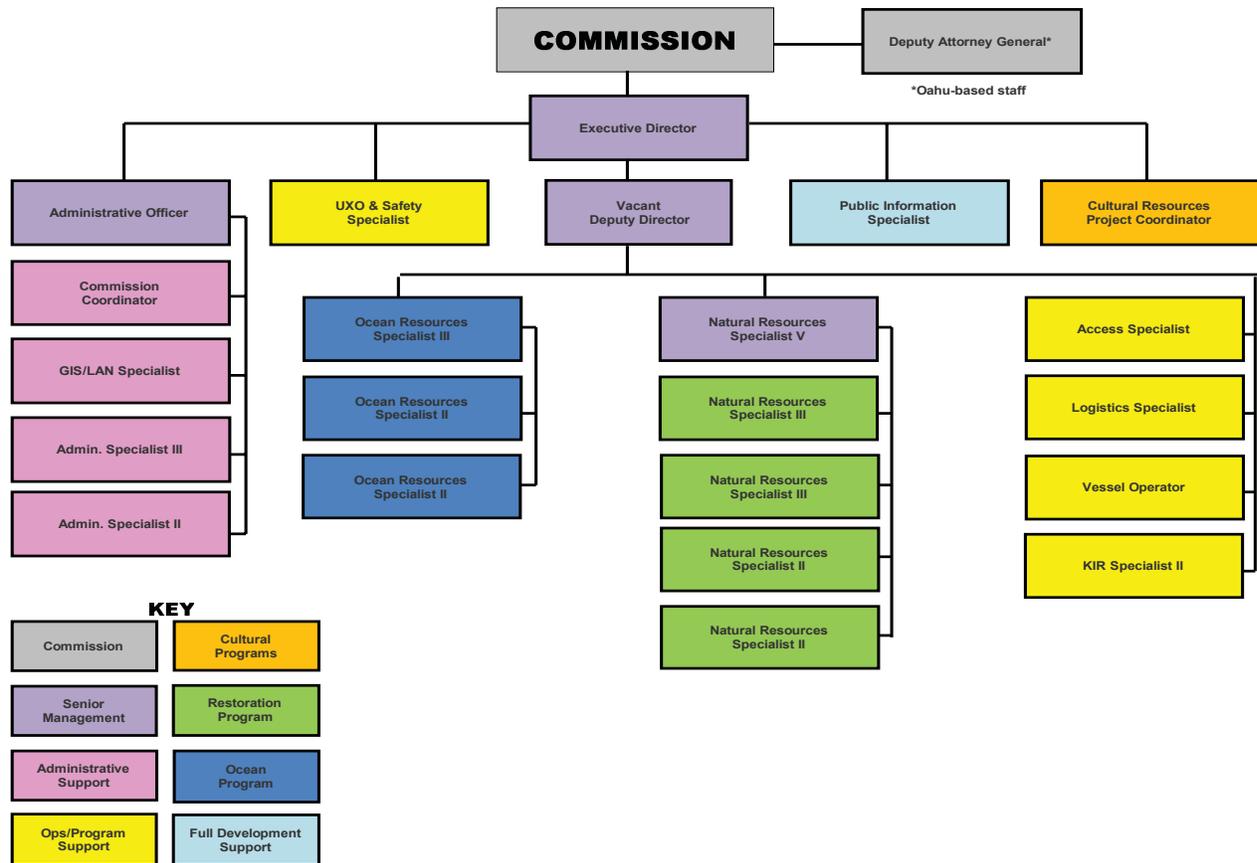


Source: Department of Budget and Finance

The commission is comprised of seven members. One member is from the Protect Kaho‘olawe ‘Ohana; two are appointed by the governor from a list provided by the PKO; one is a trustee or representative of the Office of Hawaiian Affairs; one is a county official appointed by the governor from a list provided by the mayor of the county of Maui; one is the chairperson of the Board of Land and Natural Resources; and one is appointed by the governor from a list provided by native Hawaiian organizations.

The commission is authorized to hire employees to execute its responsibilities. As of FY2012, there were 22 authorized positions, including the executive director. The commission’s structure is shown in Exhibit 1.6.

Exhibit 1.6
Kaho’olawe Island Reserve Commission Organizational Chart



Source: Kaho’olawe Island Reserve Commission

The commission has five major programs: Restoration, Ocean, Cultural, Reserve Operations, and Volunteer.

- The **Restoration Program** focuses on the restoration of native, land-based habitats and watersheds. According to the commission’s environmental restoration plan, this is achieved through strategies addressing erosion control, botanical and faunal restoration, and enhancement of the island’s natural water systems.
- The **Ocean Program** develops and implements a comprehensive ocean resource management regime that emphasizes ancestral and traditional knowledge and integrates ancient and modern resource management techniques.

- The **Cultural Program** is responsible for the care and protection of Kaho‘olawe’s cultural resources, which include archaeological and historic remnants of the island’s early inhabitants, in addition to expansion of the meaningful cultural use of the island.
- The **Reserve Operations Program** provides transportation, accommodation, maintenance and repair, general support and manpower, and overall safety within the reserve.
- The **Volunteer Program** ensures the availability of a large pool of volunteers and matches the skill and labor requirements of each project to the capability of volunteers.

The commission’s office is located in Wailuku, Maui. The island of Maui is shown in Exhibit 1.2.

***Kaho‘olawe
Rehabilitation Trust
Fund***

In 1993, Congress passed Title X, the Department of Defense Appropriations Act, which authorized the conveyance of Kaho‘olawe and its surrounding waters back to the State of Hawai‘i. Title X appropriated \$400 million in federal funds for the purpose of ordnance clearance and removal, of which not less than 11 percent (\$44 million) was given to the State to carry out long-term planning, environmental restoration, and other archaeological and educational activities relating to Kaho‘olawe.

The trust fund was established by the State in 1993 upon enactment of Chapter 6K, HRS, to receive funds for the rehabilitation and environmental restoration of Kaho‘olawe. From 1995 until 2004, the trust fund received just over \$44 million in federal money, as illustrated in Exhibit 1.7. The trust fund’s cash balance for fiscal years 2008 through 2012 is presented in Exhibit 1.8.

Exhibit 1.7**Federal Moneys Deposited to Kaho‘olawe Rehabilitation Trust Fund, FY1995–FY2004**

| Year | Amount |
|--------------|---------------------|
| 1995 | \$5,500,000 |
| 1996 | \$2,759,000 |
| 1997 | \$15,000 |
| 1998 | \$4,950,000 |
| 1999 | \$2,751,000 |
| 2000 | \$3,831,000 |
| 2001 | \$6,609,000 |
| 2002 | \$7,343,000 |
| 2003 | \$8,250,000 |
| 2004 | \$2,120,000 |
| TOTAL | \$44,128,000 |

Source: Office of the Auditor reports

Exhibit 1.8**Financial Summary of Kaho‘olawe Rehabilitation Trust Fund, FY2008–FY2012**

| | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Beginning cash balance | \$23,493,834 | \$20,218,378 | \$16,504,879 | \$13,474,255 | \$10,728,999 |
| Revenues: | | | | | |
| Grants | 1,057,769 | 29,334 | - | 81,075 | 93,220 |
| Income | 1,245,096 | 761,957 | 386,860 | 295,762 | 112,064 |
| Total Revenue | 2,302,865 | 791,291 | 386,860 | 376,837 | 205,284 |
| Expenditures | (5,578,321) | (4,504,790) | (3,417,484) | (3,122,093) | (2,790,991) |
| Ending cash balance | 20,218,378 | 16,504,879 | 13,474,255 | 10,728,999 | 8,143,292 |
| Ending encumbrances | (2,385,068) | (1,565,160) | (1,356,405) | (1,179,690) | (1,673,529) |
| Unencumbered ending cash balance | \$17,833,310 | \$14,939,719 | \$12,117,850 | \$9,549,309 | \$6,469,763 |

Source: Reports to Legislature, *Status of the Kaho‘olawe Rehabilitation Trust Fund*, Department of Land and Natural Resources

Prior Audits

The Office of the Auditor has issued three reports relevant to Kaho‘olawe. In our reviews of the revolving funds, trust funds, and trust accounts of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources, Report Nos. 99-6, 03-13, and 09-01, we examined, among other funds, the Kaho‘olawe Rehabilitation Trust Fund. For each fund, we reviewed a five-year financial summary and evaluated the original intent and purpose of the fund and the degree to which the fund achieved its stated purpose. In all three reports we concluded that the Kaho‘olawe Rehabilitation Trust Fund met the definition of a trust fund.

Objectives of the Audit

1. Examine the effectiveness of the Department of Land and Natural Resources’ financial accounting and financial reporting processes, and related internal controls, over the Kaho‘olawe Rehabilitation Trust Fund.
2. Determine whether moneys in the trust fund are being used in compliance with applicable state laws and grant agreements, and to effectuate the performance of duties and responsibilities of the Kaho‘olawe Island Reserve Commission.
3. Make recommendations as appropriate.

Scope and Methodology

Our audit focused on the fiscal, compliance, and environmental restoration issues of the Kaho‘olawe Island Reserve Commission related to the Kaho‘olawe Rehabilitation Trust Fund. The trust fund is included in DLNR’s financial statements as a non-major governmental fund. The scope of our audit included documenting and understanding the financial accounting systems, policies, procedures, and internal controls over the trust fund for the fiscal years ended June 30, 2011, and June 30, 2012. We examined the design and operating effectiveness of related internal controls. We assessed the adequacy and effectiveness of internal controls over the disbursement of moneys from the trust fund. We examined expenditures to determine compliance with laws and grant agreements and reviewed significant personnel and contractor costs to ensure that costs were reasonable and support the commission’s purpose. We interviewed DLNR and commission personnel involved in operations and the financial administration and budget processes of the trust fund, including those responsible for its management and oversight and examined related forms, records, accounting and operating procedures, processes, and controls for compliance with applicable laws and regulations.

Our audit was conducted from July 2012 through November 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Chapter 2

III-Defined Restoration Project Will Exhaust the Kaho‘olawe Rehabilitation Trust Fund by 2016

When the U.S. Navy ended its unexploded ordnance project in 2004, approximately 75 percent of Kaho‘olawe’s surface was cleared of explosives. Of this area, 2,647 acres were also cleared of sub-surface ordnance to a depth of four feet. The ten-year effort had a budget of \$400 million, with 11 percent (\$44 million) set aside for the State to carry out additional environmental restoration and other archaeological and educational activities on the Kaho‘olawe Island Reserve. The \$44 million, which was distributed over ten years, became the Kaho‘olawe Rehabilitation Trust Fund.

The reserve and the trust fund are administered by the seven-member Kaho‘olawe Island Reserve Commission (KIRC), which pledges to provide for meaningful, safe use of Kaho‘olawe for the purposes of traditional and cultural practices of the native Hawaiian people. It also undertakes restoration of the island and its waters. The commission’s vision for the island is one where “forest and shrublands of native plants and other biota clothe its slopes and valleys.” How many years and how much money it will take to realize this vision has not been clearly articulated. According to one of the commission’s planning documents, restoration efforts could last 40 to 400 or even 4,000 years.

Eighteen years and \$51 million later, the commission has a long way to go before realizing its ambitious vision. While it has partially restored approximately 13 percent of its planned restoration area, the commission has failed to establish a comprehensive plan for the effort that forecasts how much the restoration project will cost and when it will likely be completed. As a result, spending has outpaced revenues and the trust fund, which contained as much as \$33.6 million in FY2004, has been whittled down to \$6.5 million. Despite efforts by the commission to curtail operations and fundraise, at its current rate of spending the trust fund will be depleted by 2016.

Summary of Findings

1. At its current rate of spending, the Kaho‘olawe Island Reserve Commission will drain the remaining balance of the Kaho‘olawe Rehabilitation Trust Fund by 2016.
2. The Kaho‘olawe Island Reserve Commission has not developed a comprehensive and measurable restoration plan, including estimated costs and timeframes for completion.

At Its Current Rate of Spending, the Commission Will Deplete the Trust Fund by 2016

We found that the commission has been unsuccessful at meeting its fundraising goals from private and government sources, and unable to secure long-term funding that would ease the chronic drain to the trust fund. It has also cut its budget, but continues to deplete the trust fund. Although the commission’s fund development plan anticipated the trust fund balance would be \$10 million at the close of FY2012, the actual balance was less than \$6.5 million. At its current rate of spending, the trust fund will be completely exhausted by 2016.

The commission cut its budget but continues to drain the trust fund

The Kaho‘olawe trust fund pays the salaries of KIRC’s operational and administrative employees, base camp operations, and other expenses related to the commission’s various restoration and cultural programs. Total trust fund expenses for FY2011 and FY2012 were \$3,122,094 and \$2,790,991, respectively.

The unique safety issues related to unexploded ordnance require robust planning and staffing at additional cost to the program. The cost to transport, house, feed, and supervise volunteer workers is also high, and includes the salaries for commission staff, fuel costs for transportation and generators, and base camp expenses. Base camp expenses include the cost of maintaining dormitories, bathrooms, and a commercial kitchen; and of third-party contractors who provide equipment and building maintenance services on Kaho‘olawe. Exhibit 2.1 shows the base camp buildings and kitchen.

Exhibit 2.1
Kaho‘olawe Base Camp Buildings



The base camp consists of 22 buildings and serves as the hub for the Volunteer Program.



The base camp's commercial kitchen.

Source: Kaho‘olawe Island Reserve Year in Review FY2011

The current restoration model used by the commission requires the help of unpaid volunteers to perform specific restoration tasks, such as plantings and clean-up activities. In FY2011, more than 1,100 volunteers visited the island and participated in restoration activities. The commission’s executive director indicated that in FY2012 the number of volunteers was reduced to limit overhead expenses.

The commission has missed its fundraising targets and been unable to secure government funding

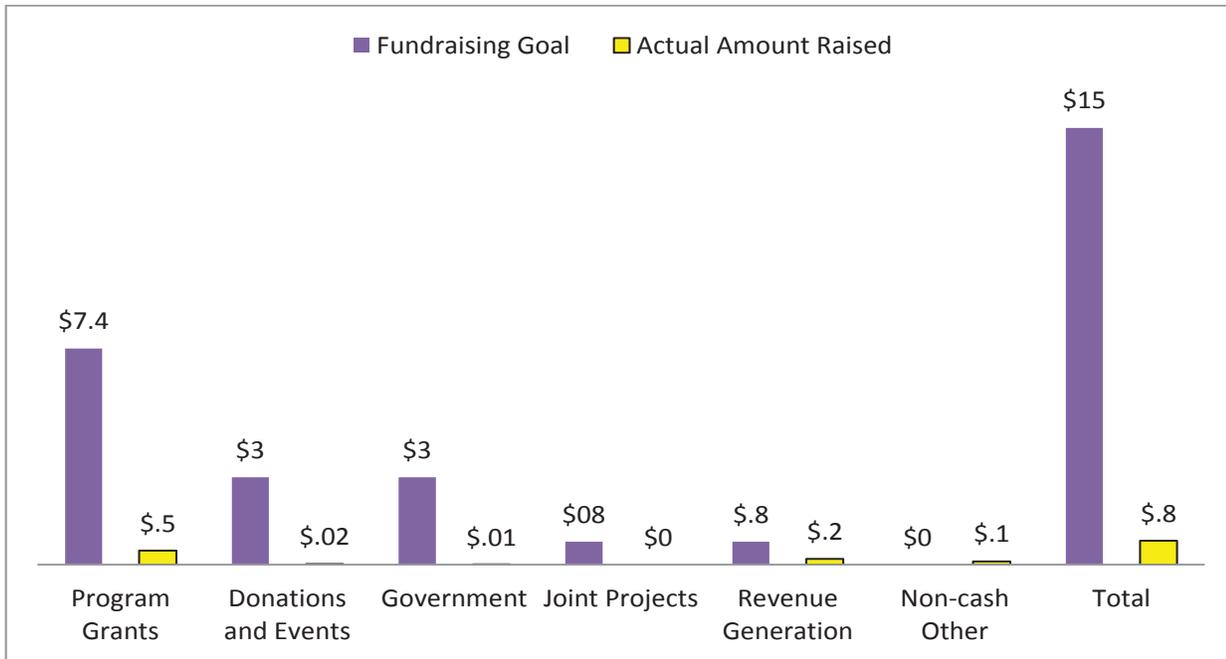
In 2008, the commission created the Kaho‘olawe Island Reserve Strategic Plan for 2009–2013. One of the plan’s core principles is that the restoration and long-term management of Kaho‘olawe requires a reliable and permanent funding source to secure the island’s future. The plan further recognizes that the commission does not receive regular funding from the State and therefore relies on the limited resources of the trust fund. Accordingly, trust fund development was one of eight strategic goals identified in the commission’s strategic plan. Specifically, the strategic goal is to:

Increase the size, diversity and sustainability of the trust fund by raising funds through grants, partnerships, contributions from corporations and private individuals, entering into appropriate strategic alignments and operating agreements that generate revenue without commercial activity on-island, and to manage the organization’s budget in a manner that protects the trust fund.

To achieve this goal, the commission developed a Fund Development Action Plan for FY2009 to FY2013. The stated desired outcome from the fund development plan is to develop and establish sufficient annual income to offset expenditures from the annual budget within five years. In other words, the goal of the plan was to raise \$15 million (cumulative) between fiscal years 2009 and 2013, such that by the end of FY2013, 100 percent of operating costs could be paid from fundraising and no further withdrawals would be required from the trust fund corpus.

By the end of FY2012, however, the commission had raised only \$817,511, a fundraising shortfall of more than \$9.1 million for the four-year period. Exhibit 2.2 shows a summary of the commission’s fundraising goals compared to actual amounts raised, categorized by funding source.

Exhibit 2.2
Summary of Fundraising Target Goals versus Actual Funds Raised (millions), FY2009–FY2012



Source: Kaho’olawe Island Reserve Commission, Fund Development Action Plan FY2009–13 and Kaho’olawe Island Reserve Commission executive director, summarized by PKF Pacific Hawai’i LLP

We found that although the commission has obtained various small grants, these are often restricted to paying the direct costs of performing specific restoration activities and typically do not cover the commission’s general administrative and operating costs, which are significant and continue to drain the trust fund. In fact, for FY2012, the commission’s administrative and operating costs exceeded \$2.1 million—representing more than 70 percent of the commission’s approved budget. The

commission has also lobbied the federal government and the State Legislature, the Office of Hawaiian Affairs, the state Department of Defense, and other state departments in its efforts to secure funding. It even obtained a \$400,000 capital improvement project (CIP) award from the Legislature; however, the commission has been unable to secure any other federal or state support for its general administrative and operating costs. Without such support, the commission is rapidly expending the trust fund corpus and at its current rate of spending, the trust fund will be completely drained by 2016.

The commission's executive director asserts that one of the causes for the lack of success includes the state's economic recession during the first years of the fund development plan. According to the executive director, the state experienced a continuing decrease in "revenue projects," which eventually led to a statewide reduction-in-force and mandatory furloughs for two years. Also, according to the executive director, the Legislature has been reluctant to fund the commission while there is still money remaining in the trust fund. Legislators have asked the commission not to reintroduce its funding request until the trust fund has been fully expended. The executive director also believes that the commission's failure to meet its fund development goals is due in part to difficulties finding and retaining skilled grant writers. The director stated that the fund development plan goals were "overly ambitious in order to move forward and to emphasize this strategic objective."

At its May 15, 2012 meeting, the commission reviewed its proposed FY2013 budget, discussing whether it would be more prudent to reduce its budget and preserve the trust fund another four to five years or keep current staffing levels. According to the minutes, two commissioners expressed that it would be advantageous to spend down the trust fund:

Commissioner Aila observed if the Commission is looking at dedicated funding from the legislature, the further the trust fund is stretched, the less likely the legislature will take the funding issue seriously.... Chair McLean stated she is afraid of paring the budget down and then seeking funding based on the reduced budget. KIRC would still want to show that things can be accomplished with a \$3 million budget.

At its June 19, 2012 meeting, the commission approved its FY2013 budget of \$2,885,539, with the understanding that if it does not receive dedicated funding from the Legislature, operations will need to wind down.

Commission Lacks a Comprehensive and Measurable Restoration Plan, Including Estimated Costs to Complete the Project

Beginning in 1995, the commission developed six major planning documents to guide the reserve’s future use and restoration and serve collectively as the commission’s foundation. One of the plans, *Ho‘ola Hou I Ke Kino O Kanoaloe, Kaho‘olawe Environmental Restoration Plan*, introduced the commission’s comprehensive restoration strategies for the island and is intended to serve as a blueprint for the restoration process. The strategies address erosion control, botanical and faunal restoration, and enhancement of the natural water system. The commission’s strategic plan also defines its goal for the island’s restoration as “to systematically restore the natural resources of the Reserve, including the island and its surrounding waters.” The commission developed a Resource Management Action Plan FY2009–2013 to achieve this strategic goal.

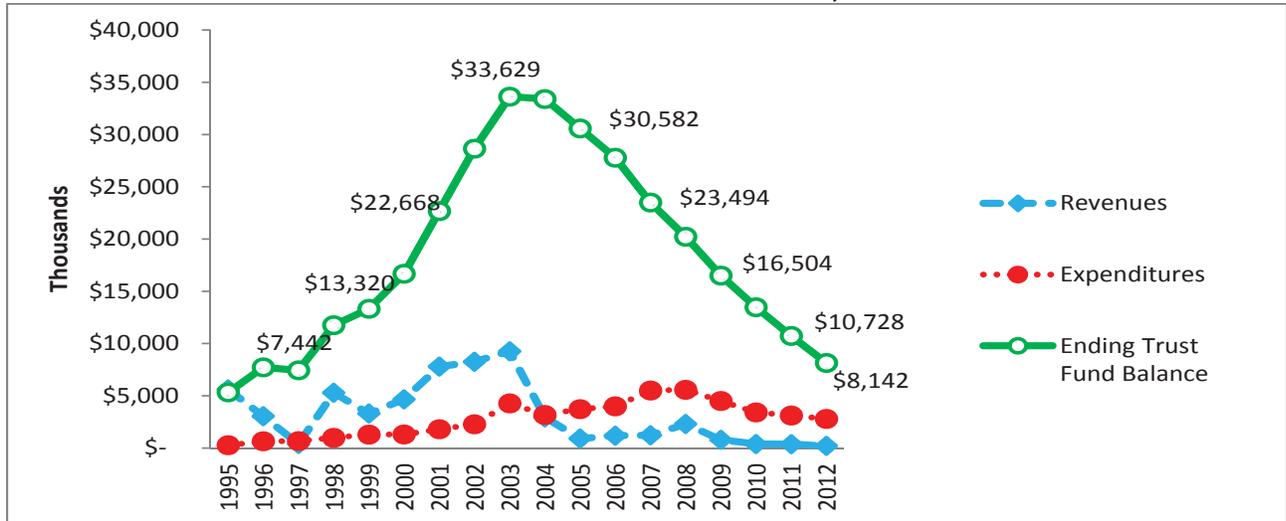
We reviewed the resource management plan and found it does not include meaningful performance measures to gauge whether objectives are being met. Moreover, from a fiscal perspective, the plan lacks cost estimates for the actions the commission wants to pursue. Without a comprehensive restoration plan, it is nearly impossible to assess project feasibility as well as definitively measure progress towards goals, evaluate the areas still to be restored, or plan for spending and timing of execution.

Approximately 13 percent of the island’s planned restoration area has been partially restored, at a cost of about \$51 million

The commission has spent about \$51 million over the 18-year period from 1995 to 2012 in its efforts to restore the reserve and pursue its mission. As of June 30, 2012, the commission had spent or encumbered about \$37 million of the original \$44 million in federal funds received plus \$14 million in interest earned and fundraised, leaving about \$6.5 million remaining in the trust fund. Exhibit 2.3 depicts the fund’s revenue, expenditures, and trust balance and shows the balance peaking at \$33,629,000 in FY2003—when the commission took control of the island from the U.S. Navy—but declining ever since.

Exhibit 2.3

Kaho'olawe Rehabilitation Trust Fund Financial Information, FY1995–FY2012

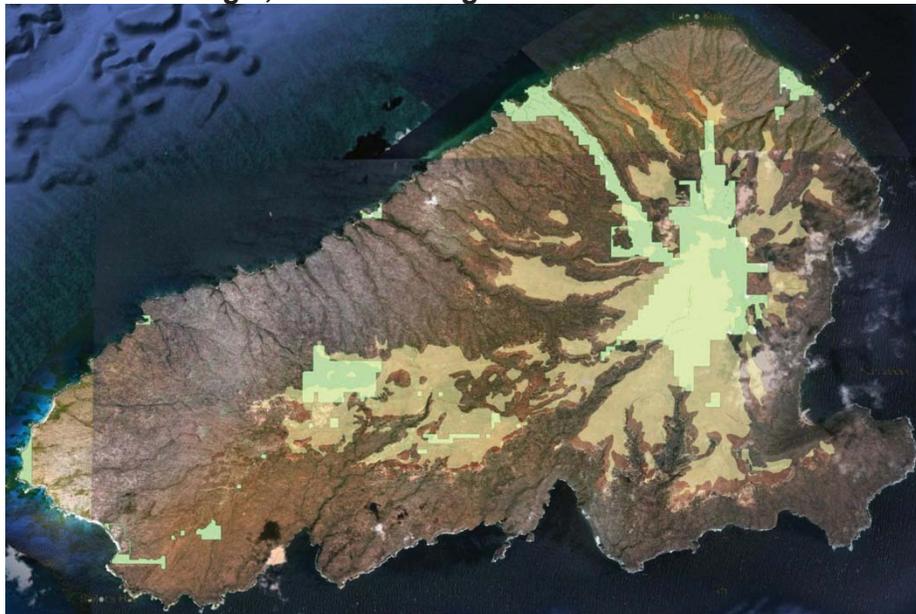


Source: Office of the Auditor reports of non-general fund information and Kaho'olawe Island Reserve Commission annual reports

The commission's strategic plan envisions a completely restored reserve, including land and surrounding ocean, which comprise approximately 78,000 acres. The commission's website indicates that only 4,300 acres of land is actually targeted for restoration (the restoration area), representing approximately 5 percent of the total area of the reserve. Exhibit 2.4 shows the 4,300 acres targeted for restoration on Kaho'olawe.

Exhibit 2.4

Map of Kaho'olawe Showing 4,300 Acres Targeted for Restoration



Note: Areas shaded in light green are targeted for restoration.

Source: Kaho'olawe Island Reserve Commission

The commission's executive director indicated the target restoration area is approximately 2,100 acres of land that was cleared of unexploded ordnance and is safe for restoration. Although a total of 2,647 acres were cleared to a depth of four feet, after discounting areas cleared for the road, base camp, and other non-restoration areas, 2,100 acres are safe for conventional replanting.

The commission provided us with a summary of restoration activities completed as of September 2012. According to the executive director, projects were prioritized initially to the areas released by the U.S. Navy to the State and certified as clean. Subsequent project areas were determined in large part by grant restrictions, based on available external grant funding objectives. The commission's *Summary of Restoration Activities 1998–2012* indicates that only 548 acres have been partially restored to date, which represents approximately 13 percent of the targeted restoration area. Exhibits 2.5 and 2.6 illustrate the restoration projects and the number of acres partially restored.

Exhibit 2.5

Map of Kaho'olawe Showing Botanical Restoration as of September, 2012



Note: Numbered areas correspond to project numbers in Exhibit 2.6.

Source: Kaho'olawe Island Reserve Commission

**Exhibit 2.6
Summary of Restoration Activities, 1998–2012**

| Botanical restoration project | Acres |
|--|--------------|
| 1. D4 Planting Project | 5 |
| 2. Lua Makika Planting Project | 30 |
| 3. Department of Health, Clean Water Branch Grant I | 125 |
| 4. Department of Health, Clean Water Branch Grant II | 250 |
| 5. Native Hawaiian Planting Areas | 10 |
| 6. Pu‘u Moiwi Bypass Road Planting Project | 10 |
| 7. South Trail Planting Project | 5 |
| 8. Honokanaia Wetland Project | 3 |
| 9. NRCS Grant–Wetland Restoration Project–Kealialalo | 100 |
| 10. NRCS Wetland Restoration Project–Kaukaupapa | 10 |
| Total acres partially restored | 548 |

Source: Kaho‘olawe Island Reserve Commission

We note that the 2012 summary of restoration activities describes projects in various stages of completion for erosion control and botanical restoration. The commission built a water catchment system, but faunal and water systems restorations are still in process. For example, project no. 1, which was worked on from 1998–2003, resulted in 10,000 plants planted with limited irrigation provided. Project Nos. 6 and 7 reflect that only seeds—not seedlings—were planted, and various wind barriers utilized to collect windblown soil for native plants. These activities indicate that initial actions were taken, but long-term success will need to be evaluated in the future.

The commission has not quantified how long it will take or how much it will cost to complete restoration

Based on discussions with commission management, it appears the restoration effort will likely span millennia, with an undetermined end date. According to the Kaho‘olawe Use Plan prepared in 1995, “initial plans may project restoration for the first 40 years, while looking forward toward the following 400 years, and then to the next 4,000 years.”

Commission management has conservatively estimated the cost of soil conservation alone at approximately \$80 million, which will be incurred over a 20–30 year period. The commission’s estimate is based on a 1993 federally established Kaho‘olawe Island Conveyance Commission study that estimated the island’s cleanup and restoration would cost \$88 million and soil conservation activities or restoration \$21.6 million. However, the actual cost of the unexploded ordnance cleanup was \$360 million, about four times what was initially estimated. Thus, the commission estimates \$80 million (\$21.6 million times about four) for soil conservation restoration costs. We note, however, that the amount expended for cleanup costs may not be an accurate basis for estimating restoration costs.

The commission's strategy for restoration is not aligned with its strategic goals

In addition, the commission's estimate is only for soil conservation. Timelines and estimated costs to complete the other restoration areas (botanical, faunal, and water systems) were not provided. Such timelines and estimates are essential elements of a comprehensive plan for the total cost of complete restoration. While subject to uncertainty, projecting a range of cost estimates would assist the commission when it seeks long-term funding.

The commission's Environmental Restoration Plan provides the first steps towards restoration of the island. The restoration plan is comprised of four elements: restoration framework, strategies, support, and implementation. We note, however, that the plan is missing two very important elements—namely, costs and timelines.

Similarly, the commission's resource management plan was developed to systemically restore the natural resources of the reserve for fiscal years 2009–2013. It identifies the strategies, objectives, actions, and performance measures necessary to achieve the strategic goals related to restoration of the island. However, we found that the resource management plan does not estimate costs to implement the action plans. For example, the plan describes a FY2009 goal for botanical restoration as the coastal planting in Honokanai'a. One of the objectives of this goal is eradication of alien flora species, with the action plan of conducting alien species removal during regular volunteer access trips. The performance measure provided was "alien species removed in the designated planting area." Without cost estimates, the commission cannot accurately forecast future funding requirements.

Measuring program performance is a critical element of accountability for public resources. Objectives should be established through the development of an action plan, which includes, for each objective, expected start and finish dates for each step; a timeframe for completion of the entire action plan; and what resources are needed to implement the objective. Additionally, a comprehensive and balanced set of performance measures should compare actual performance with expected results. Performance measures should be defined in order for all users to understand the a) source of data for the measure; b) methods used to calculate the measure; and c) timeframe for which the measure will be reported. Performance measures should also be meaningful, and data should enable comparison over time.

According to the commission's executive director, performance measures for planting areas are established by external funding agencies and are periodically reviewed during and at the completion of grants in order to authorize payment. We asked for but were not provided a comparison of actual activity to the intended resource management plan.

Complete restoration is described in the vision statement for Kaho‘olawe’s Use Plan as where “forests and shrub lands of native plants and other biota clothe [the island’s] slopes and valleys.” The commission’s executive director expanded on this description by stating that complete restoration would encompass reestablishment of a diverse ecosystem that would include vegetation from grasses, shrubs, and trees to fauna, including birds and insects.

In certain documents, the commission envisions a reestablishment of a diverse ecosystem that would require simultaneous restoration projects in soil, botanical, faunal, and water systems. To achieve this vision, the commission’s summary of restoration activities states that restoration of the island is four-fold:

1. Erosion control—to reduce the loss of soil currently bleeding into the sea through soil stabilization and revegetation;
2. Botanical restoration—to reestablish native plant communities in eroded and alien-dominated landscapes, and expand the remaining pockets of native vegetation;
3. Faunal restoration—to reintroduce native species and recreate the habitat that supports and sustains them; and
4. Enhancing the natural water system—to focus on restoration methods that enhance and strengthen the island’s ability to capture and conserve water in plants, soil, and from the air.

Recent information provided by the commission’s executive director indicates that the scope of work for restoration is broken into primary and secondary efforts. The primary effort is on soil conservation, while botanical, faunal, and water systems projects have been deprioritized. According to the executive director, current restoration efforts have focused on the first two phases of the complete restoration goal, “shrubs and grasses.” The lack of a precise and measurable definition of *restoration*, however, makes measurement difficult and subject to interpretation.

The commission’s executive director acknowledges that the island cannot be converted back to its natural state without human intervention, and that the island will always need some type of maintenance. More specifically, commission management estimates that once soil conservation activities have been completed, the annual cost of island-wide maintenance of the wilderness area (including maintenance of infrastructure and support facilities) will be \$1.5–3 million. However, it is unclear what the true future costs will be, once the other restoration areas such as botanical, faunal, and water systems have been completed.

Conclusion

By law, the Kaho‘olawe Island Reserve Commission is responsible for stewardship of Kaho‘olawe island until a native Hawaiian sovereign entity is formed and assumes responsibility. After 18 years and \$51 million, the commission has partially restored only approximately 13 percent of its planned restoration area, a significant achievement but a long way from its vision of returning the island and its surrounding waters to pristine conditions. In any case, these efforts have seriously drained the Kaho‘olawe trust fund, which now contains approximately \$6.5 million and is expected to be exhausted in 2016. To avoid this and to provide Kaho‘olawe with proper stewardship well into the future, the commission needs to align its vision of the Kaho‘olawe of tomorrow with the fiscal realities of today and to plan accordingly.

Recommendations

The Kaho‘olawe Island Reserve Commission should:

1. More precisely define what its vision for a rehabilitated Kaho‘olawe entails, including funding requirements and timelines. Specifically, KIRC should create a comprehensive and measurable restoration plan for the island that includes areas to be restored, scope of work, estimated costs and timeframes for completion; and
2. Align its fundraising and spending plans to accommodate that restoration plan. The commission should increase its fundraising and/or decrease its spending if it intends to preserve the trust.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Kaho‘olawe Island Reserve Commission on June 19, 2013. A copy of the transmittal letter is included as Attachment 1. The Commission’s response received on June 28, 2013, is included as Attachment 2.

The commission did not disagree with our findings and acknowledged that it faces serious financial challenges, including the impending total depletion of its trust fund; however, the commission did not specifically address how it plans to secure additional funding, besides calling for state assistance. The commission also did not address our finding that it lacks a comprehensive and measurable restoration plan for the island, which includes estimated costs and timeframes for completion.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



JAN K. YAMANE
Acting State Auditor

(808) 587-0800
FAX: (808) 587-0830

June 19, 2013

The Honorable Michael K. Nāho‘opi‘i
Executive Director
Kaho‘olawe Island Reserve Commission
811 Kolu Street, Suite 201
Wailuku, Hawaii‘i 96793

Dear Mr. Nāho‘opi‘i:

Enclosed for your information are six copies, numbered 9 to 14, of our confidential draft report, *Fiscal Audit of the Kaho‘olawe Rehabilitation Trust Fund*. We ask that you telephone us by Monday, June 24, 2013, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the commission. We are providing Mr. William Aila his copy at the Department of Land and Natural Resources office. If you wish your comments to be included in the report, please submit them no later than Friday, June 28, 2013.

The Department of Land and Natural Resources, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting 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,

Jan K. Yamane
Acting State Auditor

Enclosures

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



KŪKULU KE EA A KANALOA

KAHO'OLAWE ISLAND RESERVE COMMISSION

811 Kolu Street, Suite 201, Wailuku, HI 96793
Telephone (808) 243-5020 Fax (808) 243-5885
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MICHELE MCLEAN
Chairperson
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Vice-Chair
WILLIAM J. AILA, Jr.
N. EMMETT ALULI, M.D.
C. KALIKO BAKER, PhD.
COLETTE Y. MACHADO

Michael K. Nāho'opi'i
Executive Director

Log. No.: 13:06:024

June 24, 2013

RECEIVED

Jan K. Yamame, Acting State Auditor
Office of the Auditor
456 S. King Street, Room 500
Honolulu, HI 96813-2917

2013 JUN 26 PM 1:34

OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Yamane,

The Kaho'olawe Island Reserve Commission (KIRC) has received the draft report, *Fiscal Audit of the Kaho'olawe Rehabilitation Trust Fund*. Copies have been distributed to the members of our Commission.

The findings of this audit, while providing valuable independent insight into the KIRC's primary function of managing the Kaho'olawe Island Reserve, serve to validate some of the challenges that the KIRC has faced since its inception.

This audit will help the public and decision makers of Hawai'i to understand the difficulty and necessity of continuing the long-term restoration and management of the Island of Kaho'olawe as an important natural and cultural asset for the people of Hawai'i and especially Native Hawaiians. Kaho'olawe represents the end result of human influenced environmental degradation and collaborative healing as the force to mend our damaged environment. This is the undertaking that the Commission has spearheaded and managed single-handedly since the departure of the Federal government. The Commission has broken new ground in developing innovative solutions to overcome physical and logistical challenges that no other State agency or organization in Hawai'i has faced in an endeavor that is for the future of Hawai'i and its people.

On behalf of the KIRC, we hereby submit the attached comments to provide clarifying information and for our State decision makers to better understand the challenges and achievements of the KIRC.

If you have any questions please contact me at (808) 256-3083 (cell) or mnahoopii@kirc.hawaii.gov.

Sincerely,

Michael N. Nāho'opi'i
Executive Director

Enclosure

Comments regarding the “Fiscal Audit of the Kaho`olawe Rehabilitation Trust Fund”

Reference

Comment

Page 14, 2nd paragraph: “The unique safety issues related to unexploded ordnance require robust planning and staffing at additional cost to the program. The cost to transport, . . .”

In addition to the cost described in this section regarding the unique safety issues related to unexploded ordnance, there is also the cost associated with ensuring public safety by providing security for the island, which includes maintaining physical presence, periodic patrol of the waters and regular public awareness notifying the public of the dangers of unexploded ordnance on and around Kaho`olawe.

Page 16, 3rd paragraph, 4th line: “...do not cover the commission’s general administrative and operating cost, which are significant and continue to drain the trust fund.”

Kaho`olawe was returned to the State of Hawai`i with minimal on-island infrastructure and no ports or harbors. In order for the KIRC to fulfill its mandate and mission to restore Kaho`olawe, it must provide its own support structure to include transportation, water, electricity, housing and waste disposal.

Page 16, 3rd paragraph: “the commission’s administrative and operating cost exceeded \$2.1 million – representing more than 70 percent of the commission’s approved budget.”

The KIRC’s administration and operations’ budget supports all programs. It includes personnel, materials, equipment and service costs that are expended across all program areas. This includes the cost to transport all equipment, materials, supplies, volunteers and personnel to, from and on Kaho`olawe that are needed to execute the projects in our Restoration, Ocean and Culture Programs. It also includes the cost to house and support our staff and volunteer workforce on Kaho`olawe as they are implementing Program activities. Lastly, operations also include the cost of our unexploded ordnance safety program and a command and control capability to ensure the safety of all personnel authorized to be on Kaho`olawe.

Page 17, 2nd paragraph, 1st sentence: “...one of the causes for the lack of success includes the state’s economic recession...”

Please note that the trust fund, like most investments nationwide, experienced a dramatic decline in interest income beginning in 2007/2008.

Page 17, 2nd paragraph, 8th line: “Legislators have asked the commission not to reintroduce its funding request until the trust fund has been fully expended.”

Please clarify this statement to read “Some legislators have asked the commission...”

Page 21, 1st paragraph, 6th line:
“Project no. 6 and 7 reflect that only seeds – not seedlings – were planted and various wind barriers utilized to collect windblown soil for native plants.”

Projects 6 and 7 are innovative restoration projects in areas that have only been surface cleared of unexploded ordnance, thus precluding the digging that would be required for conventional restoration plantings. The other restoration areas have been cleared of unexploded ordnances to the depth of four feet. Because of the danger in these areas of buried unexploded ordnance in surface-cleared areas, no intrusive activities (*e.g.*, digging) are allowed here. Therefore, traditional restoration practices were not available and pioneering methodology was developed and is still being tested for effectiveness.

Page 21, 3rd paragraph, 10th line: “We note, however, that the amount expended for the cleanup cost may not be an accurate basis for estimating restoration cost.”

The restoration process includes many of the same constraints and parameters experienced by the cleanup with regards to labor, transportation, and logistics. The current estimate for restoration might actually be more than a fourfold increase as we factor in the areas that were not cleared of unexploded ordnance by the Federal Government.

Page 24, 3rd paragraph, 3rd line: “The commission should increase its fundraising and/or decrease its spending if it intends to preserve the trust.”

The purpose of the Kaho`olawe Rehabilitation Trust Fund was to receive funds for the rehabilitation and environmental restoration of Kaho`olawe. So far the bulk of those funds have been from the State’s portion of the Title X, FY1994 Department of Defense Appropriation Act appropriations of \$400 million. The State’s portion, totaling approximately \$44 million over a period of several years, even though considerable, was not substantial enough to establish a sustainable endowment for the long-term restoration and management of Kaho`olawe.

As stated in the Federally-mandated Kaho`olawe Island Conveyance Commission (KICC) final report to Congress in 1993, “in the short term, federal funds will provide the bulk of the program support for specific soil conservation projects and related activities. In the longer term, however, state revenues will be needed to continue and enhance those activities initiated with federal funds.”

For the past 19 years, the initial Federal funding has allowed the KIRC to establish many of its innovative programs that emphasize ancestral and traditional knowledge, provide a cultural approach of respect and connectivity to the environment, and integrate ancient and modern resource management techniques. The first decade of KIRC’s existence focused on the return and cleanup of

the island. The second decade has been about managing and restoring its natural and cultural resources. The next decade will focus on the transition to a Native Hawaiian sovereign entity. It is now time for the State to realize its obligation it undertook when it accepted the island back and provide funding to continue on-island programs and operations.