



December 4, 2019

**Report**

**CLA – OHA & LLCs**

**Contract and Disbursement  
Review – Report**

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**CliftonLarsonAllen**

December 4, 2019

Dan Ahuna, Trustee and Chair of the Resource Management Committee  
Robert K. Lindsey, Jr., Trustee and Vice-Chair of the Resource Management Committee  
Office of Hawaiian Affairs  
560 N. Nimitz Hwy, Suite 200  
Honolulu, HI 96817

**Re: CLA – OHA & LLCs Contract and Disbursement Review – Report**

Dear Trustees,

We have enclosed our final OHA & LLCs Contract and Disbursement Review Report dated December 4, 2019, which has been completed as per our agreement. Our work was performed in accordance with contract number 3284 executed between OHA and CliftonLarsonAllen.

We appreciate the opportunity to provide you with this service.

Respectfully,

Ernie Cooper CPA, CFF, CFE, JD  
Principal  
**CliftonLarsonAllen LLP**



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## I. Executive Summary

CliftonLarsonAllen (CLA) is pleased to deliver this Report to the Resource Management Committee (RMC) of the Office of Hawaiian Affairs (OHA). This Report is prepared pursuant to the contract between OHA and CLA executed on September 4, 2018, OHA contract number 3284.

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Consulting Services, *Consulting Services: Definitions and Standards* (codified as CS Section 100 in *AICPA Professional Standards*) of the American Institute of Certified Public Accountants (“AICPA”). In consulting engagements, the nature and scope of work is determined solely by the agreement between the practitioner (CLA) and the client (OHA).

This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion.

Because of the unique nature of fraud, and because our engagement was limited to the matters described in the contract, fraud and/or financial irregularities may exist within the organization that we may not have identified during the performance of our procedures. However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to the Resource Management Committee of the Office of Hawaiian Affairs.

The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. Therefore, CLA does not render such opinions.

### **Scope of Work**

The scope of work approved by OHA identified the period of review to be for five (5) fiscal years, specifically state Fiscal Year (FY) 2012, FY 2013, FY 2014, FY 2015, FY 2016 and to include both OHA and the LLCs. For OHA, the scope of work called for CLA to select eighty (80) contracts and fifty (50) other financial disbursements of funds for testing and review. For the LLCs, the scope of work called for CLA to select thirty (30) contracts and twenty-five (25) other financial disbursements of funds for testing and review. The scope of services specified all contracts and financial disbursements tested would be selected by CLA based on CLA’s understanding of the OHA’s and LLC’s policies and procedures and data analytics performed on the financial activity of the organizations.

### **Office of Hawaiian Affairs**

- For the OHA 80 Contracts, the scope of work specified that CLA will test for the following areas:<sup>1</sup>

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<sup>1</sup> OHA and LLC contracts included vendor contracts, other contracts for professional services or goods, and grant agreements awarded by the OHA.

- Approval and execution in accordance with HRS Chapter 103D Hawai'i Procurement Code, and HRS Chapter 84 Standards of Conduct, and the OHA's applicable internal policies and procedures;
  - Sufficiency of contract oversight provided appropriately by the assigned contract manager/monitor;
  - Deliverables were met by the contractor; and
  - No fraudulent or wasteful disbursements were made.
- For the OHA 50 other financial disbursements of funds, the scope of work specified that CLA will test for the following areas:<sup>2</sup>
    - Compliance with HRS Chapter 103D Procurement Code and HRS Chapter 84 Standards of Conduct and the OHA's applicable internal policies and procedures;
    - Compliance with budget restrictions; and
    - No fraudulent or wasteful disbursements were made.
  - CLA will review the OHA annual reports to the Board of Trustees (BOT) and assess whether sufficient internal controls are in place to ensure the integrity of the performance indicators as reported in the annual report to the BOT.

### LLCs

- For the LLC's 30 Contracts, the scope of work specified that CLA will test for the following areas:<sup>3</sup>

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- Contracts reviewed did not include payroll related contracts, including employment contracts and contracts related to employee benefits.
  - Contracts reviewed did not include revenue-generating contracts of the OHA and the related LLCs.
  - A contract and its related amendments were counted as one contract to the extent that the contract and its amendments were identified by OHA as one contract number. Separate contracts with the same vendor will be counted as unique contracts if they are identified with a new contract number and not an amendment number.

<sup>2</sup> OHA and LLC other financial disbursements of funds, financial transactions is defined as disbursements (e.g., checks, wire transfers, electronic fund transfers, etc.).

- Financial transactions excluded revenue/income related transactions of the OHA and the related LLCs.
- And the selection of disbursements that were tested excluded disbursements already tested as part of the contract testing.

<sup>3</sup> Refer to footnote 1.

- Sufficiency of contract/grant oversight provided appropriately by the assigned contract manager/monitor;
  - Deliverables were met by the contractor/grant recipient;
  - Conflict of interest with LLC managers and directors; and
  - No fraudulent or wasteful disbursements were made.
- For the LLC's 25 other financial disbursements of funds, the scope of work specified that CLA will test for the following areas:<sup>4</sup>
    - Conflict of interest with LLC managers and directors;
    - Compliance with internal policies and procedures; and
    - No fraudulent or wasteful disbursements were made.
  - CLA will review the LLC's quarterly reports to the BOT and assess whether sufficient internal controls are in place to ensure the integrity of the performance indicators as reported in the quarterly reports to the BOT.

The scope of service is not an investigation. CLA's procedures were designed to detect and identify possible fraud, waste, or abuse; however, CLA has not made a conclusion as to whether fraud, waste, or abuse actually exists. Based on the totality of information gathered through the testing procedures performed, CLA has identified whether there are red flags or indicators of possible fraud, waste, or abuse.

In addition to documenting the results of testing, CLA has provided recommendations on organizational, structural and procedural improvement to strengthen the BOT's fiduciary oversight of the OHA and its LLCs.

### **Summary of Work Performed**

The OHA point of contact established by OHA was the leadership team of the RMC. In addition to the extensive review, analysis, documentation of work performed, and draft of this report, highlights of work performed by CLA include:

#### **1) Preliminary information gathering and document review**

In June 2018, while in negotiations with OHA regarding this contract, CLA visited OHA's offices in Honolulu, Oahu and the office of the LLCs' legal counsel, ES&A, Inc. These visits occurred from June 6, 2018 through June 8, 2018 with the purpose of gaining a better understanding of OHA and its LLCs, their operations, and financial activity. CLA used the information obtained through this process to determine the volume of transactions

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<sup>4</sup> Refer to footnote 2.

(contracts and disbursements) that could be tested within the budget established by OHA. CLA incurred all cost for this work.

## **2) Process interviews of OHA and LLCs staff**

During the weeks of October 8, 2018 and November 12, 2018, CLA was in Honolulu and conducted interviews of OHA staff. The purpose of these interviews was to gain a more in depth understanding of the processes and procedures pertaining to contracting and disbursements (including grants and sponsorships).

On October 11, 2018, CLA met with Richard Pezzulo, Hi'ipaka LLC's Executive Director, and Donna Mathes, Hi'ipaka LLC's Controller/Accountant. On November 13, 2018, CLA met with Mona Bernardino, Hi'ilei Aloha LLC's COO. The purpose of the interviews was to gain a more comprehensive understanding of the LLCs' functions and the policies and procedures used by the LLCs pertaining to contracting and disbursements for the period under review.

## **3) Document request**

On September 14, 2018, CLA submitted to OHA and the LLCs an initial document request list to obtain additional financial data and documents needed to perform data analytics and ultimately select a sample of contracts and disbursements for testing. The document request lists were updated throughout the term of the engagement and OHA and the LLCs provided the requested documents and information to CLA on an ongoing basis.

## **4) Data collection and analysis**

Throughout the term of this engagement, CLA continuously worked with OHA and LLC staff to obtain the requested documents and records which CLA requested in order to identify and select those OHA and LLC contracts and financial disbursements to be tested.

## **5) Selection of sample contracts and disbursements**

On May 10, 2019, CLA sent to OHA its sample selection for 75 contracts and 45 disbursements. CLA reserved five contracts and five disbursements to select after the visit to OHA in June 2019 for the initial round of testing. On August 2, 2019, CLA sent to OHA the remaining sample of five contracts and five disbursements.

On May 10, 2019, CLA sent to ES&A the sample selection for contracts and disbursements for the LLCs. The sample selection sent to the LLCs consisted of 23 contracts and 21 disbursements. CLA reserved seven contracts and four disbursements to select after the trustee interviews that occurred the week of July 22, 2019. On August 2, 2019, CLA selected the remaining sample of seven contracts and four disbursements for the LLCs and emailed this list to ES&A, Inc.

## 6) Interviews of OHA trustees

During the week of July 22, 2019, CLA was in Honolulu and conducted in-person interviews of all nine current OHA trustees. The purpose of the interviews was to allow the trustees the opportunity to meet with CLA and share with CLA any thoughts or concerns they had regarding OHA or the LLCs relative to the scope of work of this engagement.

## 7) Document production to CLA

OHA provided the supporting documentation to CLA in scanned PDF files. The initial production of supporting documents was provided by OHA beginning on June 3, 2019 and was completed on August 23, 2019. During the review of these documents, CLA identified various documents that appeared to be missing from the production and requested additional and/or missing documents be provided to CLA. OHA continued to provide available documents to CLA through October 17, 2019. In total, OHA provided to CLA approximately 870 scanned PDF files containing supporting documentation related to the sample of contracts and disbursements. As of the date of this report, OHA has communicated that it has provided to CLA all documents that it could locate related to CLA's requests.

For the LLCs, on July 3, 2019, CLA was informed that the LLCs had gathered the supporting documents for the contract and disbursement sample selection, and that the documents would be available in hardcopy at the respective LLC offices. The hard-copy documents identified were provided to CLA during its visit to Hi'ipaka the week of August 12, 2019, and during its visit to Hi'ilei Aloha the week of August 19, 2019. While on site, CLA identified additional documents needed and communicated the subsequent request to the respective LLC contact. All documents available were provided to CLA by October 15, 2019. In total, the LLCs provided to CLA approximately 122 supporting documents related to the sample of contracts and disbursements.

## 8) Inquiries with OHA and LLCs' staff

As part of the request to OHA for the sample contracts and disbursements, CLA requested that OHA provide the name of the contract manager for each contract selected. This would allow CLA to identify the OHA staff member to inquire concerning questions on a particular contract. CLA inquired with OHA contract manager/staff as appropriate if currently employed by OHA.

### Hi'ilei Aloha LLC

Inquiries were made with the COO for Hi'ilei Aloha LLC who has been with the entity since its inception and was familiar with most of the contracts and disbursement transactions selected for Hi'ilei Aloha, Hi'ipoi, and Ho'okōpaipai.<sup>5</sup>

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<sup>5</sup> Hi'ikualono LLC, although established in 2010, according to the COO, has never had any activity.

### Hi'ipaka LLC

Inquiries were made with the Executive Director for Hi'ipaka who has been with the organization for the entire period under review and was familiar with all of the contracts and disbursements for the entity.

#### **9) Assessment of Board of Trustees Oversight of OHA**

In order to assess the Board of Trustees oversight of OHA and the LLCs, CLA conducted interviews of the current trustees, reviewed the State Audit reports issued in September 2013 and June 2018, reviewed board minutes to identify and understand current actions taken by the trustees pertaining to the Permitted Interaction Group on the Board Governance Framework, and researched general guidance and best practices pertaining to governance. Additionally, CLA considered the totality of the results from the testing of contracts and disbursements. The observations and recommendations pertaining to the trustee's oversight is included in Section VIII. Board of Trustees Oversight of OHA and the LLCs beginning on page 294.

#### **10) Status updates and communications with the Resource Management Committee**

Throughout this engagement, CLA maintained regular communication with the Chair and Vice Chair of the Resource Management Committee. As part of the communication protocol, CLA issued written status reports on the following dates:

- October 25, 2018
- November 27, 2018
- June 4, 2019
- August 6, 2019
- September 12, 2019

In addition, on March 12, 2019, shortly after Trustee Dan Ahuna was elected Chair of the Resource Management Committee, CLA met at OHA offices with the Resource Management Committee leadership to provide an update on the status of this engagement, the procedures performed to date, and the steps needed to complete the engagement. Additionally, CLA presented an updated timetable for completion of the project due to delays in receiving documents requested from OHA and the LLCs.

Finally, on October 24, 2019 a video conference was held with CLA and RCM Leadership where CLA provide a verbal briefing of the results of work performed. Recommendations included in this report were not discussed at that time.

## **Results of Work Performed**

The following Chart reflects the summary of the type of items tested by CLA. The body of this report provides detailed information concerning each specific item tested by CLA.

OHA		LLCs	
Category	Number Tested	Category	Number Tested
Contracts	80	Contracts	30
Disbursements	50	Disbursements	25
Total Tested	130	Total Tested	55
Contract Type	Contracts Tested	LLC	Contracts Tested
Grants	39	Hi'ilei Aloha	9
Competitive Sealed Proposals	9	Hi'ipaka	18
Professional Services	14	Ho'okipaipai	3
Small Purchase	1	Total	30
Exempt	17		
Total Tested	80		
Disbursement Type	Disbursements Tested	LLC	Disbursements Tested
Grant	10	Hi'ilei Aloha	7
Disbursements	34	Hi'ipaka	9
pCard	5	Hi'ipoi	3
Lease	1	Ho'okipaipai	6
Total Tested	50	Total	25

CLA made various observations based on the testing performed. An observation for the purpose of this report is defined as the instances in which the results of testing revealed occurrences of non-compliance with statutory requirements and/or internal policies as well as the instances that revealed indicators or red flags of waste, fraud, or abuse.

### **OHA**

#### *OHA: Highlights of Observations*

We noted some common themes concerning accounting and financial processes and procedures within all items tested. These include:

- Numerous examples where contracts had an effective date that predated the execution date of the contracts.
- The only approved Fiscal Procedures Manual (revised March 2, 2009) was outdated:

- The Accounting Checklist is no longer being used
- Titles referenced are outdated
- Certain steps/processes are no longer performed or are outdated
- The standard contract was not always used or was missing certain required sections.
- Required signatures were not always present on Procurement documents.
- It was not always clear from the Delegation of Authority who was supposed to approve/sign a purchase request, contract, or payment request (Program level, LOB level contracts – documentation didn't specify type of contract).
- OHA was unable to produce some or all of the deliverables required by the contracts; therefore, CLA was unable to determine whether fraudulent/wasteful disbursements were made for many items selected for testing and whether the deliverables were ever completed by the contractor or the evidence of deliverables were not kept by OHA.

We also noted the following observations specific to each area tested as follows.

**a. OHA Contracts**

***Grants***

Contract Type	With Observations	Without Observations	Total	Report Page Reference
Grants	39	0	39	50

Conflicts of interest – CLA observed several potential financial conflicts of interest:

- Contract #2695 was a grant executed in September 2011 for \$150,000 to Young of Heart Workshop, whose Executive Director was Maile Meyer. Undisclosed in the grant file is the fact that OHA had an existing relationship with Maile Meyer by guarantying \$150,000 for her lease of retail space in Waikiki, which was signed in 2009. There does not appear to be a violation of HRS §10 or §84; however, there may be a violation of OHA's policies. (D-04)
- Contract #2726 and #2887 were two Community grants to I Ola Lāhui, Inc. for \$500,000 each for 12/1/2011 to 11/30/2013 and 7/1/2013 to 6/30/2015, respectively (Richard Pezzulo, Corporate Counsel, and Dr. Austin executed Contract #2726; Dr. Crabbe, Corporate Counsel, and Dr. Austin executed Contracted #2887). Both contracts were ultimately approved by the Board of Trustees (BOT). The Executive Director for I Ola Lāhui, Inc. was A. Aukahi Austin. Dr. Austin may have had an undisclosed professional relationship with Dr. Crabbe.
- Contract #2953 was a grant to Native Hawaiian Education Association (NHEA) for the World Indigenous People's Conference on Education (WiPC:E) for \$150,000.

The CEO of the Office of Hawaiian Affairs, Dr. Crabbe, was a keynote speaker at the WIPC:E event that OHA sponsored. CLA could not further determine if the grant award was a violation of HRS §84-14(2)(d).

- Contract #3026 was a grant in 2015 to Akamai Foundation on behalf of Na'i Aupuni for \$2,598,000 to facilitate an election of delegates and 'Aha process. One of the Na'i Aupuni board members is Pauline Namu'o, who is the wife of the former OHA CEO, Clyde Namu'o. Clyde Namu'o was the Executive Director of the Native Hawaiian Roll Commission during 2015. CLA could not further determine if the grant award was a violation of HRS §84-14(2)(d).
- Contract #2785 was a grant to 'Aha Kāne - Foundation for the Advancement of Native Hawaiian Males in 2012 for \$200,000 to convene a gathering June 15-17, 2012 for Native Hawaiian male leadership. The grant file does not disclose that Dr. Crabbe established 'Aha Kāne and was the Advisory Chair at the time of the convention. Dr. Crabbe filed a Short Form Disclosure with the Hawai'i State Ethics Commission in 2016 explaining that he was no longer the President of 'Aha Kāne and was the Advisory Chair. If Dr. Crabbe had filed a Short Form Disclosure before the grant award, then the grant would be in compliance with HRS §84-14(e) and §84-17. This would be an investigative step.

Other Observations:

- Several grantees did not have a complete grant application or letter requesting funding. Grant applications are a specific requirement of HRS §10-17(a).
- Several grant files did not contain sufficient evidence that OHA monitored or evaluated the grant activities, which is a specific requirement of HRS §10-17(d).
- Several grant files did not contain the BOT or ARM/BAE Action Item attachments that indicated that the BOT or ARM/BAE was specifically approving the application and the award amount.
- Several grant files did not contain evidence that OHA's procurement process was followed, including missing Purchase Requisitions, Procurement Document Checklists, and/or Proofs of Award.

**Competitive Sealed Proposals**

Contract Type	With Observations	Without Observations	Total	Report Page Reference
Competitive Sealed Proposals	9	0	9	76

Adherence to Public Procurement Code: All contracts had at least one Public Procurement Code criteria for competitive sealed proposals that was either not met or for which documentation was not located and provided that would enable CLA to make a

determination of adherence to the Public Procurement Code for competitive sealed proposals.

***Professional Services***

Contract Type	With Observations	Without Observations	Total	Report Page Reference
Professional Services	14	0	14	96

Conflicts of interest – No known financial conflicts of interest were identified. However, a former employee, within 12 months after termination of employment, may have represented a business for a fee or other consideration which may not be consistent with HRS §84-18(c). Sample Contract K-56: OHA Contract #3025 with Reed Smith LLP on May 2015, for \$200,000.

Other Observations – CLA’s testing of professional services contracts include the following observations:

- Several contracts had an effective date that predated the execution date of the contracts by three days to 120 days (average of 44 days).
- CLA did not receive evidence that Professional Services were solicited no later than May of each year, that the procurement notice was issued requesting proposals from the appropriate service providers, and that Notices were posted on the PINS (Procurement Notices System) and in major newspapers as requires by HRS §103D-304.
- CLA did not receive evidence that the solicitation was published.
- CLA did not receive evidence that steps were taken to ensure and document that review committee members would be impartial and independent in their review of professional services.
- CLA did not receive evidence that contracts of over \$5,000 or more awarded under HRS §103D-304 were posted electronically within seven days of the contract award and that they remained posted for one year.
- For several of the contracts, CLA did not receive evidence of a deliverable.

***Small Purchases***

Contract Type	With Observations	Without Observations	Total	Report Page Reference
Small Purchase	1	0	1	127

No significant observations identified.

**Exempt**

Contract Type	With Observations	Without Observations	Total	Report Page Reference
Exempt	17	0	17	133

- Qualification as exempt contract – Several contracts were for services that appear questionable as to whether they qualify as an exempt contract. HRS §103D-102 provides a specific list of contracts/services that are exempted from the requirements of HRS §103D. CLA also considered additional exemptions allowed under HAR 3-120-4 – Exhibit A.
- Missing deliverable(s) – For several contracts, OHA was unable to produce some or all of the deliverables required by the contracts. CLA was not able to determine whether the contractor completed the deliverable(s) required.

**b. OHA Disbursements****CEO Sponsorships**

Disbursement Type	With Observations	Without Observations	Total	Report Page Reference
CEO Sponsorships	10	0	10	161

Conflicts of interest – CLA observed the following potential financial conflicts of interest as follows:

- Check number 27638 was a CEO Sponsorship for \$25,000 to Supporting the Language of Kauai (SLK) for operational startup costs. The CEO Sponsorship was approved by the CEO, Dr. Crabbe, on December 31, 2012. Part of the documentation indicated that there was a “confidential” business plan that CLA requested but was not provided. There is no evidence of review or approval of this sponsorship. CLA was informed that Dr. Crabbe and a director of SLK were associated through an association of Native Hawaiian men called 'Aha Kāne.

Other Observations – The following observations were identified from CLA’s testing of grant disbursements:

- Grant Award Splitting: A CEO Sponsorship to the University of Hawai'i for the GEAR-UP Hawai'i program was paid on a single check in the amount of \$30,000. The Purchase Requisition splits the amount into two parts: \$24,950 is categorized as “Grants in Aid – Sponsorships”; and, \$5,050 is categorized as “Services on a Fee Basis.”
- Grant Intent: A CEO Sponsorship for \$24,999 to The Nature Conservancy for the Marine Fellowship Program was made. The intent of the grant was for

programmatic services occurring over a fiscal year, not an event, which is inconsistent with the purpose of CEO Sponsorships.

- **Missing Documents:** All ten of the CEO Sponsorships did not contain sufficient evidence that OHA monitored or evaluated the grant activities, which is a specific requirement of HRS §10-17(d). In addition, most of the grant files did not contain sufficient documentation to show that OHA verified the organization was eligible under HRS §10-17(c).

***Other Disbursement Types***

Disbursement Type	With Observations	Without Observations*	Total	Report Page Reference
Exempt Non Grant Small Purchases	22	12	34	177
Procurement Card	5	0	5	199
Lease Disbursements	1	0	1	207

\*Out of the 12 without observations, six had documents missing.

Potential waste of funds – One of the disbursements appears to be a potential waste of public funds. \$600,000 was paid to Hu'ena Power, Inc. for an investment purchase of 500 limited partnership units (5%) in Hu'ena Power, LLP, a consortium that submitted a proposal to Hawaiian Electric Light Company (HELCO) to develop two 25MW geothermal power stations on the island of Hawai'i. Hu'ena Power did not win the contract with HELCO; therefore, OHA lost its \$600,000 investment.

**Other Observations:**

- Former OHA CEO approved payments while no longer an employee of OHA – Two disbursements were approved by the former OHA CEO, Clyde W. Namu'o, after he was no longer an employee of OHA.
- Qualification as Exempt Procurement – Certain disbursements were for services that appear questionable as to whether they qualify as an exempt procurement.
- Disbursements potentially Grants – Certain disbursements were cited as exempt purchases but appear to align with the purposes of grants and possibly should have gone through the grant approval process.
- Several of the disbursement files did not contain evidence that OHA's procurement process was followed, including missing Purchase Requisitions, Procurement Document Checklists, and/or Requests for Check Issuance.
- Several of the disbursement files for pCard purchases did not contain evidence that OHA's pCard process was followed, including missing receipts, documents justifying travel expenses, or a Statement of Completed Travel.

**LLCs****a. LLC Contracts*****Hi'ilei Aloha LLC***

LLC	With Observations	Without Observations	Total	Report Page Reference
Hi'ilei Aloha	9	0	9	239

Lack of Grant oversight – CLA observed lack of grant oversight in the following areas:

- For all contracts CLA observed that purchase requests are not completed, because the Fiscal Policies and Procedures manual is ambiguous and only appears to require them for purchase of supplies.
- For all contracts, the process of ensuring that all purchases comply with the budget is not documented (LLC COO communicated that this review is done but not documented).
- For all contracts, the Fiscal Policies and Procedures manual requires completed Request for Check Issuance forms to include a cost or price analysis. None of the contracts tested had this analysis attached (LLC COO communicated that price analysis is always done, but it was not documented).

Potentially wasteful disbursements – CLA identified the following potential wasteful disbursements:

- Contract Sample LK-26: The February 2016 contract for \$1,960 covered transportation and hotel costs for a vendor to provide training services (only transportation and hotel expenses were included as part of the contract). The payments to the vendor exceeded the contract amount by \$600.68. Payment of \$500 was issued to the vendor as a stipend that was not included in the contract, and travel costs exceeded the contract amount by \$100.68.
- Contract Sample LK-28: The March 2013 contract for \$10,000 was for capacity building services. The payments to the vendor exceeded the contract amount by \$406 for out-of-pocket expenses that were invoiced to Hi'ilei Aloha but for which no receipt was provided.

***Hi'ipaka LLC***

LLC	With Observations	Without Observations	Total	Report Page Reference
Hi'ipaka	18	0	18	246

Conflict of Interest – CLA observed a potential financial conflicts of interest as follows:

- Contract with OHA: A service agreement was executed with OHA for sublease of Waialua Courthouse property May of 2015, and one \$11,490 check issued in payment for this contract was not signed but was deposited by OHA and accepted by the bank. This contract has an inherent conflict of interest because the LLC managers for Hi'ipaka are also the executives for OHA so the LLC managers cannot act in an impartial way with this agreement.

Other Observations – The following observations were identified from CLA's testing of Hi'ipaka contracts:

- Contract approval process not updated: The SOP Admin Acct -004 first implemented May 7, 2009 stated that the LLC managers were responsible for signing contracts; however, per discussion with the Executive Director, it was understood that the process changed and the Executive Director was responsible for signing the contracts for Hi'ipaka. Only one contract, which was executed in early 2012, was signed by one of the LLC managers, the rest of the contracts tested were signed by the Executive Director.
- Missing Documents: Some of the contract files did not contain evidence that the Hi'ipaka procurement processes were followed, including missing Certificate of Goods Standing with the DCCA, vendor FEIN, vendor GET license, Certificate of Insurance, and/or Contractor's License.

#### ***Ho'okīpaipai LLC***

LLC	With Observations	Without Observations	Total	Report Page Reference
Ho'okīpaipai	1	2	3	255

No significant observations were identified for Ho'okīpaipai, although some documents were missing.

#### **b. LLC Disbursements**

LLC	With Observations	Without Observations	Total	Report Page Reference
Hi'ilei Aloha The 2 disbursements without observations had documents missing.	5	2	7	263
Hi'ipaka Of the 4 disbursements without observations, 1 had documents missing.	5	4	9	272
Hi'ipoi The 1 disbursement without observations had documents missing.	2	1	3	276

LLC	With Observations	Without Observations	Total	Report Page Reference
Ho'okipaipai Of the 6 disbursements without observations, 5 had documents missing.	0	6	6	282

Potentially wasteful disbursements – CLA observed three potentially wasteful disbursements concerning payments to Supporting the Language of Kauai/Lehua Poi Mill as follows:

- A \$10,000 grant paid from Hi'ipoi to Supporting the Language of Kauai on March 14, 2013. It appears that Hi'ipoi was still funding the operation of the mill even though it no longer held the asset.
- \$20,000 paid from Hi'ilei Aloha to Lehua Poi Mill on June 24, 2013 for an emergency loan to improve cash flow during the start-up months of business. Hi'ilei Aloha did not have established policies or business practices for issuing loans.
- A \$60,000 grant paid from Hi'ilei Aloha to Supporting the Language of Kauai on September 3, 2015 to offset financial losses of Lehua Poi Co. (owner Naukulu Arquette), operator of former Makaweli Poi Mill, through September 15, 2015. Hi'ilei Aloha did not have established policies or business practices for issuing grants.

Other Observations – Missing Documents:

- Several of the disbursement files did not contain evidence that the LLC procurement processes were followed, including missing invoices from vendors, purchase agreements or Purchase Orders, and/or Requests for Check Issuance forms.
- Four of the disbursements did not contain an invoice that had been stamped “Received By”, which would indicate that a staff member had determined the good or service was received and the purchase order was completely fulfilled.
- Five of the disbursements did not contain documentation that a price or cost analysis was conducted, which is required for Hi'ilei Aloha and Ho'okipaipai disbursements. Based on our discussion with Mona Bernardino, the program managers were responsible for conducting the price or cost analysis (usually by email or computer); however, the program managers did not keep documentation of the price or cost analysis in the disbursement package.

#### **OHA – Annual Reports to the Board of trustees**

CLA reviewed the OHA annual reports to the Board of Trustees (BOT) and assessed whether sufficient internal controls are in place to ensure the integrity of the performance indicators as

reported in the annual report to the BOT. Based on our observations, recommendations have been made to strengthen internal controls in this area.

We observed that reports and other information provided by the various departments is not kept by Community Engagement department for future reference. Additionally, the Director of Community Engagement could not indicate if the grants information reported was based on awards made or dollars disbursed. The plan for this coming year is to clarify this with the grants department for the upcoming report.

On a sample basis, CLA compared the specific grants and sponsorships listed in the June 30, 2016 annual report to the general ledger detail, grants tracking schedule, and audited financial statements provided to CLA. The purpose was to assess whether the financial information presented in the annual report to the BOT appeared accurate. The comparison of the grants listed in the annual report to the grants tracking schedule provided the following observations:

- Not all grants listed in the annual report were shown in the grants tracking schedule provided.
- When comparing the grant amounts in the annual report to the amounts disbursed as shown in the general ledger, it is evident that the amounts disbursed in the respective fiscal year are less than the amounts awarded. This seems appropriate and logical as the grant funds should not be disbursed until the activities have been performed and the grantee has submitted all required documentation

#### **LLCs - Quarterly Reports to the Board of Trustees**

CLA reviewed the LLC's quarterly reports to the BOT and assessed whether sufficient internal controls are in place to ensure the integrity of the performance indicators as reported in the quarterly reports to the BOT. Based on our observations, recommendations have been made to strengthen internal controls in this area.

We observed the finalized report for Hi'ipaka that was included in the Hi'ilei Aloha quarterly report was not reviewed by the Hi'ipaka's Executive Director prior to the report being finalized and sent to OHA.

Other observations include: neither the Budget Comparison Reports nor the Balance Sheets included in the quarterly reports disclose the fact that these reports are unaudited; the quarterly reports do not have a mechanism to communicate changes that may have taken place for a quarter that has already been previously reported; there were differences in the amounts communicated within the Hi'ipaka report between the Summary Financial Performance revenue and expense figures and the Budget Comparison Report revenue and expense figures; and mathematical errors were identified in the quarterly reports for Hi'ipaka due to the fact that these reports although downloaded directly from the financial system are finalized through a manual process using Microsoft Excel to calculate totals.

## **Recommendations**

CLA has made the following recommendations for OHA to consider implementing:

- Seventy-three (73) recommendations based on the results of contracts and financial disbursements testing as well as measures concerning the internal controls in place to ensure the integrity of the performance indicators in the OHA annual report to the BOT.
- Six (6) recommendations pertaining to the BOTs general oversight and governance of OHA and the LLCs

CLA has made the following recommendations for the LLCs to consider implementing:

- Thirty (30) recommendations based on the results of contracts and financial disbursements testing as well measures concerning the internal controls in place to ensure the integrity of the performance indicators in the LLC's Quarterly reports to the BOT.

These recommendations serve many purposes including tending to: improve the overall financial internal control efficiencies and effectiveness of the financial processes of OHA; minimize the risk of fraud, waste, and abuse; and overall strengthen the BOT's fiduciary, general oversight and governance of OHA. The recommendations for both OHA and the LLCs comprise a few central themes, including, updating its written policies to align with current procedures and ensure best practices are followed; increasing documentation of the decision-making process, authorizations, and monitoring and oversight of contracts and grants; employee training and development; increasing transparency; and oversight and governance of the organizations.

CLA understands that the task at hand for the BOT, RMC, OHA, and LLC staff in addressing, assessing, and considering implementing these recommendations can be daunting. Therefore CLA strongly encourages the Trustees to delegate to OHA's Administration the development of a "Recommendations Implementation Plan" that includes the following activities and considerations: comparison of recommendations to the current processes for contracts and disbursements (e.g., policies, procedures, practices, training, documentation, etc.) and implementation actions, including accountability measures, timetables, monitoring, and reporting to the RMC and BOT.

## **Closing Statement**

CLA is very proud and honored to have been selected and provide our services to OHA and the LLCs. CLA is extremely appreciative of the outstanding efforts by the OHA and LLC staff throughout the course of this engagement. The staff of OHA and the LLCs were cooperative throughout this engagement, responsive to CLA's requests, and provided documents and information within the updated timetable requested by CLA in order to complete this engagement. CLA recognizes the increased demand and pressure this engagement has put on the staff in addition to their day-to-day duties and responsibilities.