OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI‘I

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND
UNIFORM GUIDANCE

Year Ended June 30, 2020
OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI‘I

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PART I

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai‘i

We have audited, in accordance with the auditing standards generally accepted in the
United States of America and the standards applicable to financial audits contained in
Government Auditing Standards issued by the Comptroller General of the United States,
the financial statements of the governmental activities, the business-type activities, each
major fund, and the aggregate remaining fund information of the Office of Hawaiian Affairs
(OHA), State of Hawai‘i, as of and for the year ended June 30, 2020, and the related notes
to the financial statements, which collectively comprise OHA’s basic financial statements,
and have issued our report thereon dated March 23, 2021. Our report includes a reference
to another auditor who audited the financial statements of Hi‘ilei Aloha, LLC as described in
our report on OHA’s financial statements. This report includes our consideration of the
results of the other auditor’s testing of internal control over financial reporting and
compliance and other matters that are reported on separately by that other auditor.
However, this report, insofar as it relates to the results of the other auditor, is based solely
on the report of the other auditor.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OHA’s
internal control over financial reporting (internal control) as a basis for designing audit
procedures that are appropriate in the circumstances for the purpose of expressing our
opinions on the financial statements, but not for the purpose of expressing an opinion on
the effectiveness of OHA’s internal control. Accordingly, we do not express an opinion on
the effectiveness of OHA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not
allow management or employees, in the normal course of performing their assigned
functions, to prevent, or detect and correct, misstatements on a timely basis. A material
weakness is a deficiency, or a combination of deficiencies, in internal control such that
there is a reasonable possibility that a material misstatement of the entity’s financial
statements will not be prevented, or detected and corrected on a timely basis. A significant
deficiency is a deficiency, or a combination of deficiencies, in internal control that is less
severe than a material weakness, yet important enough to merit attention by those charged
with governance.
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompany schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OHA’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditor disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Honolulu, Hawaii
March 23, 2021
PART II

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND NATIVE HAWAI’IAN LOAN FUND FINANCIAL STATEMENTS
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND
NATIVE HAWAIIAN LOAN FUND FINANCIAL STATEMENTS

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai‘i

Report on Compliance for Each Major Federal Program

We have audited the Office of Hawaiian Affairs (OHA), State of Hawai‘i’s compliance
with the types of compliance requirements described in the OMB Compliance
Supplement that could have a direct and material effect on each of OHA’s major federal
programs for the year ended June 30, 2020. OHA’s major federal programs are
identified in the summary of auditor’s results section of the accompanying schedule of
findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statues, regulations, and the
terms and conditions applicable to its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of OHA’s major federal
programs based on our audit of the types of compliance requirements referred to above.
We conducted our audit of compliance in accordance with auditing standards generally
accepted in the United States of America; the standards applicable to financial audits
contained in Government Auditing Standards, issued by the Comptroller General of the
United States; and the audit requirements of the Title 2 U.S. Code of Federal Regulations
Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements
for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance
require that we plan and perform the audit to obtain reasonable assurance about whether
noncompliance with the types of compliance requirements referred to above that could
have a direct and material effect on a major federal program occurred. An audit includes
examining, on a test basis, evidence about OHA’s compliance with those requirements and
performing such other procedures as we considered necessary in the circumstances.
We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OHA’s compliance.

**Opinion on Each Major Federal Program**

In our opinion, OHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

**Report on Internal Control over Compliance**

Management of OHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OHA’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OHA’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Native Hawaiian Revolving Loan Fund Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise OHA’s basic financial statements. We issued our report thereon dated March 23, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. The accompanying Native Hawaiian Revolving Loan Fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and, except for the portion marked “unaudited,” was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information marked as "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Honolulu, Hawaii
March 23, 2021
PART III
FINANCIAL INFORMATION
Office of Hawaiian Affairs, State of Hawai‘i  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2020

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-through Grantor/Program or Cluster Title</th>
<th>Federal CFDA Number</th>
<th>Pass-Through Entity Identifying Number</th>
<th>Total Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Transportation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-through Department of Transportation - State of Hawai‘i</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Planning and Construction Cluster</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Planning and Construction (Federal-Aid Highway Program)</td>
<td>20.205</td>
<td>20358600</td>
<td>$ 243,389</td>
</tr>
<tr>
<td>Total Highway Planning and Construction Cluster</td>
<td></td>
<td></td>
<td>243,389</td>
</tr>
<tr>
<td>Total Department of Transportation</td>
<td></td>
<td></td>
<td>243,389</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Native American Programs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Native Hawaiian Revolving Loan Program</td>
<td>93.612</td>
<td>N/A</td>
<td>2,272,478</td>
</tr>
<tr>
<td>Total Department of Health and Human Services</td>
<td></td>
<td></td>
<td>2,272,478</td>
</tr>
<tr>
<td>TOTAL EXPENDITURES OF FEDERAL AWARDS</td>
<td></td>
<td></td>
<td>$ 2,515,867</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this schedule.
NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of OHA under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of OHA, it is not intended to and does not present the financial position, changes in financial position, or cash flows of OHA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported in accordance with the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

OHA has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - NATIVE HAWAIIAN REVOLVING LOAN PROGRAM

The Native Hawaiian Revolving Loan Program is administered directly by OHA and balances and transactions related to this program are included in OHA’s basic financial statements. Loans issued during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2020 was $7,102,870.
## BALANCE SHEET

**June 30, 2020**

### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash held in banks</td>
<td>$5,003,333</td>
</tr>
<tr>
<td>Cash held by investment managers</td>
<td>$319,756</td>
</tr>
<tr>
<td>Interest and dividends receivable</td>
<td>$101,867</td>
</tr>
<tr>
<td>Notes receivable, net of allowance for doubtful accounts</td>
<td>$5,770,613</td>
</tr>
<tr>
<td>Investments</td>
<td>$14,255,496</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>$148</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$25,451,213</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$45,556</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$45,556</strong></td>
</tr>
</tbody>
</table>

### FUND BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted</td>
<td></td>
</tr>
<tr>
<td>Beneficiary advocacy</td>
<td>82,355</td>
</tr>
<tr>
<td>Long-term portion of notes receivable</td>
<td>4,879,877</td>
</tr>
<tr>
<td>Native Hawaiian loan program</td>
<td>20,443,425</td>
</tr>
<tr>
<td><strong>Total fund balance</strong></td>
<td><strong>25,405,657</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td><strong>$25,451,213</strong></td>
</tr>
</tbody>
</table>
Office of Hawaiian Affairs, State of Hawai‘i
Native Hawaiian Revolving Loan Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
Year Ended June 30, 2020

<table>
<thead>
<tr>
<th>REVENUES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan interest income</td>
<td>$ 598,770</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>294,959</td>
</tr>
<tr>
<td>Other revenue</td>
<td>36,187</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>929,916</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENDITURES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and fringe benefits</td>
<td>405,923</td>
</tr>
<tr>
<td>Services</td>
<td>235,241</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>99,749</td>
</tr>
<tr>
<td>Investment manager fee</td>
<td>35,935</td>
</tr>
<tr>
<td>Rent</td>
<td>31,585</td>
</tr>
<tr>
<td>Travel</td>
<td>5,877</td>
</tr>
<tr>
<td>Legal services</td>
<td>3,190</td>
</tr>
<tr>
<td>Other expenses</td>
<td>10,638</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>828,138</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET CHANGE IN FUND BALANCE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>101,778</strong></td>
</tr>
</tbody>
</table>

FUND BALANCE AT JULY 1, 2019, AS PREVIOUSLY REPORTED

| Prior period adjustment                       | (63,654) |

FUND BALANCE AT JULY 1, 2019, AS RESTATATED

<table>
<thead>
<tr>
<th>FUND BALANCE AT JUNE 30, 2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,405,657</strong></td>
</tr>
</tbody>
</table>
Cash flows from operating activities

Net change in fund balance $ 101,778

Adjustments to reconcile net change in fund balance to net cash used in operating activities:

- Bad debt expense 99,749
- Net change in fair value of investment securities (294,959)
- Amortization of discount on investment securities (17,506)

Increase in:

- Interest and dividends receivable 3,315
- Prepaid expenses 2,620
- Due from other funds (148)

Increase in:

- Accounts payable (19,073)
- Due to other funds (48,084)

Net cash used in operating activities (172,308)

Cash flows from investing activities

- Purchase of investments (5,304,632)
- Proceeds from maturities of investments 5,244,878
- Notes receivable issued (1,444,337)
- Proceeds from repayment of notes receivable 1,729,932

Net cash provided by investing activities 225,841

NET INCREASE IN CASH 53,533

Cash at beginning of year 5,269,556

Cash at end of year $ 5,323,089

Cash consists of:

- Cash in banks $ 5,003,333
- Cash held by investment manager 319,756

$ 5,323,089
PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION I - SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
- Material weakness(es) identified? ___ yes ✓ no
- Significant deficiency(ies) identified? ✓ yes ___ none reported
- Noncompliance material to financial statements noted? ___ yes ✓ no

Federal Awards

Internal control over major federal programs:
- Material weakness(es) identified? ___ yes ✓ no
- Significant deficiency(ies) identified? ___ yes ✓ no none reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes ✓ no

Identification of major federal programs:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Name of Federal Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>93.612</td>
<td>Native American Programs</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ✓ yes ___ no
SECTION II - FINANCIAL STATEMENT FINDINGS

Ref No. 2020-001 Internal Control Findings

Reconciliation of the General Ledger to Financial Statements (Significant Deficiency)

Criteria: Financial statements should be prepared based on the books and records of OHA.

Condition: During the current year audit, it was noted that the fund balance of the Federal Grant Fund as of July 1, 2019 did not agree to OHA’s financial statements as of and for the fiscal year ended June 30, 2019.

Cause: Subsequent to year end a journal entry was recorded in the Federal Grant Fund as of June 30, 2019.

Effect: Policies and procedures related to OHA’s financial statement closing process did not prevent or detect this error. Net assets as of July 1, 2019 have been restated and have been decreased by $63,654 as a result of this error.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

We recommend that management exercise greater care to ensure that OHA’s financial statements agree or reconcile to OHA’s to the general ledger.

Views of Responsible Officials and Planned Corrective Action:

OHA management agrees with the finding and the recommendation. See Part V Correction Action Plan.
PART V

CORRECTIVE ACTION PLAN
The Office of Hawaiian Affairs (OHA) respectfully submits the following corrective action plan for the sole financial statement finding as listed on the Schedule of Findings and Questioned Costs dated June 30, 2020:

Name and Address of Independent Public Accounting Firm: N&K CPAs, Inc., 999 Bishop Street, Suite 2200, Honolulu, HI 96813

Audit Period: July 1, 2019 to June 30, 2020

Finding: Financial Statement, Internal Control Finding, Significant Deficiency

Ref No. 2020-001: Reconciliation of the General Ledger to Financial Statements

Recommendation: We recommend that management exercise greater care to ensure that OHA’s financial statements agree or reconcile to OHA’s general ledger.

Views of Responsible Officials and Planned Corrective Action: OHA management agrees with the finding and the recommendation and provides additional contextual information. A loan schedule was prepared for the Native Hawaiian Revolving Loan Fund (NHRLF) as of June 30, 2019. This loan schedule included incorrect maturity dates that overstated interest income by $63,654 over 71 accounts. A corrected loan schedule
was subsequently submitted, and the adjustment was made in June 30, 2019 on the NHRLF general ledger. However, the external auditors did not receive this adjustment and it was not reflected on the NHRLF audited financial statements. A reconciliation of the general ledger to the audited financial statements was not performed that would have caught the omission.

Management considers this an isolated incident. There are explanations as to how this incident occurred; however, at the end of the day, management takes responsibility of this oversight and it will not happen again.

If there are any questions, please feel free to reach out via e-mail (sylviah@oha.org) or via phone 808-594-1973.

Sincerely,

[Signature]

Sylvia M. Hussey, Ed.D.
Ka Pouhana, Chief Executive Officer

SH:sh
PART VI

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
No prior audit findings which apply under the current criteria of the Uniform Guidance were noted.