Minutes of the Office of Hawaiian Affairs Committee on Resource Management
February 8, 2017

ATTENDANCE:
Trustee Dan Ahuna
Trustee Rowena Akana (departed 11:15am)
Trustee Keli‘i Akina
Trustee Peter Apo
Trustee Carmen Hulu Lindsey

STAFF PRESENT:
Kamana‘opono Crabbe, CEO
Albert Tiberi
Alvin Akee
Claudine Calpito
Davis Price
Dayna Pa
Dylan Zheng
John Kim
Kama Hopkins
Karlen Oneha
Kauikeaolani Wailehua
Lady Garrett
Laurene Kaluau-Kealoha

GUESTS:
Anna Sneed
Mona Bernadino
Keali‘i Makekau
Nathan Paikai
Dan Purcell
Germaine Meyers
Kauka‘ohu Wahilani

Trustee Robert K. Lindsey, Jr.
Trustee Colette Machado
Trustee John Waihe‘e, IV
Trustee Leina‘ala Ahu Isa
Lehua Itokazu
Liana Pang
Makana Chai
Maria Calderon
Miles Nishijima
Momilani Lazo
Paul Harleman
Raina Gushiiken
Raymond Matsuura
Sterling Wong
Tiger Li
Timmy Wailehua
U'ilani Tanigawa
Ka‘iolani Torres
Ka‘iulani Milhelm
Robin Danner
Robin Freitas
Wilcox Choy
I. CALL TO ORDER

Committee Chair Hulu Lindsey – Calls the Committee on Resource Management to order at 10:22am.

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<td>TRUSTEE DAN</td>
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<td>TRUSTEE ROWENA</td>
<td>AKANA</td>
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<td>Arrived at 10:28am</td>
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<td>TRUSTEE KELI'I</td>
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<td>TRUSTEE PETER</td>
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At the Call to Order, there are eight (8) Trustees present.

Committee Chair Hulu Lindsey asks for a 72-hour waiver of a corrected Action Item RM#17-02 explaining that the language at the top of the Action Item was incorrect. The correction was made, the OIP was consulted to ensure that the 72-hour waiver was proper, and were granted the permission to proceed in this manner. With the Board’s permission, Agenda Item IV.C. – RM#17-02 would be heard first.

Trustee Waihe‘e moved to approve the moving of Action Item RM#17-02 and it was seconded by Trustee Machado. There were no objections.

Ka Pouhana Kamana‘opono Crabbé points out that the Agenda language on Item IV.C. – RM#17-02 is different than the language on the Action Item itself requesting Administration to conduct a Risk Assessment and Management review.

Chair Hulu Lindsey reiterates that the mistake was corrected, that Corporation Counsel and OIP were consulted and because the materiality of the Action Item was not changed it was ok to see a 72-hour waiver. She confirms that the language of the Agenda is the correct language authorizing the Chief Procurement Officer to take action.

Trustee Colette Machado asks the Chair if the Action Item RM#17-02 just received without signatures replaces the previously distributed material in the folder?

Chair Hulu Lindsey confirms that is correct.
III. COMMUNITY CONCERNS/BENEFICIARY COMMENTS

Chair Hulu Lindsey calls on two beneficiaries to speak. She first calls Nathan Paikai.

Nathan Paikai greets the Trustees. Discusses Kana'iolowalu and the Department of Interior efforts from President Obama having mixed the Federal and State funding. He then discusses the necessity of a Forensic Audit to trace the funds that have been spent. The By-Laws state that the Board need not disclose spending, but the beneficiaries and public would like to know. He states that he will send a letter to the President, the FBI, the federal Attorney General requesting a complete audit of OHA. Doing this would end accusations and pleads with the Board to conduct an Audit by the Feds. Until the Declaration that the Kingdom is still alive, we are all under the Federal Government – but would want to see the Kingdom re-established. He again expresses his support of an independent audit and Federal audit.

Chair Hulu Lindsey calls on Ka‘iulani Milhelm.

Ka‘iulani Milhelm greets the Board and expresses her support for the Audit. She asks about the action item of the financial audit?

Ka Pouhana Crabbe responds by saying that the Action Item would authorize the Chief Procurement Officer, who is currently the Chair, to move forward.

Ka‘iulani Milhelm thanks Ka Pouhana and asks the board to confirm that she heard that 51% of the Administrative Budget was spent on travel.

Ka Pouhana Crabbe and Chair Hulu Lindsey responds by saying that is incorrect.

Ka‘iulani Milhelm thanks them for clarifying the misunderstanding.

Chair Hulu Lindsey calls on Kauka‘ohu Wahilani.

Kauka‘ohu Wahilani greets the Trustees and Pouhana. He speaks in support of the audit and shares that the lāhui is attentive and curious about the audit. He shares words from our Queen Lili‘uokalani, “If one man knows the truth, he will tell another, and he will tell another, and on and on and the nation will rise and we will once become the Nation we once were.”

Chair Hulu Lindsey asks for any additional speakers.

Robin Danner greets the Trustees and speaks in support of an Audit as it is a prudent action. She asks, as a beneficiary, the Trustees and Administration to contemplate the things that the beneficiaries need to know cannot always be done in an Audit, recommending that beneficiaries work with CEO. She suggests a beneficiary Quarterly Report – for example, how much was spent this quarter, employee hires, employees that left the organization, etc. Simple Administrative Management data could help fill the gap and cease rumors that are circulated on Social Media.
Ka Pouhana Crabbe comments that there are certain legal requirements that Administration must report to the board. Personnel hiring, budget variances, LLCs, etc. are among the things that are reported to the board. He speaks in support of reporting to the beneficiaries and hopes that there can be further conversation with the Trustees.

Robin Danner shares that she appreciates the pieces that information that is shared to the board, but it is generally hard to access by our beneficiaries.

Chair Hulu Lindsey calls on Germaine Meyers.

Germaine Meyers greets the Trustees. She wants to put forward a disclaimer that did not know any Trustees prior to attending meetings and that her background is in HR. She first directs her comments towards Trustee Ahuna and shares with the board her concerns over the Forensic Audit, OHA’s LLC’s, accounting practices, CEO’s insubordination, the CEO’s contracts lack of ratification, OHA’s nation building efforts, OHA Employees, and Spire’s Fiscal Sustainability Plan. She encourages face-to-face conversations. She asks for a copy of Spire’s November 18, 2017 report. She shares her disappointment over Trustee Ahuna’s speech in the removal of Chairwoman Akana and the Trustees decision to walk out of the meeting.

Trustee Ahuna thanks Ms. Meyers for her testimony and responds by saying that there was instability at that time. There are people in the community that look for leadership and good decisions must be made on that. For him personally, conversations about Nation Building and beneficiary comments, he can honestly say that he has done everything Ms. Meyers has spoken to. He has stood for the mountain on behalf of his people.

In regards to Nation Building, he has never voted for it, but it is about people. The reason why there were conversations about Nation Building is because we are in a situation where there is conflicting understandings. Federal Recognition was about saving entitlements; and as fiduciaries, it was important to protect the trust. For 15 years, Grassroots Institute has been “pounding” the office of Hawaiian Affairs, causing confusion throughout the community. Federal Recognition was about Grassroots. Now, the Office of Hawaiian Affairs has a Trustee from this organization and Ms. Meyers is saying she cannot trust Trustee Ahuna? He discusses legislation regarding OHA Trustees as lobbyists; this is conflicting. For him personally, he wants stability. In discussing the Super Bowl, he describes the New England Patriots as stability verses Cleveland Browns, not as stable, having 8 new coaches in 9 years. As leaders, Trustees are here to put out fires and not to make it. He understands the changing of forensic audit to management review. He does not just represent Kaua‘i and Ni‘ihau, but all of the community. There were personal attacks on Trustees and that was not fair to all the people on the table. As a leader, he admits to doing all of it, he is proud of making those decisions and that Ms. Meyers is addressing him as that is what leaders are. As the vice Chair to Trustee Lindsey, they did not get along, but they share an understanding and it is important that the community have pono leadership. He shares that he is willing to stand here for all of his beneficiaries and thanks everyone.

Chair Hulu Lindsey calls on Ka‘iolani Torres.

Ka‘iolani Torres greets the Board and shares that she is a Forensic Auditor. Her question stems from looking at the “Request for Qualifications” –how many of the Board members actually
know what qualifications are required for a Forensic Audit? A CPA firm only deals with things at a certain level, going through a “test process,” but a true Forensic Auditor will actually go “all the way down,” find the problem, and help the organization to correct it. She hopes that the Board will take the steps to learn these things, sharing that she submitted to become a vendor to help educate the Trustees. She believes that by doing this, the Trustees would better understand their budgeting. She previously met with Trustee Robert Lindsey sharing her grave concerns and offering her time to sit with the Trustees individually to go over the qualifications that will go into the RFQ. If the Board goes forward with a Forensic audit for their organization and beneficiaries, it would relieve a lot of doubt. She shares her support for the audit as a positive project and volunteers her insight as a Forensic Auditor.

Chair Hulu Lindsey asks for any objection to the 72-hour waiver, calling for a vote.

| TRUSTEE LEI | AHU ISA | 1 |
| TRUSTEE DAN | AHUNA   | 2 |
| TRUSTEE ROWENA | AKANA | 'AE (YES) |
| TRUSTEE KELI'I | AKINA | 'A'OLE (NO) |
| TRUSTEE PETER | APO     | KANALUA (ABSTAIN) |
| TRUSTEE ROBERT | LINDSEY | EXCUSED |
| TRUSTEE COLETTE | MACHADO | X |
| TRUSTEE JOHN | WAIHE'E | X |
| CHAIRPERSON HULU LINDSEY | | TOTAL VOTE COUNT |

MOTION: to approve a 72 hour waiver for Action Item #17-02.

Motion passes with nine (9) YES votes.
IV. NEW BUSINESS

A. RM #17-02: Requesting the OHA Board of Trustees authorization of OHA’s Chief Procurement Officer to issue a request for qualifications for an independent CPA firm to conduct a financial audit and management review of OHA and its subsidiaries.

Chair Hulu Lindsey turns the time over to Trustee Akina.

Trustee Akina considers it an honor and a privilege to sit at the Board table. He will propose something that he believes is a simple way to establish, for the public, the integrity of the Office of Hawaiian Affairs. He has become very impressed with the growth, corporate maturity, and the efficiency of the Office of Hawaiian Affairs and the Administration. The Office of Hawaiian affairs is under a “cloud,” where many beneficiaries have begun to express concerns about OHA’s finances, and Trustees are beholden to these beneficiaries. Second, Trustees want to have the necessary information to carry out their fiduciary duty. Third, the media has begun to discuss OHA’s finances. Fourth, the State Government has begun looking into OHA’s finances; for example, on January 26, 2017, Sarah Allen of the State Procurement Office called for three years of records for review. She stated that it came to her attention that OHA conducted a Professional Services Procurement resulting in a Professional Services List that may not be in accordance with the State Procurement Code. This office is requesting copies of OHA’s Professional Service Vendor List, and explanation of OHA’s process to place qualified vendors on Professional Service Lists including any written policies, procedures, and a log of OHA’s Professional Service Contract Awards for the past 36 months.

OHA is being held to a high standard by our Beneficiaries, the media, and the State Government. As such, the Trustees have a tremendous opportunity to clear this cloud, establish integrity, and to show the State, our Beneficiaries, and the media that the Trustees are taking the initiatives to hold the OHA accountable.

Financial Audit & Management Review

1. Intent of Action Item
Trustee Akina introduces the PowerPoint, pointing to the second slide, “Intent of the Action Item” being to provide for our beneficiaries. While there are clearly policy disagreements among the Trustees, he is convinced that each Trustee has aloha for the people of Hawai‘i and aim to advance the betterment of Native Hawaiians. As such, the purpose of this audit is to accomplish that. There are a few things that they want to do: protect the assets of the Office of Hawaiian Affairs, and make sure that these assets are being used to better the Hawaiian people. This humble proposal is a means to do that.

**Trustee Machado** asks Trustee Akina about the changing of the wording from “Administration” to “Chief Procurement Officer” citing a qualification issue – she asks him to describe what he means by a “request for qualification by an independent CPA”? And who would determine the qualification, the CEO or the Trustees?

**Trustee Akina** responds that he would imagine that the Chair of this committee together with an Ad Hoc Committee would supervise the RFQ.

**Trustee Ahuna** asks if Trustee Akina is consulting with an expert for the recommendations.

**Trustee Akina** responds saying he has many informal advisors including CPAs and other advisors without presenting any confidential information. What is being presented is based upon best practices.

The proposed action item **DOES NOT** call for the following:
- The collection of evidence for use as evidence in court.
- The targeting of any Trustee or Executive for fraud or other financial claims.

The proposed action item **DOES call for** the following:
- Identification of areas of waste, abuse and fraud in procurement
- Enhanced assurances that financial decisions are in full compliance with applicable laws and internal policies
- Recommendations on policies to strengthen the Board’s fiduciary oversight

This proposed action does not call for the following: the collection of evidence for use as evidence in court; it is not targeting any Trustee or Executive for fraud or other financial claims. It is very important that this is not a “witch-hunt,” but a formal audit that promotes transparency.

What it does propose, is the following: identifying areas of waste, abuse, and fraud, especially in the procurement process. It will give us enhanced assurances that financial decisions are in full compliance with applicable laws and internal policies. And it will recommend policies to strengthen the Board’s fiduciary oversight. It is a tool for Board members.
There are currently three different audit requirements

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It is important to look at current audit requirements since the organization is already audited. There are 3 audits that take place, all available to the public, and all of which Administration has worked with to bring us into greater compliance. He outlines the following Audits:

1. **Financial Statement Audit** – Specifically limited to presentation of financial statements. These attest to the integrity to OHA’s financial statements. This Audit has a very specific purpose.
2. **Federal Funds Audit** – OHA receives federal funds and this audit is limited to seeing that these are used according to the purpose that was set out. This is done by a CPA firm.
3. **State Audit** – Currently happening is conducted by the State Auditor and is limited to the assessment of the efficiency and effectiveness of certain programs. This is a “performance audit”

Based on these audits, OHA has done well and is functioning as a mature organization. He shares that these audits do not actually give OHA a systematic review of procurement practices, or contracts, or LLCs, or loans. They may touch upon them and further investigate irregularities, but they do not assure Trustees that these areas are in order.

In talking to and conferring with Les Kondo, state Auditor, confirmed that the Action Item is not duplicative. Previous audits have raised some questions, and administration has responded to some questions, for example, previous audits in 2005-2015 suggested the need for any audit:
Why Do We Need A Financial Audit & Management Review?

- Existing audits (FY 2005-2015) suggest issues that need to be researched

1. Federal Funds Audits
   - Pattern of significant internal control deficiencies
   - Procurement violations

2. State Audits
   - Non compliances with state reporting requirements
   - Lack of grant oversight and accountability
   - Need for improved strategic planning process

In all fairness, especially to Ka Pouhana, the Office of Hawaiian Affairs Administration responded affirmatively and proactively to the recommendations made to these areas. These are not the problems, but with the current audits, there is no systematic review of procurement, LLCs, or loans to the extent that fiduciaries need to address concerns.

Procurement:

- Financial consulting/fiscal sustainability planning contract
- Kaka’ako Makai development contract
  - Both contracts raise significant concerns with respect to:
    - Compliance with procurement law and policies
    - Contract management & administration
    - Cost management

There are many concerns that have been raised. In regards to management, we see that OHA’s net assets have declined by $46.8 million dollars in the past 2 Fiscal Years. Fewer resources are allocated towards beneficiary programs. Secondly, in regard to procurement, an example would be the Financial Consulting and the Fiscal Sustainability advice and contract have had very high costs, and the procurement process should be looked at as they were followed; we moved from an initial award of $95,000 to over $700,000 as we moved from 2014 to 2016. There are some questions about Kaka’ako Development.
Fiduciary Oversight:

- Trust funds are increasingly diverted to OHA’s subsidiary LLCs without proper accountability and oversight

He reiterates that the purpose today is not to go into detail, but rather just to show that there are questions. For example, trust funds are increasingly diverted to OHA LLCs without proper accountability and oversight. The Memorandum of Understandings contains policies that are at odds with State Ethic Policies; there will be people from the outside looking at that if the Trustees don’t do that first.

4. Conclusion

Jumping to the conclusion slide, he states merely that the Trustees have an opportunity to clear up the questions; in a way that will be helpful to Administration and that will reassure beneficiaries. Trustee Akina states that he is concerned that the State has begun to look at Procurement Processes and that none of the Audits give the Trustees the capacity to say that it has been systematically reviewed. He suggests – as a matter of good will – working with the State Procurement Office at the front end to tell them that OHA is taking an initiative to do the review by itself.

The goals of the action item are as follows:
Goals:
1. Improve and strengthen relationship between Trustees and the Administration through improved governance policies
2. Improve OHA's reputation by providing a higher level of assurance to the public
3. Restore beneficiary confidence in the Board's transparency & management

He presents two more slides that were presented to the Board of Trustees from the previous year. It is derived from a project OHA commissioned from Stryker, Weiner, and Yokota conducted by SMS Research. One of the things that was discovered from surveying beneficiaries, was that of the organizations that provide leadership in the community, OHA and DHHL have the lowest favorability ratings, OHA being last.

The perceptions are that OHA has poor management and are not representing the Hawaiian people effectively.

He commends Trustee Ahuna in bringing up the issue of stability, which he agrees with – that is regardless of where Trustees stand on policies, all Trustees are committed to a stable OHA and that is a good OHA. One that is transparent, one for which we can vouch for completely that the finances are in order. It is for these reasons that he would recommend moving forward with the Audit. He reiterates that it is not targeted at anyone, but rather to inform fiduciary duties, and it is the best thing that can be done at this time to illustrate to beneficiaries, public, and the media that OHA is taking steps towards integrity, openness, and transparency.
Chair Hulu Lindsey asks for discussion.

Trustee Machado directs her question towards Trustee Akina, explaining that she is trying to clarify between a Qualifications of the independent CPA versus the Financial Audit, and asks him to break it down to communicate his intentions. Going for the Qualifications first, and then the CPA is found? Or do you work together with the RFQ and then find the CPA to work towards the audit?

Trustee Akina responds by saying that at this stage, he would defer to the Chair of the Committee for process, but he can hypothesize.

Trustee Machado asks Trustee Akina to confirm that this is his action item?

Trustee Akina confirms.

Trustee Machado asks him to explain in simple terms - if approved today, there would be another review prior to the RFQ is sent out? She directs her comments at Trustee Akina in saying that he has accused the Trustees of “everything under the moon” in this Action Item and requests specifics.

Trustee Akina the first step would be approving the action item today. Two, the Chair of this committee…

Trustee Machado asks him to confirm that the action item only represents qualifications of a CPA to conduct the audit, correct?

Chair Hulu Lindsey responds by saying no. She responds to Trustee Machado by explaining that when Trustees solicit a company to perform a service, it is RFQ. If it is a request for planning, its an RFP. Here, the RFQ is just like an RFP, but asking for offers of qualifications to do the audit.

Trustee Machado states that the details are outlined in the scope of service or deliverables – where does that come in?

Chair Hulu Lindsey explains that it will be done by the Ad Hoc Committee that she plans on appointing.

Trustee Akina explains that the Trustees have total control over the scope. In planning for this, they are looking for 3 years of records to be reviewed, but we may discover that this is too costly and opt for 2 years. Trustees should focus on areas in which the current audits do not address. He shares that he has outlined some of the issues and will circulate that information sheet via e-mail. The Trustees approval of the Action Item today is not contingent on any of these particulars. When Chair Hulu Lindsey sets up an Ad Hoc Committee, they will outline the scope and will submit the actual RFQ.

Trustee Apo speaks in support of the motion but would like to qualify his vote with context: OHA is currently engaged in a State Audit, under review by the State Procurement Office
regarding compliance. Yesterday at the Legislature there was a hint from the Hawaiian Affairs Committee in the house that they are possibly looking at an Audit of OHA. Then before us, what might end up being self-flagellation, another audit.

He refers to the mission; sharing that he would like an audit that looks at the mission and measures the organization’s success against that mission. The mission is this: to build a nation. This was the constitutional intent in 1980 when the Constitutional Convention voted for it. At the time, life was simple, everyone was on board. The Hawaiian Community was on board for Nation Building, Congressional Delegation was on board, the Governor and Legislature was on board. In the wake of Kaho'olawe and Hōkūle‘a, everyone was supporting Hawaiians. Then things start to fall apart, there are arguments, etc. and we begin to lose sight of the mission. When he says “Nation Building,” he encompasses any one of the models that gives Hawaiians the right to govern ourselves. Trustees must then assume the role of protecting millions of dollars of Federal Entitlements. Additionally, OHA is consistently questioned by the Legislature. This is not an inexpensive task – OHA funds the Native Hawaiian Legal Corporation and Department of Hawaiian Homelands. OHA has opted away from Direct Services model and towards empowering the Native Hawaiian organizations as the most efficient way to empower the community – this is an expensive task. Additionally, OHA targets health care, home ownership, and even small areas of financial support such as the ‘Aha Moku System. He insists that no other agency in Hawai‘i has gone down this road before. This is a long, wide, and expensive road to travel down. In discussing audits, he hopes that the audit will address all of these things that OHA must cover and then measure whether or not OHA is doing a good job or not. He supports the audit because when OHA gets to the RFQ, he would like to know how the audit will measure everything just mentioned.

Trustee Ahuna and Trustee Machado support Trustee Apo’s comments.

Trustee Apo shares that he had three options today, one, to vote for the action item and deal with the timing. The second was to amend the action item to have input on the RFQ that would clearly comply with Procurement law, which does not cover previously addressed items by the State Audit. Third, to table the action item until after the state audit. He shares that he will “go with the flow” and that it seems like beneficiaries want it and that he is curious about the

Trustee Ahu Isa shares that there should be another part to amend the audit. She has experience on the other end of the table, as the Administrator of the Audit. The Trustees may forget that the audit requires a lot of work of employees. She requests a line-item budget from the Chair.

Trustee Ahuna thanks the Trustees for their mana‘o. He shares that OHA is currently being audited and that there is a lot of work contracted through Spire that already addresses these issues. He reiterates that he is not against an audit, but is looking for prudence. He shares that he is conflicted. Representative Ing is currently addressing conflicts of interest in respect to an OHA trustee that is a lobbyist. This particular Trustee speaks of transparency – and this is an important aspect. Personally, he is unclear about the scope of the audit. He highlights the Grassroots Institution as being a “big pain” in OHA’s side – he wants to know where the information is going – is it for the Trustees? Or other people? He is weary about this particular audit. To find the solution, the Trustees should wait until after the Financial Audit and then evaluate what information is still needed to accommodate our beneficiaries. He reiterates that he is not against audits, but that they are costly.
Trustee Akana speaks in favor of the motion, reasoning that the beneficiaries are asking for the audit and that OHA has never had—in 36 years—this kind of audit. OHA has grown since its inception and it would be a helpful tool to see where the organization is. It would show the areas that need improvement and should not be looked at as a negative thing. Voting in favor of this would signal to the Legislature that OHA is taking itself seriously. In speaking with the State Auditor, she shares that she learned that the State Audit will not cover everything and that they shared that this audit would be a good thing.

Trustee R. Lindsey asks about the Chair’s intention to create an Ad Hoc committee and if she has members in mind for the committee? He asks her to explain what role the Ad Hoc committee would have.

Chair Lindsey shares that the individuals she has in mind are Trustee Akina, Trustee Machado, and intends to ask Trustee Apo for Makana Chai’s service. She tried to balance the Trustees thoughts and believes that they will develop the RFQ and may ask Administration to put it out. She expects that when the RFQs come in, they will go directly to the Ad Hoc Committee to make a decision and choose a CPA. The scope of work will also be developed in the Ad Hoc Committee.

Trustee Ahuna asks if Ka‘iōlani, a beneficiary, could come to the table and help the Trustees understand the presentation.

Ka‘iōlani Torres thanks the Board and reiterates some of the Trustees concerns (hard work on employees, concurrent audits) to share that she disagrees with this particular approach. She urges OHA to consider the way they structure their Financial Model — similar to the police having an “Internal Affairs” position. It would serve OHA well to create an “Internal Auditor” position that reports to the Board. Speaking from personal experience, as a Forensic Auditor, she would sit down with the individual employees and would intricately examine the details. A CPA firm would not do this. It is likely that it has to do with Management rather than fraud.

Chair Lindsey asks her to communicate with the Ad Hoc Committee.

Ka Pouhana Crabbe thanks Ka‘iōlani for her comments and share that Administration is very supportive of taking active steps to improve management of fiscal prudence but as Ms. Torres has shared, OHA has been audited every year for the past several years. In trying to reach the core of efficient operation, for example, contract accountability and Native Hawaiian Revolving Loan Fund, and Procurement issues, part of the practice of the Board has been to bring Administration to report back. With a newly elected Trustee, Administration has not yet had that opportunity to report to the Board. He asks if he may bring KMH for Board member questions.

Chair Lindsey responds by asking the rest of the Trustees if they have a need to listen to KMH again?

Trustee Machado has a series of questions.
Wilcox Choy introduces himself and his colleague, Robin Freitas sharing that they are accountable to the Board and are a resource to the Board. He responds to a list of questions from Trustee Machado:

1. What opinions are issued for OHA’s Financial and single Audit? Why are they required?

The audit of a financial statement would give an opinion on the fairness and reasonableness of the organization’s financial statement. In addition, a Single Audit is performed - Any time an organization receives Federal funds, you are required by law, to have an Audit performed on your Federal Funds. The Federal Government mandates what procedures must be performed for compliance. He then issues a separate opinion on whether the organization is in compliance with those requirements. The Financial Statement Audit is done under Government audit standards. This is different than generally accepted audit standards – which are for private entities. Along with the Single Audit, both of these standards require examination of internal controls: the Federal arena would be internal controls over compliance.

Ka Pouhana Crabbe asks him to define internal controls – is that Standard Operating Procedures that Management follows according to accounting practices?

Mr. Choy replies that Government standards and Single audit looks at internal controls and yes, these are Standard Operating Procedures and processes. It is controls to ensure, in Financial Statement Audit, that process, procedure, controls, is that what you’re reporting is accurate, you are safeguarding assets, etc. In the compliance aspect, do you have procedures to ensure compliance? For example, when someone looks at an invoice, are they looking that it is spent according to Federal Government guidelines? If there is no process like this, then they would report that the organization lacks a control. The controls are deemed either material or significant deficiency. Either way, it is bringing to the Board’s attention that there is a deficiency – that is what the Federal Government wants. Auditors would issue a report. The following year, the Auditors are required to follow up on the previous year’s findings. In addition, the Federal Government would mandate the organization to prepare a Management response. This could impact the funding.

2. Why is it required?

Single Audit is required because OHA receives Federal Funds. The audit is not for the State of Hawaii, rather, for the beneficiaries. This is the purpose of the Financial Statement Audit – to give assurance. Audits are not for Management’s purpose, it is for a third party user. Typically, these Audits are for Investors, Creditors, or here, beneficiaries.

3. Why do Audits not look at 100% of transactions? Doesn’t that mean that it is limited in scope and assurance it provides?

In general, no audit can offer you absolute assurance. The problem lies within the evidence – there are inherent limitations. A lot of times, the error is not in within what is recorded, but rather, what is not recorded. Practically, to audit 100% would not be cost effective. The audit refers to reasonable assurance” – by definition standards it will tell you that audits are the highest level that a CPA firm can issue relative to your financial statements. “Reasonable Assurance” is
a "low-level risk" that a material misstatement was not reflected on the financial statements that the auditors didn’t catch. What does “low level risk” mean? It comes down to materiality. By standards, what would change the reader’s opinion about the financial statement? It is a judgement call. There are guidelines that the standards put out.

Robin Freitas discusses “Materiality” including qualitative and quantitative aspects. In regards to financial statements, it is not applied at the overall financial statement, but rather the individual funds – materiality is applied to each fund, and then an aggregate materiality at the top level. There are multiple “materialities” to an organization’s financial statement.

Materialities are determined thresholds that would potentially change the reader’s opinion on the Financial Statements if a particular misstatement was not caught – it changes on the particular fund that’s being audit. There is a quantitative aspect, but there is also a qualitative aspect such that if we expect something to change (balance, etc.), even if it doesn’t hit the materiality threshold, we will ask/investigate it. Materiality is complex, not just a simple number because there are other aspects as well.

Mr. Choy adds that their firm, KMH, subscribes with the audit methodology of the 5th largest National CPA firm. Each firm’s methodology is different. The materiality at the financial statement level is anywhere from 1-3%, depending on what benchmark: total asset, net asset, revenue, expenditure, etc. For Government entities, it is the expenditures that matter – qualitative aspect. You pick these benchmarks and apply the percentages to come out with materiality. Then, they discount it by up to 70% when actually auditing a particular account item (i.e. inventory). This explanation answers the next question:

4. Can you explain the materiality as it affects the audit? Can the auditor disclose specific materiality?

He explains he hesitates to describe specific materiality amounts because if he throws out a number like $80,000, peoples impression is that the audit will not look at anything under $80,000, and that is not necessarily true because this does not look at the qualitative aspect. For example, if an error is found and the error was created by the AP clerk, assuming it is $10,000, this is not material. But assume this was created by an override by the CFO which is out of policy – they would have a problem with that and investigate further.

Trustee Machado asks about an aspect in the action item under “Review of Contract Management” it says “review all single year and multi-year contracts with a cumulative contract value of $100,000 or more and a random selection of 40% of all single year and multi-year contracts with a cumulative value of $99,999 or less. The contract should be reviewed for the following: procurement process, management and oversight of contracts, and determine if contract deliverables have been met by the contractors.” She states that this would be a big burden to review under this process, asking if she is right or wrong.

Mr. Choy responds by saying that if they were to propose on this, they would look at the total population first. The question is not contracts above $100,000, but how many contracts above $100,000. And depending on the number of contracts, it will correspond with the cost. The higher level of contracts that you examine, the higher level of assurance you have. It is more a question of how many contracts you have to look at versus the threshold of contracts.
Trustee Akana has a question relative to Mr. Choy’s answer. OHA gives out many contracts and many of them are over $100,000, so for example, if there are 50 at $100,000 and several more at $250,000+, whether you would look at those or not would depend on how much it would cost to look at it?

Mr. Choy responds by saying no that he was responding relative to the action item not to the financial statement audit.

Trustee Machado responds by saying this falls under “Contract Management,” but the second area of “Review of Financial Transaction” there is the same threshold of $100,000 or more and a random selection of 40% of all single year and multi-year contracts with a cumulative value of $99,999 or less. She asks what kind of burden this would impose. She says this in consideration of the large grants given out to non-profits that serve our communities and beneficiaries.

Mr. Choy clarifies to Trustee Machado’s question by saying that the financial statement audit did not address grant management. The financial statement audit is in regards to statement.

Trustee Akana responds by asking if the grants review would be a separate audit?

Mr. Choy responds in relation to the action item looking at a CPA firm, which is independent. CPAs like to follow standards, but CPAs have defined scope of work when you use the word “audit” – likely discussing the reasonableness. Discussing a “performance audit,” the Government standards are used. Then there is this area known as “consultants”. So it is important that when OHA goes out for an RFQ, you define the scope of work adequately. As he understands it in regards to a “Forensic Audit,” when you look for Forensic Accounting, there are no general standards that CPAs follow.

Trustee Akana responds by saying that the key lies in the “scope of work” that goes out in the RFQ. She recommends defining the scope a little more liberal.

Mr. Choy cautions the Trustees in using the word “forensic” since there are different standards in using this word. From what he heard today at the Board, they are interested in more of a “Performance Audit.”

Trustee Akina thanks Mr. Choy and Mr. Freitas. In reviewing the audit that KMH conducted, a financial statement audit, is not the same as the proposed action item being that it is a lot more limited. In that audit, it just looks at the integrity of the financial statement – is that correct?

Mr. Choy responds by saying that this is correct – the objectives are different to the action item.

Trustee Akina asks if in Mr. Choy’s audit and in his knowledge of the State’s performance audit there is no systematic review of procurement practices in OHA?

Mr. Choy responds that he is unsure of the State’s performance audit but in terms of his audit, they have not conducted this kind of review.
Trustee Akina asks if in Mr. Choy’s audit there is no systematic review of OHA’s LLCs?

Mr. Choy responds to say that this is correct.

Trustee Akina references some of the methods referenced by Trustee Machado asking if these are used in Mr. Choy’s audits.

Mr. Choy responds to what was described in the action item are different objectives.

Trustee Akina thanks Mr. Choy and wants to make sure that everyone understands that OHA has good audits being done – financial statement audit, federal funds audit, and State audit. He affirms that what is proposed today is very radically different. This is what will help Trustees noting that Trustee Apo’s “grand goal” of fulfilling OHA’s mission is bigger than the audit at hand. Trustee Akina’s suggestion is Program Planning Budgeting System will accomplish Trustee Apo’s noble call.

In addressing Trustee Machado, he shares that he is very pleased to have himself and Trustee Machado on the committee to develop the score of the RFQ. He ensures that this audit “will not get out of control”

Trustee Machado confirms that she will not let it get out of control.

Chair Lindsey addresses Trustee Machado by saying she appointed her because she wanted her to keep an eye on Trustee Akina.

Trustee R. Lindsey shares his view of the Action Item as being biased with the idea of a few people and that his thought is that the Trustees should put this back into the hands of the Ad Hoc committee to recraft what is being proposed. From there, it can be brought back through the RM committee.

Trustee Akina speaks against Trustee R. Lindsey reasoning that they keep having to come back to the Board of Trustees and most of them are ready to make a decision. The Ad Hoc committee can work out the specifics but the Board should make a decision.

Trustee R. Lindsey restates his position and his reasoning is that the process should be a collaborative process.

Chair H. Lindsey asks if he would like to make an amendment to the motion.

Trustee Akina agrees with Trustee R. Lindsey in that the process should be collaborative and balanced between various competing views. He points out that the process established by the Chair through the Ad Hoc committee will allow a balanced and fair shaping of the RFQ. Today, the Board should approve and the Ad Hoc committee will control the scope and cost. He encourages Trustee R. Lindsey to join with his support to say to our beneficiaries that OHA would like to be open and transparent through this audit.
Trustee R. Lindsey shares that he is fine with moving forward, but wants to ensure that because of the significance and magnitude of this action, that it be fair, balanced, and based on collaboration. Currently, the action item only reflects Trustee Akina’s views. He finds it problematic that prior to Trustee Akina’s election to the Board, his views and comments created unnecessary hysteria in respect to OHA’s operational processes.

Trustee Akina responds to say that he is glad because this action item gives the Trustees the collaborative opportunity to ensure integrity.

Trustee Machado asks the chair to consider another additional action to create the Ad Hoc committee identifying the members.

Trustee Ahuna adds that he would like the committee to also reflect collaboration.

Albert Tiberi steps in to discuss the action. He explains the process – if the action is passed, it must still go up to the Board for further action. Typically, at the standing Committee level, it would be an Advisory Committee rather than an Ad Hoc. It sounds like the Board would like to massage the scope and if so, an Advisory Committee should be created at the standing committee level.

Chair H. Lindsey shares she will make an Advisory Committee and the action item may later go to the BOT as a whole.

Trustee R. Lindsey seeks clarification – the Advisory Committee will, in collaboration, work together to craft the RFQ?

Chair H. Lindsey confirms. The Advisory Committee will also report back to the RM Committee.

Trustee Apo directs his question at Corp Counsel – An Ad Hoc committee cannot be more than two Trustees, what about an Advisory Committee?

Mr. Tiberi confirms the same is true with an Advisory Committee because of the Sunshine Law. If more than two, the Advisory committee would need to post notice. The Advisory committee would report back to the RM committee and the committee would then make its recommendation up to the Board with additional RFQ requirements.

MOTION: to approve RM#17-02: Requesting the OHA Board of Trustees authorization of OHA’s Chief Procurement Officer to issue a request for qualifications for an independent CPA firm to conduct a financial audit and management review of OHA and its subsidiaries.

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Motion passes with nine (9) YES votes.

Chair H. Lindsey appoints an Advisory Committee comprised of Trustee Keli‘i Akina, Trustee C. Machado, and a staff member from Trustee Apo’s office.

Trustee Apo declines and Trustee Machado suggests Paul Harleman, aide to Trustee Akina.

Chair H. Lindsey calls for discussion.

Trustee Apo shares that he is still frustrated by being dilemma between State Agency and private agency. Looking at OHA’s mission, how does OHA measure the value of legacy properties cost, but also that it is important to have a geophysical footprint that defines the nation. A nation without land is ridiculous! So, how do you measure OHA’s investments and expenditures in areas like Waakele o Puna, Waimea Valley, etc.? He suggests that maybe an audit is not the place for this, but clearly defining this for our beneficiaries is critical.

MOTION: to approve an Advisory Committee for RM#17-02 consisting of Trustee Keli‘i Akina, Trustee Colette Machado, and Paul Harleman.
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Motion passes with nine (9) YES votes.
II. APPROVAL OF MINUTES

MOTION: to approve the minutes of the January 19, 2017 meeting of the RM Committee.

| TRUSTEE LEI | AHU ISA |  |  |  |  |
| TRUSTEE DAN | AHUNA | X |  |  |  |
| TRUSTEE ROWENA | AKANA | X |  |  |  |
| TRUSTEE KELI'I | AKINA | X |  |  |  |
| TRUSTEE PETER | APO | X |  |  |  |
| TRUSTEE ROBERT | LINDSEY | X |  |  |  |
| TRUSTEE COLETTE | MACHADO | X | X |  |  |
| TRUSTEE JOHN | WAIHE'E | X |  |  |  |
| CHAIRPERSON HULU | LINDSEY | X |  |  |  |

TOTAL VOTE COUNT

MOTION: [x] UNANIMOUS [ ] PASSED [ ] DEFERRED [ ] FAILED

Motion passes with nine (9) YES votes.

B. Discussion on Economic Review & Strategy – Glenn Ezard, Segal Rogerscasey

Chair H. Lindsey thanks Mr. Ezard for his patience and turns the time over to Administration.

Ka Pouhana Crabbe turns over the time to Ray Matsuura, Investment Manager, and Glenn Ezard in regards to OHA’s Native Hawaiian Trust Fund.

Ray Matsuura greets the Trustees and introduces the following discussion on Asset Allocation. He asks the Trustees to turn to their reference books to page 22, “Low Volatility Marketable Asset Returns.” He asks the Trustees to recall last fall, when OHA decided to reduce the exposure with Commonfund Hedge fund. One reason was that they would provide less liquidity – instead of a quarterly liquidity, it would be a semi-annual liquidity. Another reason was their changing of the structure. Given those reasons, it was reduced from 12.8% to 7%.

Under the policy target of 12.8%. The worse thing about this is that OHA got the money back this week - sooner than expected, as opposed to the end of the month. Because of the delay and weren’t able to issue the RFP, they are a month or so behind in terms of filling that gap in terms of a new manager. What concerns him, is that they will understandably be out of compliance for
a short time, but encourages the issuance of an RFP going for the hedge fund manager. With that, Glenn will explain why a hedge fund manager is needed and answer any questions.

Glenn Ezard greets the Board and shares he plans to hit the key points knowing the Trustees have had a long day. He will touch on the Asset Allocation Policy and then the hedge fund search. A quick updates on some of the work that has been done and will be done in the future. He directs Trustees to page one of their packet – a chart showing the Asset allocation versus the policy targets. The absolute return alternatives, hedge funds, are well below their targets. This came about from the change of Commonfund when they rearranged their program and they took out some liquidity. Addressing that, they are looking to identify a new manager to assume that portion of the Portfolio. That amount is about 6% or $20 million dollars in term of the entire portfolio.

On the next page, highlighting here, the Investment Program management – how they address the investment of the assets, monitor them, and structuring the portfolio. All of these factors factor into an Asset Allocation Policy. From there, the Portfolio Structure is created. Here, they will focus on the Portfolio Structure and the selection of an investment manager. In order to find the right manager, they must look back to the Asset Allocation policy – the deficiency in regards to the target and what fits into that role, looking at the current Absolute Return Strategy and then the rest of the Portfolio. Some of the key things that they look for include: very strong risk-management programs that keep the volatility of the risk at a low level, correlation – the degree to which the investment moves with the portfolio. We want to avoid strategies that will fall when the Stock Market falls. Next, they will look at who would fit that role – the selection process.

The process that they will work through to find a new manager would be an RFP process – drafting a questionnaire, which is already completed. The questions ask about organizational structure and investment policy. These will be posted publicly in alignment with procurement rules. Additionally, they have their own proprietary database of Investment Managers that they have been keeping for years – they would widely advertise publicly as well.

Once they have responded to the questionnaire, they will review it with OHA staff (Ray), and then come up with a method to score them according to criteria that was developed on qualifications. They want to ensure it is a firm that has good strategy, plenty of resources, and good staff. Also, looking overall at cost – making sure they are managing the cost as well. The Commonfund program is a fund of funds – this means that there is a Manager that is selecting the underlying funds, you’re paying them, and then you pay again for the underlying fund. In his opinion this is a well-diversified and well-structured program, but the cost can be managed down by a direct-fund instead of fund of fund.

The selection process is where they develop their report, coming up with rankings and sharing those findings with OHA. Together with Ray, they would come back with a recommendation of 2 or 3 that they have determined are well suited for the mandate of OHA. After that, they can

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either have the individuals come back and make a presentation, or they can just receive the report. After this, they would select the manager and assign them to their role in the portfolio and assist with the implementation of that contract with the Native Hawaiian Trust. This would happen over the next several months.

**Trustee Akana** directs her comments to Ray Matsuura in regards to hiring a Trust Fund Manager stating that it really needs to come before the RM committee because independent contracts cannot be signed by the Manager. It must be approved by Trustees since all monies must be approved by the Board.

**Mr. Matsuura** absolutely agrees with Trustee Akana.

**Trustee Akina** thanks them for addressing Commonfund and understands the need to switch to a “Direct Fund Program.” Specific to Commonfund’s performance, what would a program like this (fund to fund) have to do to be valuable to OHA?

**Mr. Matsuura** responds by saying performance is foremost. He directs Trustee to page 17 on “Net Basis” where since January 1, 2010, performance has been 1.35% annualized. He acknowledges all hedge funds have underperformed in this market.

**Trustee Akina** shares that he is more looking for criteria versus Commonfund’s actual performance. In other words, what would an actual hedge fund manager do for OHA that Commonfund is not capable of doing?

**Mr. Ezard** responds to Trustee Akina pointing to a number of different strategies including one that has worked quite well recently: “Structured Credit.” In terms of targeted returns, they tend to look at this as a stable type of return (around 5-10%). The objective would be to get a return that would be bond-like, meaning that Corporate Bonds, Treasury Bonds usually give us 5-10%, and in this era, we are getting much lower interest rates. If they can do significantly better, that’s the contribution that they’re looking to make in the portfolio.

**Trustee Ahuna** builds on Trustee Akina, believing that he is referring to management costs. There are all different levels of management within portfolios and Commonfund was “active management” resulting in really high fees. He states that he believes that Ray caught that – and that’s the difference in the management of funds.

**Mr. Ezard** adds comments on the RFP – the cost for this is already included in their current scope of services. The only cost that would be realized for the RFP would be in terms of service within the organization.

**Trustee Akina** thanks him.

**Ka Pouhana Crabbe** directs his comments to Trustee Akina sharing that OHA had moved several years ago, prior to Ray, regarding benchmarks for each of the fund areas. They started to look more carefully at performance and relied on the managers to make decisions when certain
managers were underperforming, but yet OHA was still paying fees. In evaluating what OHA really needed, Ray and Mr. Ezard have re-evaluated the strategy to getting better performance and outcomes for the portfolio.

**Trustee Ahuna** thanks Ray for his leverage and help.

**Mr. Matsuura** begins discussing some of the work that has been done and some of the work that they are looking to accomplish within the next few months. As a reminder, they have been looking at the performance of the underlying investments and some changes – asking the Trustees to recall the Goldmansachs strategy that had not been performing as well after fees into some passive strategies. They have already made some changes there that have contributed nicely into the cost reduction program that is in place. In addition, the streamline of benchmarks will be undertaken along with an overall review of Asset Allocation Policy. Again, as noted, some of the underlying benchmarks are perhaps too detailed in terms of the structure and may actually be impeding on the performance of the investment manager. They will be looking at this and giving the Trustees more ideas about this in the near future. Throughout all of this, they are looking for opportunities to drive down costs in the investment management process.

C. **3rd Quarter Portfolio Update – Ray Matsuura, Investment Transaction Manager**

Chair H. Lindsey asks for any questions and thanks Mr. Matsuura and Mr. Ezard. She asks Mr. Matsuura if there is a need to re-schedule the 3rd Quarter Portfolio update.

Mr. Matsuura responds to say that they already have 4th quarter results, so 3rd quarter is sort of irrelevant at this point. He was going to mention that the 4th Quarter return is above the target and that’s basically it. The next meeting will be March 22nd and they will talk in more detail about 4th Quarter results.

Chair H. Lindsey thanks Mr. Matsuura.

**V. ANNOUNCEMENTS**

Chair H. Lindsey asks for announcements.

**VI. ADJOURNMENT**

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**MOTION:** [x] UNANIMOUS [ ] PASSED [ ] DEFERRED [ ] FAILED

Motion passes with nine (9) YES votes.
Respectfully Submitted,

A. U'ilani Tanigawa
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on March 9, 2017.

Trusted Carmen Hulu Lindsey
Committee Chair
Committee on Resource Management

ATTACHMENTS:

- Beneficiary Comment and Community Concern Form(s)
- RM#17-02
- Financial Audit & Management Review Presentation