OFFICE OF HAWAIIAN AFFAIRS
Action Item

Board of Trustees
January 30, 2017

BOT# 17-03

Action Item Issue: 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.

Prepared by: ____________________________ Date: ____________
Trustee Keli'i Akina

Reviewed by: ____________________________ Date: ____________
Trustee Rowena Akana
Chair, Board of Trustees

I. Proposed Action

To authorize OHA’s Chief Procurement Officer to issue a Request for Qualifications for the purpose of retaining an independent CPA firm to conduct a financial audit and management review of OHA and its subsidiaries for the last three fiscal years.

II. Issue

Whether or not to authorize OHA’s Chief Procurement Officer to procure an independent CPA firm to conduct a financial audit and management review of OHA for the last three fiscal years.

III. Discussion

Background:

Presently, OHA is required by statute and policy to undergo three audits. These are the annual Financial Statement Audit, the annual Federal Funds Audit and the State Audit which is conducted every four years. Each audit differs in scope and objectives.
The annual Financial Statement Audit attests to the fairness of financial statements prepared by OHA. The annual Federal Funds Audit attests to the fairness of financial statements prepared by OHA and examines OHA’s compliance with grant requirements. The State Audit is a performance audit which examines the efficiency and effectiveness of OHA programs.

The three audits that OHA is subject to are limited in their scope and the level of assurance they provide to the Board of Trustees as well as to the beneficiaries. They do not provide the Board of Trustees or OHA’s beneficiaries with the highest possible level of assurance that OHA’s risk management, organizational governance and internal control policies are consistent with best practices for public finance and trust fund management.

Most importantly, OHA’s beneficiaries have been vocal in their desire for an audit of OHA and its related entities. A financial audit and management review will alleviate tension and distrust between the Board of Trustees and Administration, as well as provide OHA’s beneficiaries with assurances that their concerns have been heard.

Analysis:

To strengthen the Board’s role as fiduciaries and ensure OHA’s beneficiaries that OHA holds itself to a high ethical standard, OHA should seek to identify areas of internal weaknesses. An independent CPA firm should be hired and instructed to accomplish the following three objectives:

1. Identify potential areas of waste, abuse and fraud in the procurement of goods and professional services.

2. Provide OHA with recommendations to ensure OHA’s financial statements are free from fraudulent misstatements and misrepresentations and in full compliance with all applicable laws and internal policies.

3. Provide recommendations on policies to strengthen the Board of Trustees’ fiduciary oversight.

IV. Alternatives

1. To approve and authorize OHA’s Chief Procurement Officer to issue an RFQ for the purpose of retaining an independent CPA firm to conduct financial audit and management review of OHA and its subsidiaries.

2. Take no action.
V. **Recommended Action**

Request Board of Trustees to approve and authorize OHA's Chief Procurement Officer to issue an RFQ in order to retain an independent CPA firm to: (1) conduct a financial audit and management review of OHA and all subsidiaries and related entities, and (2) to develop procedures to accomplish the following:

1. **Review of contract management**

   Review all single-year and multi-year contracts with a cumulative contract value of $100,000 or more, and a random selection of 25% of all single-year and multi-year contracts with a cumulative value of $99,999 or less. The contracts should be reviewed for the following:

   - Procurement process
   - Management and oversight of contracts
   - Determine whether the contract deliverables have been met by the contractors

2. **Review of financial transactions**

   Review all financial transactions with a value of $100,000 or more, and a random selection of 25% of all financial transactions with a value of $99,999 or less. The transactions should be reviewed for the following:

   - Compliance with HRS:
     - Chapter 84 – Ethics
     - Chapter 103D and 103F – Procurement

   - Compliance with OHA internal policies, if applicable:
     - Bylaws
     - Executive Policy Manual
     - Spending Policy
     - Investment Policy
     - Hawaii Direct Investment Policy
     - Land Acquisition Policy
     - Kaka‘ko Makai Policy
     - Risk Management Policy

3. **Review of management policies**

   Review all documented internal management policies and procedures for consistency with best practices. If no documented policies exist, or if policies are not consistent with best practices, provide recommendations for policies in the following areas:

   - Internal control system
   - Budget development and implementation
- Investment management
- Procurement and contract management compliance
- Oversight of subsidiaries and other related entities
- Oversight of grants management

VI. **Timeframe**
Action will be implemented upon approval by the BOT.

VII. **Funding**
None required for this action at this time. Upon approval by the Board, funding will be required upon selection of a CPA firm.

VIII. **Attachments**
None.