



SCR70/SR48

REQUESTING THE OFFICE OF HAWAIIAN AFFAIRS TO CONDUCT AN INDEPENDENT FISCAL AUDIT OF ALL LIMITED LIABILITY CORPORATIONS CREATED OR CONTROLLED BY THE OFFICE

Senate Committee on Ways and Means

April 3, 2019

10:30 a.m.

Conference Room 211

The Office of Hawaiian Affairs (OHA) offers the following **COMMENTS** regarding SCR70/SR48.

OHA notes that various audits and financial reviews are already conducted and currently underway for both OHA and limited liability companies (LLCs)¹ created by OHA. We note that OHA: 1) Is subject to an audit by the State Auditor every four years;² 2) Is subject to a State Review every five years; 3) Annually contracts with an independent audit firm to conduct a financial audit of OHA;³ and 4) Has contracted with an independent audit firm to conduct a review of OHA disbursements. LLCs created by OHA also engage, contract, and pay for their own independent audits, which are provided to OHA for inclusion in OHA's basic financial statement, and are used by OHA's independent auditor as well. OHA's audited basic financial statements, including footnotes and LLC information, are published annually on our website.⁴ **Accordingly, independent financial audits of all LLCs created by OHA are already conducted, with audit information used and made available by the agency through various means.** Further details regarding OHA's audits and financial reviews are provided for the Committee's information below.

OHA's Annual Financial Audit and Audit Procedures. OHA's annual financial audit is an audit of the financial statements of its governmental activities, its business-type activities, each of its major funds, and aggregate remaining fund information as well as a budgetary comparison for the general fund of the OHA as of and for the fiscal year ending on June 30th, including notes for the financial statements (collectively OHA's basic financial

¹ Chapter 428 – Uniform Limited Liability Company Act

² Section 10-14.55, Hawai'i Revised Statutes, "Audit and report."

³ The "clean" audit opinion "based on our [independent OHA auditors] and the report of the other [independent LLC auditors]" as of June 30, 2017, may be found on OHA's website <https://19of32x2yl33s8o4xza0gf14-wpengine.netdna-ssl.com/wp-content/uploads/OHA-2017-FS-Final.pdf>.

⁴ The Financial Statements and Report of Independent Certified Public Accountants of the Office of Hawaiian Affairs (OHA) are for the fiscal year ended June 30. The reports are prepared by OHA's Resource Management Line of Business. OHA is responsible for the accuracy of this information, its completeness and fairness, including all disclosures. The report includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements and notes to the financial statements. <https://www.oha.org/about/aboutfinancial-statements/>

statements). The audit involves performing procedures to obtain evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including assessments of the risks of material misstatements in the financial statements, whether due to fraud or error. In making such risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements; the auditor designs audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates by management, as well as an evaluation of the overall presentation of the financial statements.⁵

LLC Audits and OHA Financial Audit Opinion. OHA's auditor's opinion includes the following description, "Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of [LLC], which represent 99 percent, 99 percent, and 95 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for [LLC] is based solely on the report of the other auditors. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement."⁶

LLC Information in OHA Basic Financial Statements. Detailed LLC information is disclosed in OHA's basic financial statements in the "business-type" column of the Statement of Net Position and Statement of Activities, and in the Proprietary Funds – Statements of Net Position, Revenues, Expenses and Changes in Net Position and Cash Flows. In addition, Note A of the basic financial statements describe the financial reporting entity, including the blended component units (i.e., LLCs).

OHA June 30, 2017 Financial Statements. Accompanying our testimony is a copy of the most recent financial statements as of June 30, 2017,⁷ including LLC information, as also published on our website.

Thank you for the opportunity to testify on this measure.

⁵ Independent Auditor's Report as of June 30, 2017

⁶ Independent Auditor's Report as of June 30, 2017

⁷ The audit of the financial statements as of June 30, 2018 is in progress and should be available and posted in early April 2019.