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DEPT. COMM. NO. 388

June 1, 2018

VIA EMAIL & HAND DELIVERY (senkouchi@capitol.hawaii.gov)

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

Re: Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of State Auditor's 2013 OHA Recommendations, Report No. 18-08

Dear President Kouchi:

We are attaching a copy of our *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of State Auditor's 2013 OHA Recommendations*, Report No. 18-08, and the Auditor's Summary. The audit was performed pursuant to Sections 10-14.55 and 23-7.5, Hawai'i Revised Statutes, which require the Office of the Auditor to (1) conduct an audit of the Office of Hawaiian Affairs at least once every four years, and (2) report to the Legislature, annually, on each audit recommendation more than one year old that has not been implemented by the audited agency. Our audit evaluated Office of Hawaiian Affairs' two competitive grant programs: 'Ahahui Grants and Community Grants. We also assessed the status of OHA's implementation of the 23 recommendations in our 2013 audit of OHA, relating to land management and grants administration processes.

The report is accessible through our website at:
http://files.hawaii.gov/auditor/Reports/2018/18-08.pdf.

If you have questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:emo
Enclosure

Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 18-08
June 2018

OFFICE OF THE AUDITOR
STATE OF HAWAI'I

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STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
http://auditor.hawaii.gov

Foreword

Our audit of the Office of Hawaiian Affairs was conducted pursuant to Sections 10-14.55 and 23-7.5, Hawai‘i Revised Statutes, which requires the Auditor to conduct an audit of the Office of Hawaiian Affairs at least every four years.

We express our appreciation to the trustees, administrator, and staff of the Office of Hawaiian Affairs, and other individuals whom we contacted during the course of our audit, for their cooperation and assistance.

Leslie H. Kondo
State Auditor

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Auditor's Summary

Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations

Report No. 18-08

PHOTO: OHA

IN REPORT NO. 18-08, *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*, we reviewed the Office of Hawaiian Affairs' two competitive grant programs, i.e., those with a formal solicitation process: 'Ahahui Grants and Community Grants. We also assessed the status of OHA's implementation of the 23 recommendations in our 2013 audit of OHA, which relate to OHA's land management and grants administration processes. This report is a companion to Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, issued in February 2018.

What we found

Although the policies and procedures for OHA's competitively awarded grants are largely defined, we found shortcomings in the way that the agency's grants staff monitors and evaluates these grants. Specifically, while OHA predominantly met the statutory requirements for its Community Grants, it did not consistently meet the requirements to monitor and evaluate 'Ahahui Grants. For example, OHA did not require that staff attend and monitor 'Ahahui Grant-funded events, and afterward, did not formally evaluate the events to determine whether they met the intended objectives and/or should be funded in the future.

With regard to the 23 recommendations made in our 2013 audit, we found that OHA has fully implemented 7 of those recommendations and partially implemented 15 others. OHA has taken no action and does not intend to implement one of the recommendations.

Why did these problems occur?

In some cases, OHA does have policies and procedures in place that, if performed consistently, could provide the requisite assurance that both 'Ahahui Grants and Community Grants are being awarded and used in a manner consistent with the purpose and intent of the grant, and allow OHA to assess whether the grant achieved the expected results. However, in practice, these procedures are not followed in every case, leading to gaps in OHA's process for competitively awarded grants. Additionally, the agency has not established policies and procedures that fully address the statutory requirements for monitoring and evaluating all OHA grants.

Why do these problems matter?

Without consistent monitoring and evaluation of its competitive grants, OHA cannot ensure it is meeting its statutory requirements. While the total dollar amounts being awarded in the form of competitive grants are relatively small, compared to OHA's non-competitive grants and total annual budget overall, OHA still has a fiduciary obligation to its beneficiaries to ensure that Native Hawaiian Trust Fund resources are used consistent with their intended purpose in order to better the conditions of all Native Hawaiian and Hawaiian beneficiaries, both in the short-term and in the future.

PHOTO: THINKSTOCK.COM

Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations

Introduction

IN REPORT NO. 18-03, *Audit of the Office of Hawaiian Affairs*, issued in February 2018, we reported a pattern of undisciplined spending by the agency. We found that the Office of Hawaiian Affairs (OHA) had created discretionary spending mechanisms – Fiscal Reserve, Kūlia Initiatives and CEO Sponsorships, and Trustee Allowances – that allowed trustees and the Administration to regularly direct money toward a multitude of programs, projects, and individuals, outside of OHA's formal grants process and the associated vetting, monitoring, and evaluation requirements. We questioned whether certain spending, some of which the Administration authorized without trustee approval, was consistent with trustees' fiduciary responsibilities to the beneficiaries of the Native Hawaiian Trust Fund.

...deficiencies in OHA's grants administration process indicate that OHA is not ensuring it meets statutory requirements, as well as its fiduciary responsibility to all beneficiaries.

In this second OHA audit report, we reviewed OHA's two competitive grant programs, i.e., those with a formal solicitation process: 'Ahahui Grants and Community Grants. Although the policies and procedures for these awards are largely defined, we found shortcomings in the way OHA monitors and evaluates these grants. Those deficiencies in OHA's grants administration process indicate that OHA is not ensuring it meets statutory requirements, as well as its fiduciary responsibility to all beneficiaries.

We also assessed the status of OHA's implementation of the 23 recommendations in our 2013 audit of OHA, which relate to OHA's land management and grants administration processes. Overall, we found that OHA has fully implemented 7 recommendations and partially implemented 15 recommendations. OHA has taken no action and does not intend to implement one of the recommendations. OHA's Transitional Assistance Program (TAP) is responsible for much of the progress made in implementing the recommendations related to the agency's grants administration since the 2013 audit; however, as noted above, there are areas still in need of improvement.

Audit Objectives, Scope and Methodology

This audit of OHA was conducted pursuant to Sections 10-14.55 and 23-7.5, Hawai'i Revised Statutes (HRS). Section 10-14.55 requires the Office of the Auditor to conduct an audit of OHA at least every four years. This is our seventh audit of OHA pursuant to this mandate. Section 23-7.5 requires the Auditor to report to the Legislature, annually, on each audit recommendation more than one year old that has not been implemented by the audited agency.

For this audit, our objectives were to:

1. Evaluate OHA policies and actions regarding use of its Fiscal Reserve, Grants, and Trustee Allowances.
2. Review and report on the status of OHA's implementation of our recommendations contained in Report No. 13-07, *Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations*.
3. Make recommendations as appropriate.

Our evaluation of OHA's use of Fiscal Reserve, non-competitive grants (Kūlia Initiatives and CEO Sponsorships), and Trustee Allowances was reported in Report No. 18-03, *Audit of the Office of Hawaiian Affairs*, issued in February 2018. **Part 1** of this report evaluates OHA's competitive grants, ʻAhahui Grants and Community Grants, which addresses the first audit objective. We report on OHA's implementation of the 2013 audit recommendations, the second audit objective, in **Part 2** of this report.

We conducted interviews with personnel involved with OHA grants, various administration staff, and other stakeholders as applicable. We also reviewed grants policies, procedures, and other documentation as appropriate; and judgmentally selected a number of ʻAhahui and Community Grants to test compliance with applicable policies, procedures, agreements, and other relevant criteria.

This portion of the audit was performed from November 2016 through June 2017 and conducted according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Who is a . . .

"Native Hawaiian"
Descendant of not less than one-half part of the races inhabiting the Hawaiian Islands previous to 1778… provided that the term identically refers to the descendants of such blood quantum of such aboriginal peoples which exercised sovereignty and subsisted in the Hawaiian Islands in 1778 and which peoples thereafter continued to reside in Hawaiʻi.

"Hawaiian"
Any descendant of the aboriginal peoples inhabiting the Hawaiian Islands which exercised sovereignty and subsisted in the Hawaiian Islands in 1778, and which peoples thereafter have continued to reside in Hawaiʻi.

Section 10-2, HRS

Part 1
Audit of OHA's Competitive Grants

Background on OHA Grants

OHA's statutory mission includes the betterment of conditions of Native Hawaiians and Hawaiians. One of the ways OHA accomplishes this purpose is by disbursing grants to support Native Hawaiian and Hawaiian programs and services. According to OHA, the agency awards grants for programs, initiatives, and other activities that align with OHA's strategic priorities. OHA has six distinct strategic priorities or focus areas as part of its 2010-2018 strategic plan to achieve its mission. Exhibit 1 summarizes, by strategic priority, the grants awarded by OHA in fiscal year (FY) 2015 and FY2016.

OHA awards grants to community organizations in support of various events and programs statewide, as well as on the U.S. mainland and in Polynesia.

Exhibit 1
Number and Dollar Amount of Grants by Strategic Priority for FY2015-FY2016

Economic Self-Sufficiency (Hoʻokahua Waiwai)

28 grants

To have choices and a sustainable future, Native Hawaiians will progress towards greater economic self-sufficiency

$8,321,574

Education (Hoʻonaʻauao)

30 grants

To maximize choices of life and work, Native Hawaiians will gain knowledge and excel in educational opportunities at all levels

$6,346,037

Health (Mauli Ola)

48 grants

To improve the quality and longevity of life, Native Hawaiians will enjoy healthy lifestyles and experience reduced onset of chronic diseases

$3,026,244

Land and Water (ʻĀina)

32 grants

To maintain the connection to the past and a viable land base, Native Hawaiians will participate in and benefit from responsible stewardship of Ka Pae ʻĀina O Hawaiʻi

$1,967,929

Culture (Moʻomeheu)

93 grants

To strengthen identity, Native Hawaiians will preserve, practice, and perpetuate their culture

$1,490,180

Governance (Ea)

31 grants

To restore pono and ea, Native Hawaiians will achieve self-governance, after which the assets of OHA will be transferred to the new governing entity

$485,674

Source: Office of the Auditor

The amount of grants that OHA budgets for each year is significant. In FY2015 and FY2016, OHA designated $11,354,142 (approximately 23% of its total budget) and $10,189,212 (approximately 20% of its total budget) for grants, respectively.[1] The only larger budget category during those fiscal years was for personnel costs.

Types of Grants

TAP supports the following four types of grant funding opportunities:

1. **ʻAhahui Grants**
   For one-time community events, awarded through a competitive grants process.
2. **Community Grants**
   For programmatic services over a two-year period, awarded through a competitive grants process.
3. **Kūlia Initiatives**
   For programmatic services or projects requested outside of the formal grant application process, initiated by an OHA trustee or the Administration, and awarded through a process involving administrative review and board approval. There is no solicitation process for Kūlia Initiatives.
4. **CEO Sponsorships**
   To community organizations for events or projects, awarded through an administrative review process outside of the formal grant application process. There is no solicitation process for CEO Sponsorships.

This part of our report focuses on OHA's two types of competitive grants: ʻAhahui Grants and Community Grants.[2] OHA's competitive grants represent only 35 percent of its total grant spending, while the agency spends nearly double the amount on non-competitive grants, as shown in Exhibit 2.

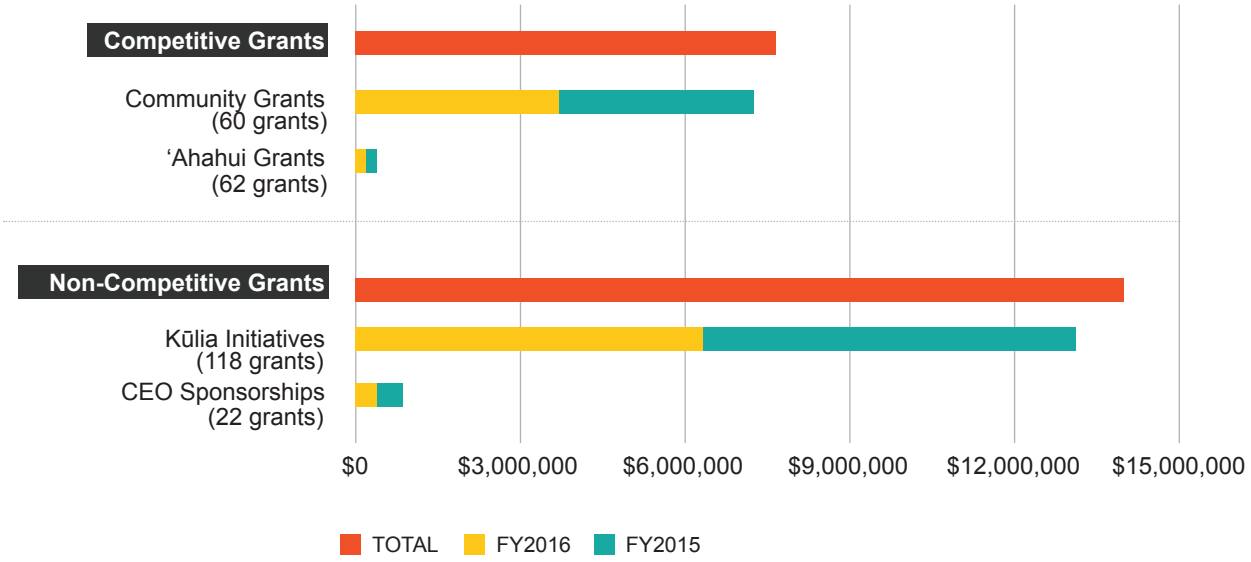
What is a "grant"?

OHA's governing statute, Chapter 10, HRS, defines "grant" to mean an award of funds to a specified recipient to support the recipient's activities that are consistent with OHA's mission and purpose.

[1] According to OHA's *Board of Trustees Operations Manual*, total annual funding for grants has been established at no less than 10 percent of the spending limit for OHA's total annual operating budget.

[2] Our audit of Kūlia Initiatives and CEO Sponsorships was discussed in Report No. 18-03, *Audit of the Office of Hawaiian Affairs*.

Exhibit 2
Number and Dollar Amount of Grants by Type for FY2015-FY2016

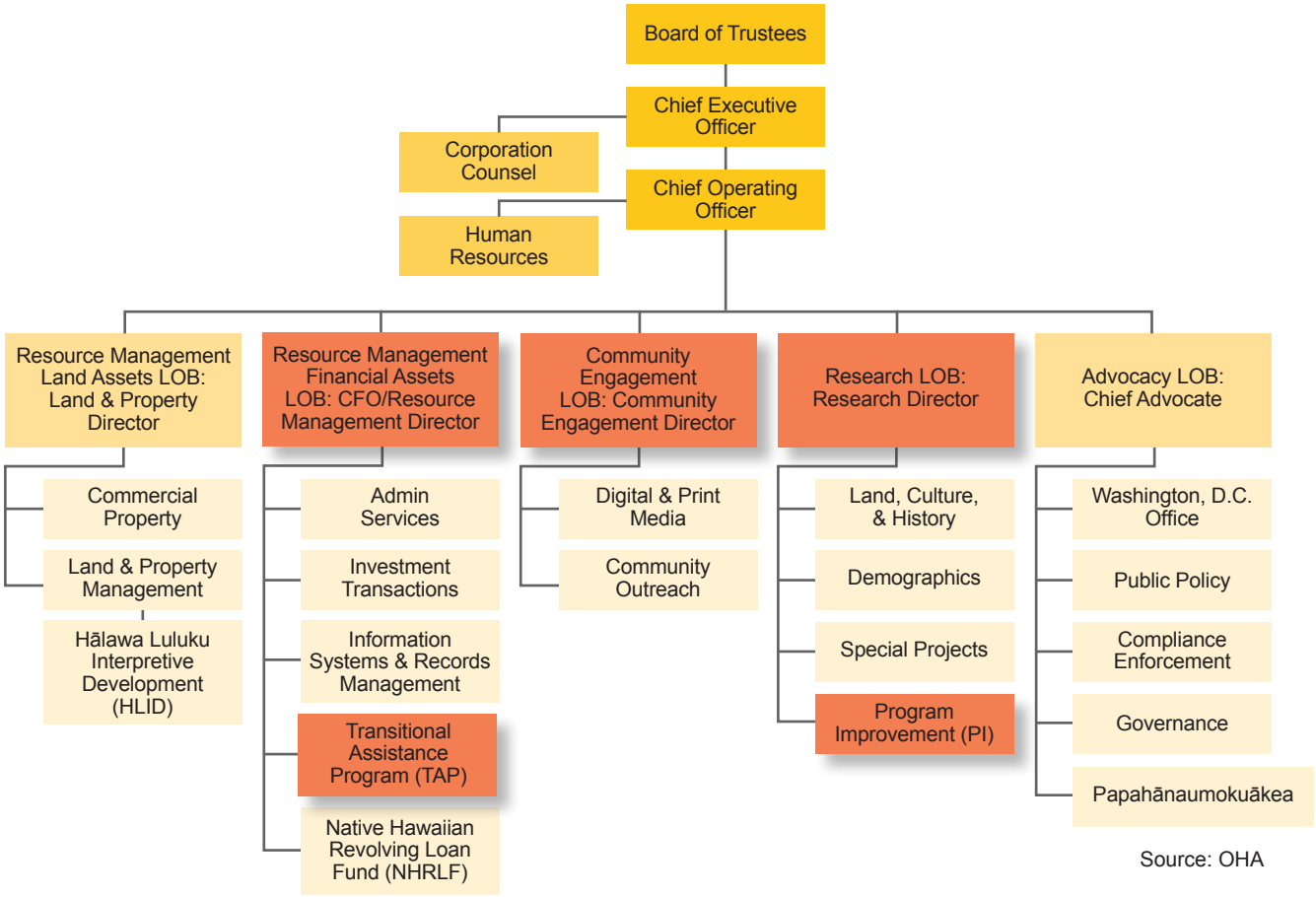


Source: Office of the Auditor

OHA Transitional Assistance Program

TAP, which is part of OHA's Resource Management–Financial Assets line of business (LOB), is primarily responsible for administering grants, from the initial planning phase through monitoring and close-out. Evaluations of select grants are conducted by the Program Improvement (PI) division of OHA's Research LOB. Exhibit 3 shows where TAP and PI fall within the agency's organizational structure.

Exhibit 3
OHA Organization Chart



Source: OHA

TAP is composed of a manager and four grants specialists. The TAP manager directs grants policies and procedures; supervises grants staff; and performs various general grant administration functions, such as managing TAP's budget for grants and coordinating with other OHA programs. Grants specialists are responsible for administering the grants process from planning and developing solicitations, to reviewing applications, making award recommendations, negotiating and drafting grant agreements, monitoring grantee performance, and processing payments. They also provide technical assistance and serve as the principal liaison between grantees and OHA.

TAP administers the four types of grants based on the guidelines in its *Grants Program Standard Operating Procedures* manual.[3] Exhibit 4 details the phases in the process cycles for both 'Ahahui Grants and Community Grants, according to TAP's manual.

[3] TAP developed its *Grants Program Standard Operating Procedures* manual in response to our 2013 audit recommendations. Refer to Recommendations 9-14 in Part 2 of this report.

Exhibit 4
Competitive Grants Process Cycles

'Ahahui Grants

PLANNING

The planning phase includes identifying the planning team; developing a planning timeline; and implementing planning activities, such as determining eligibility and application requirements, and funding guidelines.

SOLICITATION

The 'Ahahui Grants program uses a solicitation to notify the public of available grant funding opportunities, which details the eligibility criteria, program specifics, and minimum requirements. This phase involves identifying the solicitation development team; drafting solicitations; planning public orientation sessions; and promoting the availability of solicitations and orientations.

APPLICATION

This phase includes developing the application; administering the on-line application system; making the application available to the public; receiving completed applications; and determining application eligibility.

REVIEW

The review phase involves selecting a review committee; training reviewers; assessing and scoring applications; and finalizing grant award recommendations.

RECOMMENDATION

The TAP staff's recommendations are reviewed and approved by the chief financial officer (CFO), chief operating officer (COO), and chief executive officer (CEO). Grantees are notified by award letters and the board is notified of all grant awards through an interoffice memo from the OHA Administration.

AWARD PROCESSING

This phase includes maintaining a hard-copy and database grant file; drafting and executing an agreement; processing payment; post-event reporting; and coordinating with OHA's Community Engagement staff for participation at the event and receipt of recognition benefits offered to OHA, as appropriate.

Community Grants

PLANNING

The planning phase includes identifying the planning team; developing a planning timeline; and implementing planning activities, such as determining solicitation focus areas, eligibility criteria, application requirements, and funding allotments.

SOLICITATION

The solicitation notifies the public of available grant funding opportunities and details the eligibility criteria, program specifics, and minimum requirements. This phase involves identifying the solicitation development team; drafting solicitations; planning public orientation sessions; and promoting the availability of solicitations and orientations.

APPLICATION

The application phase, which includes an on-line application system, involves developing applications; administering the on-line system; making applications available to the public; receiving completed applications; and determining application eligibility.

REVIEW

This phase includes selecting a review committee; training reviewers; assessing and scoring applications; and finalizing grant award recommendations.

RECOMMENDATION

The TAP staff's recommendations are reviewed and approved by the CFO, COO, and CEO. The recommendations are then provided to the board for final approval and grantees are notified with award letters.

CONTRACTING

The Community Grants program executes a grant agreement with all awardees using a standardized template that details responsibilities and grant requirements. This phase involves negotiating and drafting the grant agreement; routing it for execution approval and signatures; distributing the agreement; and initiating the grant.

MONITORING

Monitoring includes maintaining hard-copy and database grant files; reviewing grantee progress reports; processing grant payments; conducting on-site visits; providing technical assistance to grantees; making grant agreement amendments as necessary; and closing grants at the end of agreement terms.

EVALUATION

Grant evaluations involve assessing grant program impacts or outcomes' alignment with OHA's strategic results; identifying best practices related to program services for each of the solicitation focus areas; analyzing grants' cost-benefit and/or social return on investment; assessing the impact to Native Hawaiian beneficiaries and communities; and guiding policy, program development, and future grant planning. A grant evaluation is coordinated with and conducted by the PI division of OHA's Research LOB.

Source: TAP's *Grants Program Standard Operating Procedures* manual, July 2015

Summary of Findings

1. **'Ahahui Grants:** OHA did not consistently meet the statutory requirements to monitor and evaluate 'Ahahui Grants.
2. **Community Grants:** OHA predominantly met monitoring and evaluation requirements for Community Grants.

OHA's Competitive Grants Are Not Consistently Monitored or Evaluated.

The board of trustees' power to provide grants is not unconditional. OHA's governing statute, Chapter 10, HRS, specifically requires that grants be "consistent with the standards set forth in section 10-17." That section, entitled "Grants; conditions and qualifications," identifies those who are eligible to receive a grant, as well as the minimum information that an applicant must provide in its grant application, such as the purpose for the grant, the service to be supported, and the target group to be benefited. It also includes the requirement that every grant be:

1. Monitored by [OHA] to ensure compliance with [Chapter 10, HRS] and the purposes and intent of the grant; and
2. Evaluated annually to determine whether the grant attained the intended results in the manner contemplated.

Although the Legislature did not define what constitutes "monitor" or "evaluate" for purposes of the grants statute, the clear intent is to ensure that grants are used to better the conditions of Native Hawaiians and Hawaiians. Without adequate monitoring and evaluation of its grants, OHA and its trustees would have no reasonable assurance that its spending is aligned with the agency's strategic priorities and consistent with the trustees' fiduciary duties to beneficiaries.

TAP has certain procedures that it believes constitute the required monitoring and annual evaluation of its grants. However, as reported below, we found OHA's monitoring and evaluation of its competitive grants to be inconsistent.

Grant Eligibility Requirements

We reviewed TAP's *Grants Program Standard Operating Procedures* manual, as well as the solicitations, applications, agreements, and other relevant documents for the 'Ahahui and Community Grants we sampled, to determine whether the grant recipients fulfilled the minimum eligibility requirements of Section 10-17, HRS. We found that they did in most cases, except for one key requirement (refer to **Appendix A** for the detailed results of our analysis). To receive a grant, a nonprofit organization must: (1) have a governing board whose members have no material conflict of interest and serve without compensation; (2) have bylaws or policies that describe the manner in which business is conducted and policies relating to nepotism and management of potential conflict of interest situations; and (3) employ or contract with not more than two members of a family or kin of the first or second degree of consanguinity unless specifically permitted by OHA. TAP confirmed it has no formal procedures to ensure these requirements are being met by nonprofit organization applicants and does not require applicants to sign a statement certifying their compliance with the statute's eligibility requirements.

OHA did not consistently meet the statutory requirements to monitor and evaluate 'Ahahui Grants.

According to OHA's policies and procedures, 'Ahahui Grants are awarded to eligible organizations hosting community events that are determined to: align with OHA's vision and strategic plan; provide significant benefits to the Native Hawaiian community; and offer OHA public relations, recognition benefits, and community engagement opportunities. Generally, these community events are one-time events, not ongoing programs. 'Ahahui Grants are for up to $10,000, and the funds are disbursed, in full, upon award approval. 'Ahahui Grants are not intended to support fundraisers, award and recognition events, or individuals and groups seeking financial assistance to participate in an event. As outlined in Exhibit 4, OHA has a defined, multi-step review and approval process for 'Ahahui Grants.

During our audit, we reviewed 10 'Ahahui Grants administered by TAP during FY2015-FY2016. Exhibit 5 lists the 'Ahahui Grants reviewed.

Exhibit 5
'Ahahui Grants Reviewed During our Audit

No.	Fiscal Year	Organization	Project Description	Amount
1	FY15	Moanalua Gardens Foundation	37th Annual Prince Lot Hula Festival	$10,000
2	FY15	Garden Island Resource Conservation & Development, Inc.	Ka Moku O Manokalanipō Pa'ani Makahiki	9,000
3	FY15	Friends of Moloka'i High and Middle Schools Foundation	College and Career Fair	8,500
4	FY15	Laiopua 2020	Homestead & Nation Building	5,500
5	FY15	Women Helping Women	Ho'ohuli: Transformation Through Culture Conference	5,000
6	FY16	Hawai'i Construction Career Days	Big Island Construction Career Day	10,000
7	FY16	Na Mamo o Muolea	7th Annual Hana Limu Festival	9,700
8	FY16	YMCA of Honolulu	YMCA Healthy Kids Day - E Ola Na Keiki	7,000
9	FY16	Moana's Hula Halau	Festivals of Aloha - Maui Nui Style: "Ola ke kaiaulu i ke aloha o loko"	6,000
10	FY16	'Ahahui Kīwila Hawai'i O Mo'ikeha	Ka Moku O Manokalanipō Pa'ani Makahiki	5,000
			Total Amount of 'Ahahui Grants Reviewed	**$75,700**

Source: TAP

We found that TAP complied with its policies and procedures for the planning, solicitation, application, review, and recommendation phases of the ʻAhahui Grants process cycle – TAP solicited and vetted grant applicants, and recommended awarding grants to applicants based on an objective review process. However, TAP's standard operating procedures for ʻAhahui Grants do not include any steps to monitor or evaluate the grants. And, in our review of the 10 ʻAhahui Grants, we found that TAP did not monitor or evaluate each grant.

TAP does have procedures and other practices in place that, if performed consistently, may provide the requisite assurance that an ʻAhahui Grant is being used in a manner that is consistent with the purpose and intent of the grant, and allow OHA to assess whether the grant achieved the expected results. In other words, those procedures and practices may satisfy the statutory requirement that the grants be monitored and annually evaluated. We report about those procedures and practices below.

OHA does not require staff attendance at ʻAhahui Grant-funded events.

For certain events funded through ʻAhahui Grants, TAP coordinates with OHA's Community Engagement LOB[4] staff to attend the event and receive any recognition benefits offered by the grantee to OHA. If staff do attend an ʻAhahui Grant-funded event, the attendee must complete an attendance report form and submit it to the TAP grants specialist overseeing that ʻAhahui Grant within five business days of the event. That report is retained in the grant file. However, TAP's procedures do not *require* TAP or other OHA staff to attend *all* ʻAhahui Grant-funded events.

Of the 10 ʻAhahui Grants reviewed, we found two grants for which no attendance reports were submitted, and TAP was unable to confirm whether OHA personnel attended those events. We also found four grants with attendance reports that were turned in after the required deadline. These instances may reflect a lack of coordination between TAP and Community Engagement staff.

Because these are one-time events, OHA should consider requiring staff attendance and reporting for events funded by ʻAhahui Grants to help ensure each grant is being used in a manner that is consistent with the purpose and intent of the grant.

[4] Refer to Exhibit 3, which shows where the Community Engagement LOB lies within OHA.

Grants Tracking

ACCORDING TO TAP personnel, OHA does not maintain a comprehensive list of all its grants. We recommended in our 2013 audit that TAP improve its grants administration by adopting an information tracking system, which it did by creating its Grants Tracking System database (refer to Recommendations 16-19 in Part 2 of this report). However, while this system does track the 'Ahahui Grants, Community Grants, and Kūlia Initiatives administered by TAP, it does not track all OHA grants. For the current audit, TAP provided our office a list of grants awarded during FY2015-FY2016; however, that list was specifically prepared to fulfill our audit request.

Without a centralized and systematic process for compiling and verifying information on all OHA grants, TAP – and OHA – cannot ensure the accuracy and transparency of the agency's reporting of grants to beneficiaries, the Legislature, and the general public. In fact, during the course of our audit work, we noted two grants – a $500,000 grant to the International Union for Conservation of Nature's 2016 World Conservation Congress and a $250,000 Kūlia Initiative to the State Department of Labor and Industrial Relations – that were not included in OHA's FY2015 annual report. Both TAP and fiscal personnel confirmed that the grants should have been included in the report and were omitted due to oversight.

OHA does not evaluate 'Ahahui Grants.

OHA's grants procedures do include a post-event reporting requirement for all 'Ahahui Grants. Within 30 days of completion of an event funded by an 'Ahahui Grant, the grantee must submit a final closing report with an event summary, a discussion of the benefits to the Hawaiian community, and details of the event's funding expenditures, using a form provided by OHA.

During our audit, we noted two instances in which the grantee did not submit a completed final report to OHA as of the date of our review. According to the standard 'Ahahui Grant agreement, any failure to comply with the grant's conditions or promises may disqualify a recipient from future funding opportunities for a period of five years. However, we found that TAP does not track grantees' compliance with requirements to evaluate whether they are in good standing and remain eligible for future OHA grants. This heightens the risk that grantees that do not comply with grant requirements, such as those that did not submit a final report, will still be considered for and awarded future grants.

We also found, and TAP confirmed, that at the time of our audit, TAP did not formally evaluate the information provided in either the staff attendance or grantee closing reports to determine whether the events met the intended objectives and/or should be funded in the future.[5] TAP could potentially use the information in both reports to better inform future 'Ahahui Grant application reviews and award decisions.

[5] According to TAP, the grants program started requiring the completion of grant closeout reports, similar to Community Grants discussed below, to evaluate the final closing reports submitted by 'Ahahui grantees in FY2018, in response to our discussions with TAP during our audit.

OHA Predominantly Met Monitoring and Evaluation Requirements for Community Grants.

Community Grants are awarded to organizations across the State to fund projects that align with OHA's strategic priorities. As discussed above, the statute requires OHA to monitor and evaluate every grant to ensure compliance with the purpose and intent of the grant, and to determine whether the intended results were achieved. We reviewed nine Community Grants administered by TAP during FY2015-FY2016 listed in Exhibit 6, with award payments totaling nearly $1.5 million. We found that TAP complied with its policies and procedures for the planning, solicitation, application, review, and recommendation phases of the Community Grants process cycle, and predominantly met the monitoring and evaluation requirements with limited exceptions, as discussed below.

Exhibit 6
Community Grants Reviewed During our Audit

No.	Fiscal Year	Organization	Project Description	Amount
1	FY15	I Ola Lāhui (Year 2 of 2)	Provide behavioral health interventions to promote health behavior changes.	$250,000
2	FY15	Parents and Children Together (Year 2 of 2)	To provide Competency Based Diploma program preparation classes, other training, and ongoing case management.	200,000
3	FY15	Mana Maoli (Year 2 of 2)	Provide a comprehensive program perpetuating Hawaiian voyaging culture and practice.	148,564
4	FY15	Goodwill Industries of Hawai'i (Year 2 of 2)	To support enrolled students in HIDOE system by offering tutoring and remediation in math and reading after school hours.	125,000
5	FY15	Hawaiian Community Assets (Year 2 of 2)	To assist homeless Native Hawaiians secure affordable rental housing through matched funding.	24,550
6	FY16	After-School All-Stars Hawai'i (Year 1 of 2)	Provide comprehensive after-school programs to improve proficiency in reading and math.	236,975
7	FY16	The Queen's Medical Center (Year 1 of 2)	Implement a culturally relevant, community-based program based on health and nutrition education, and physical activity to improve their overall well-being.	190,000
8	FY16	Council for Native Hawaiian Advancement (Year 1 of 2)	Provide financial education, counseling, and match savings grants up to $5,000 to eligible NH first-time home buyers in Hawai'i to support 40 new homeowners by addressing barriers to homeownership.	174,390
9	FY16	Edith Kanaka'ole Foundation (Year 1 of 2)	To rebuild and restore the Hula Heiau at Imakakoloa, Kau.	150,000
			Total Amount of Community Grants Reviewed	**$1,499,479**

Source: TAP

OHA monitors its Community Grants through what TAP refers to as "desktop monitoring." On a quarterly basis throughout the grant term,[6] the assigned grants specialist reviews reports submitted by the grantee describing grant activities and progress, performance measures, and expenditures. These quarterly reports are due 30 days after the end of each quarter. Using those reports, the grants specialist completes and submits a grant assessment form to the TAP manager for his review and approval. If the TAP manager approves, that quarter's invoice is processed for payment. We found that TAP completed quarterly desktop monitoring for all nine Community Grants we reviewed.

Another key component of TAP's Community Grants program is on-site monitoring, which is meant to provide a more in-depth review of the grantee's activities, address concerns raised from the desktop monitoring, and maintain OHA's relationship with grantees.[7] The on-site visit is required annually and, according to the TAP manager, is intended to meet the statutory requirement for annual evaluations. Following the visit, the grants specialist submits a monitoring report to the TAP manager for review and sends the grantee a copy of the report to inform them of the monitoring results.

According to the TAP manager, the grants program does not formally track whether annual on-site visits are performed or whether monitoring reports are sent to grantees.[8] We found that site visits were not conducted for two of the nine Community Grants we reviewed. For two of the seven grants for which visits were performed, the monitoring reports were not sent to the grantees. As discussed below, we noted that final evaluation reports were ultimately completed for all nine grants we reviewed. However, without tracking its monitoring and evaluation activities, TAP is unable to ensure that it is consistently complying with statutory and agency requirements. Additionally, if grantees are not informed of OHA's monitoring results, they cannot address concerns or other issues that were identified, defeating the purpose of the monitoring.

In addition to annual on-site visits, the Community Grants process includes a second evaluation procedure, which happens at grant closing. All grant recipients are required to submit a final grant report no later

[6] The FY2013-FY2015 biennium was the inaugural period for OHA's Community Grants to have terms of two years. Prior to that, all Community Grants were limited to one-year terms.

[7] On-site monitoring may include observing the grantee's project, meeting with program staff, interviewing participants, reviewing documents, and touring the site.

[8] Each grants specialist is responsible for completing the site visits and monitoring reports for their assigned grantees. The TAP manager stated that they are aware of the statutory evaluation requirement and "make every attempt to comply. But sometimes, it just falls thru the cracks or is just not feasible."

Grant Policies and Procedures Need Clarification

ALTHOUGH OHA predominantly met the statutory monitoring and evaluation requirements for the Community Grants we reviewed, we found that its policies and procedures are unclear and inconsistent with its practices to fulfill those requirements. According to TAP's *Grants Program Standard Operating Procedures* (SOP) manual, desktop monitoring, on-site monitoring, grantee final reports, and grant closeout reports are part of the "Monitoring" phase of the Community Grants process cycle. However, TAP personnel told us that the on-site monitoring and grant closeout reports are actually intended to satisfy the evaluation requirement.

For the "Evaluation" phase of the process, TAP's SOP manual states that grant evaluations are coordinated with and conducted by the PI division of OHA's Research LOB, as determined by PI and OHA's Administration upon completion of the grant. OHA also has a formal *Grant Evaluation - Grants Program and Program Improvement Coordination Plan*, which reiterates PI's responsibility for grant evaluations and outlines a process for coordination between TAP and PI. However, we noted in the coordination plan and PI's SOP manual that PI does not evaluate every grant, and instead selects only certain grants for evaluation.

Both TAP and PI personnel confirmed that TAP is responsible for fulfilling the statutory monitoring and evaluation requirements, and PI's evaluations are intended to supplement TAP's evaluation efforts for the grants PI selects to evaluate. We thus recommend that OHA clarify the responsibilities and processes for grant monitoring and evaluation in its policies and procedures to ensure they are consistent with its current practices intended to satisfy the related statutory requirements.

than 60 days after the end of the grant term. The assigned grants specialist reviews the final grant report and completes a separate grant closeout report, which serves as TAP's final evaluation of the grant. The grant closeout report requires the grants specialist to assess the extent to which the grantee met its outputs and outcomes, the significant accomplishments of the grant, and whether the grantee complied with OHA's requirements. The completed closeout report is submitted to the TAP manager for review and approval. Once approved, the final grant payment is processed and a closeout letter is sent to the grantee. We found that TAP completed grant closeout reports for all nine Community Grants we reviewed.

Conclusion

OHA's grants program directly fulfills one of the agency's primary responsibilities to improve the conditions of all Hawaiians. Our earlier audits found that OHA inadequately monitored grants and failed to ensure that funds disbursed from its grants program were well-spent. Despite its problematic history, TAP made progress towards implementing our 2013 audit recommendations to address the deficiencies we identified in its administration, monitoring, and evaluation of OHA grants. Sufficient oversight and reporting of grant outcomes promotes accountability for and transparency in OHA's efforts to achieve its mission. Although OHA's competitive grants are, for

the most part, well-managed, we found instances in which mandated monitoring and evaluation were not conducted. As OHA awards and administers its competitive grants, it needs to ensure it complies with all statutory requirements, consistent with its high fiduciary duty to beneficiaries.

Recommendations

1. OHA should improve its **overall administration and reporting of grants** by:

   a. Ensuring that all grants are awarded and administered consistent with the requirements set forth in Section 10-17, HRS.

   b. Developing and documenting a process to ensure a complete list of grants is properly maintained and reported. As part of this process, OHA should consider establishing a master list of all grants, and reconciling TAP's grant records against the grant records of fiscal and other OHA divisions.

2. OHA should improve its administration of **'Ahahui Grants** by:

   a. Monitoring, tracking, and documenting grantees' compliance with grant agreement terms and conditions, submission of required grant documents, and achievement of applicable performance measures for use in future grant application reviews and award decisions.

   b. Formally evaluating the information gathered from grantee final reports and OHA staff attendance reports to determine whether events met criteria and should be funded in the future.

   c. Requiring OHA personnel to attend 'Ahahui Grant-funded events to monitor and evaluate the events to ensure grants are used consistent with the purpose and intent of the grant, and achieved the expected results; and ensuring that staff reports are submitted by the established deadline.

   d. Clarifying and documenting the responsibilities and processes for monitoring and evaluating all 'Ahahui Grants, and updating existing policies and procedures as necessary.

e. Implementing a formal, documented system to ensure that grant files are complete and contain all necessary documents, including grantee final reports and OHA staff attendance reports, such as a checklist for each grant.

3. OHA should improve its administration of **Community Grants** by:

   a. Monitoring, tracking, and documenting grantees' compliance with grant agreement terms and conditions, submission of required grant documents, and achievement of applicable performance measures for use in future grant application reviews and award decisions.

   b. Monitoring the scheduling and performance of on-site visits to ensure that visits are conducted annually and results are communicated to grantees in a timely manner.

   c. Clarifying and documenting the responsibilities and processes for monitoring and evaluating all Community Grants, and updating existing policies and procedures as necessary.

   d. Implementing a formal, documented system to ensure that grant files are complete and contain all necessary documents, including on-site monitoring reports, such as a checklist for each grant.

Part 2
Follow-Up on Recommendations from Report No. 13-07, *Audit of the Office of Hawaiian Affairs*

Report No. 13-07, *Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations*, was published in September 2013. Section 23-7.5, HRS, requires our office to report on audit recommendations more than one year old that have not been implemented by the audited agency. In Part 2 of this report, we present the results of our review of the status of OHA's implementation of the 23 audit recommendations made in 2013.

What we found in 2013

In Report No. 13-07, we found that, although OHA had become a major landowner, its land management infrastructure was inadequate and lacked the policies, procedures, and staff to help guide and support the increased real estate activity. We also found that OHA's board of trustees could not ensure land acquisitions were based on a strong financial foundation and that its land portfolio was unbalanced because income from commercial properties was unable to pay for legacy and programmatic property expenses.

Additionally, our review of grants in 2013 found that OHA's administration was remiss in developing procedures and guidelines in accordance with applicable statutes and board policies, which led to inadequate and inconsistent monitoring to ensure grants delivered intended results. We further noted incomplete documentation of monitoring activities, including whether OHA personnel fulfilled their responsibilities to address inadequate grantee progress and report non-compliance with grant contracts.

What we found this year

Our follow-up on the status of OHA's implementation of the recommendations made in Report No. 13-07, conducted between November 2016 and March 2018, included interviewing personnel involved with land management and grants, examining relevant documents and records, and assessing whether and to what extent the agency's actions addressed our recommendations. Overall, we found that OHA made significant efforts to implement our 2013 audit recommendations, fully implementing 7 recommendations and partially implementing 15 of the 23 total recommendations. The agency disagreed with one recommendation and does not intend to implement it. Further discussion on the status of each recommendation is included.

Definition of Terms

WE DEEM recommendations:

Implemented

where the department or agency provided sufficient and appropriate evidence to support all elements of the recommendation;

Partially Implemented

where some evidence was provided but not all elements of the recommendation were addressed;

Not Implemented

where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided;

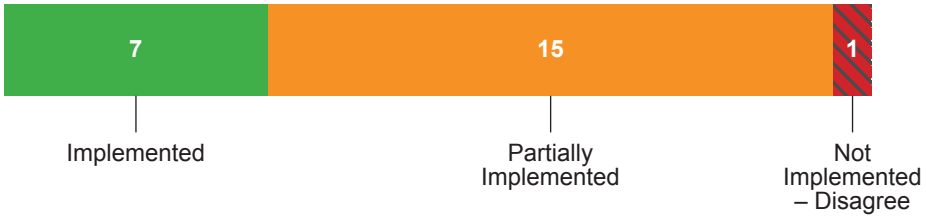
Not Implemented - N/A

where circumstances changed to make a recommendation not applicable; and

Not Implemented - Disagree

where the department or agency disagreed with the recommendation, did not intend to implement, and no further action will be reported.

Exhibit 7
Audit Recommendations by Status



Source: Office of the Auditor

Recommendations and their status

Our follow-up efforts were limited to reviewing and reporting on the implementation of the audit recommendations. We did not explore new issues or revisit old ones that do not relate to the original recommendations, except where related to our current audit objectives.

Recommendation 1

The OHA board should follow through on its real estate vision, mission, and strategy by ensuring that supporting policies are developed and adopted, including a robust real estate investment policy that includes a spending policy, ethics code, general objectives, long-term return goals, asset category definitions, forms of ownership, prohibited investments, and portfolio reporting requirements.

Partially Implemented

Comments

OHA's Land Assets line of business proposed a real estate investment policy in its Hawai'i Direct Assets Portfolio Investment Policy Statement, which includes sections to address the recommendation. The board of trustees reviewed the policy in 2015. In 2017, the board's Resource Management Committee chair formed two working groups to review the proposed policy. Per OHA, the working groups plan to submit a revised policy for board consideration and adoption by the fourth quarter of 2018, as part of OHA's Fiscal Sustainability Plan.

Recommendation 2

The OHA board should follow through on its real estate vision, mission, and strategy by ensuring that supporting policies are developed and adopted, including asset allocation guidelines outlining an optimal mix of legacy, programmatic, corporate, and investment properties, along with return expectations for each asset class.

Partially Implemented

Comments

Based on our review, OHA's proposed Hawai'i Direct Assets Portfolio Investment Policy Statement includes the recommended sections. As described above, that policy is currently under review by a board committee.

Recommendation 3

The OHA board should follow through on its real estate vision, mission, and strategy by ensuring that supporting policies are developed and adopted, including clearly articulated goals for OHA's real estate portfolio and individual acquisitions, including whether legacy and programmatic land costs should be supported by corporate and investment property income.

Partially Implemented

Comments

General goals for real estate portfolio and individual acquisitions, as well as a long-term objective for legacy and programmatic land costs to be supported by commercial land income, are listed in the Hawai'i Direct Assets Portfolio Investment Policy Statement. However, clearly articulated goals, such as percentage return plus inflation, were not addressed.

Per OHA, the target date for implementation of this recommendation is June 30, 2019.

Recommendation 4

The OHA board should follow through on its real estate vision, mission, and strategy by ensuring that supporting policies are developed and adopted, including a business plan for the Land Management Division that elevates the program to its own line of business with support commensurate to OHA's level of land ownership responsibilities, including an adequate number of qualified personnel to manage its growing real estate portfolio.

Partially Implemented

Comments

OHA elevated the Land Management Division to its own line of business and increased hiring to ensure the division has an adequate number of qualified staff. However, the Land Management Division has not developed a formal business plan. OHA's proposed Hawai'i Direct Assets Portfolio Investment Policy Statement, which is currently under review by a board committee, contains policies to provide support of the division commensurate to OHA's level of land ownership responsibilities.

The Land Management Division is also in the process of finalizing Standard Operating Procedures for real estate acquisitions and management operations, which it expects to complete by the fourth quarter of 2018.

Recommendation 5

The OHA board should request information from the Transitional Assistance Program (TAP) staff on grant outcomes and evidence of program success and evaluate grant performance to ensure grants generate their intended activities, results, and outcomes.

Partially Implemented

Comments

TAP held various grant workshops at board meetings and provided information on grants awarded in the agency's annual reports. OHA's Program Improvement Division also prepared grant review and evaluation reports on selected grants, which were provided to the board. However, as noted in Part 1 of this report, TAP is not consistently monitoring and evaluating its competitive grants to ensure they fulfill their intended purpose. As a result, TAP is not fully equipped to provide the recommended information on all competitive grants to the board, if requested.

Recommendation 6

The OHA chief executive officer should take steps to ensure stability within the Land Management Division's staff.

Implemented

Comments

OHA established a line of business for land and property management and increased the number of staff.

Recommendation 7

The Land Management Division should implement best practices in its real estate acquisition and management operations.

Partially Implemented

Comments

OHA's Hawai'i Direct Assets Portfolio Investment Policy Statement, which is currently under review by a board committee, includes best practices for real estate acquisition and management.

The Land Management Division is also in the process of finalizing Standard Operating Procedures for real estate acquisitions and management operations, which it expects to complete by the fourth quarter of 2018.

Recommendation 8

The Land Management Division should develop, implement, and communicate to the board real estate reports that detail the status of properties and track their historical costs, ongoing stewardship expenses, and forecast liabilities.

Partially Implemented

Comments

The division is making monthly or quarterly status reports available for its commercial properties. According to the Land and Property Director, the division is working on producing regular financial reports on legacy lands. Currently, costs associated with legacy lands are accounted for in total under one program code, rather than separate codes for each property. OHA staff are in the process of generating these periodic reports by property by reconciling the transactions under the single program code for 2014 through 2017. OHA plans to establish separate program codes for each property beginning on July 1, 2018, so that historical costs and liabilities can be tracked and periodically reported by property.

Recommendation 9

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for ensuring grantee reports are reviewed for completeness, accuracy, and adequacy regarding deliverables specified in grant contracts.

Partially Implemented

Comments

TAP developed a standard operating procedures manual that was approved by OHA's chief executive officer and includes the recommended procedures and requirements as part of its grant monitoring. However, as noted in Part 1 of this report, TAP does not consistently ensure that grantees comply with grant requirements, as evidenced by the missing 'Ahahui Grant final reports we found. Further improvement to ensure that grantees are meeting all contract terms and conditions is needed to fully implement this recommendation.

Recommendation 10

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for ensuring all instances of non-compliance are properly documented and grantees remedy reporting deficiencies.

Partially Implemented

Comments

TAP's standard operating procedures manual includes the recommended procedures and requirements as part of its on-site grant monitoring and technical assistance provided to grantees. However, as noted in Part 1 of this report, TAP does not consistently ensure that grantees comply with grant requirements, as evidenced by the missing 'Ahahui Grant final reports we found. We also found that TAP does not consistently conduct Community Grant on-site visits and communicate the results of those visits to grantees to enable them to remedy any instances of non-compliance with grant requirements and reporting deficiencies noted, if applicable. Further improvement to ensure that TAP documents instances of non-compliance and communicates them to grantees, and that grantees address the deficiencies is needed to fully implement this recommendation.

Recommendation 11

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for on-site reviewing of grantee financial systems.

Partially Implemented

Comments

TAP's standard operating procedures manual includes some of the recommended procedures and requirements. However, according to the TAP manager, the recommendation has not been fully implemented. Due to recent staff transitions, OHA does not have an estimated completion date for this recommendation.

Recommendation 12

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for randomly reviewing of grantee expenditure reports and supporting documentation.

Partially Implemented

Comments

TAP's standard operating procedures manual includes some of the recommended procedures and requirements. However, according to the TAP manager, the recommendation has not been fully implemented. Due to recent staff transitions, OHA does not have an estimated completion date for this recommendation.

Recommendation 13

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for inspecting programs of completed projects to assure that grantees complied with contract terms and conditions not otherwise monitored.

Partially Implemented

Comments

TAP's standard operating procedures manual includes the recommended procedures and requirements as part of its grant closing and evaluation. However, as noted in Part 1 of this report, the manual should be revised to clarify the procedures that will be performed to specifically fulfill the statutory monitoring and evaluation requirements for both 'Ahahui and Community Grants. We also found that TAP is not consistently monitoring and evaluating its competitive grants to ensure they fulfill their intended purpose. Further improvement to clarify TAP's monitoring and evaluation procedures and ensure that those procedures are consistently performed is needed to fully implement this recommendation.

Recommendation 14

TAP should improve its administration of OHA grants by developing, and providing to the board for adoption, a manual that describes criteria, policies, and procedures for monitoring compliance with grant terms and conditions. The manual should include procedures and requirements for ensuring grant files are complete and accurately reflect monitoring activities.

Partially Implemented

Comments

TAP's standard operating procedures manual includes the recommended procedures and requirements on its grant file checklist. However, as noted in Part 1 of this report, TAP does not consistently ensure that grant files are complete, as evidenced by the missing 'Ahahui Grant final reports and Community Grant on-site monitoring reports we found. Further improvement to ensure that grant files are complete and reflect all required monitoring and evaluation activities is needed to fully implement this recommendation.

Recommendation 15

TAP should improve its administration of OHA grants by requiring more specificity in grantees' expenditure reporting, to provide grant monitors a better understanding of how grant funds are expended.

Implemented

Comments

TAP developed an expenditure report form as part of its standard operating procedures manual that grantees are required to submit. As part of TAP's standard operating procedures, grants staff review the detailed expenditure reports submitted by grantees.

Recommendation 16

TAP should improve its administration of OHA grants by adopting an information system to track grant status and project deliverables that retains copies of e-mails, correspondence, performance reports, and evaluations, and alerts monitoring staff when reports are due.

Implemented

Comments

TAP developed a Grants Tracking System database to track OHA grants, including basic grant information, payments, reports, and standardized performance measures data. The database is used to track the ʻAhahui Grants, Community Grants, and Kūlia Initiatives administered by TAP only, and not all OHA grants. TAP also created a grant file checklist in its standard operating procedures manual as a guide for grants specialists to include all correspondence, and monitoring and evaluation reports in the hard-copy grant files.

Recommendation 17

TAP should improve its administration of OHA grants by adopting an information system to track grant status and project deliverables that can monitor grant staff performance.

Implemented

Comments

In addition to the TAP database mentioned above, the TAP manager maintains a separate grants tracking spreadsheet, which lists grants by the grants specialist responsible for monitoring them.

Recommendation 18

TAP should improve its administration of OHA grants by adopting an information system to track grant status and project deliverables that assists grants management staff in tracking delinquent annual and final reports to ensure grant deliverables are received.

Partially Implemented

Comments

In addition to the TAP database mentioned above, the TAP manager's grants tracking spreadsheet lists grants and corresponding report dates. However, as noted in Part 1 of this report, TAP does not formally track the completion or receipt of grant reports, as evidenced by the missing 'Ahahui Grant final reports and Community Grant on-site monitoring reports we found. Further improvement to ensure that all grant deliverables, both internally from grants specialists and externally from grantees, are received is needed to fully implement this recommendation.

Recommendation 19

TAP should improve its administration of OHA grants by adopting an information system to track grant status and project deliverables that flags the approval of new awards to grantees that miss a deliverable.

Not Implemented - Disagree

Comments

According to the TAP manager, the Grants Tracking System database does not flag the approval of new awards to grantees that miss a deliverable and the program does not plan to implement this functionality. Rather, the program plans to continue to perform this review manually.

Recommendation 20

TAP should improve its administration of OHA grants by increasing site visits and reviews of financial and progress reports for accuracy, completeness, and alignment with project goals, particularly for new grantees and grantees with problems managing their grants.

Implemented

Comments

TAP's standard operating procedures manual includes requirements for on-site monitoring of grantees and reviews of quarterly and final financial and progress reports.

Recommendation 21

TAP should improve its administration of OHA grants by ensuring that awards are made only to applicants whose outputs and outcomes are consistent with OHA's strategic goals.

Partially Implemented

Comments

TAP's standard operating procedures manual includes requirements for grant solicitation, application, and scoring. Solicitations also include requirements that applicants' standardized output and outcome measures be directly aligned with OHA's strategic goals. However, as noted in Part 1 of this report, TAP is not consistently monitoring and evaluating its competitive grants to ensure they fulfill their intended purpose and achieve their intended results. We also found that TAP does not track the past performance of grantees for consideration in evaluating applicants for future awards. Further improvement to ensure that awards are made to both first-time and repeat applicants with outputs and outcomes that are consistent with OHA's strategic goals is needed to fully implement this recommendation.

Recommendation 22

TAP should improve its administration of OHA grants by modifying future grantees' contract terms and conditions to require grantees to include expected outputs and outcomes in their applications and report progress in achieving those outputs and outcomes.

Implemented

Comments

TAP's standard operating procedures manual includes requirements for grant solicitation, application, and scoring. Solicitations and applications also include requirements for grantees to present expected outputs and outcomes, and report their progress in meeting those expectations.

Recommendation 23

TAP should improve its administration of OHA grants by increasing reporting of grant outcomes to the board by providing evidence of program success.

Implemented

Comments

TAP held various grant workshops at board meetings and provided information on grants awarded in the agency's annual reports. OHA's Program Improvement Division also prepared grant review and evaluation reports on selected grants, which were provided to the board.

Office of the Auditor's Comments on the Office of Hawaiian Affairs' Response

WE PROVIDED A DRAFT OF THIS REPORT to the Office of Hawaiian Affairs on Monday, May 21, 2018, and met with the Board of Trustees Chairperson Colette Y. Machado, Chief Executive Officer Kamana'opono M. Crabbe, and other OHA officials and staff on May 23, 2018, to discuss our audit findings and recommendations. OHA offered its written response to the draft report on May 30, 2018, which is included as Attachment 1.

Our audit process – which we discussed with OHA at various points throughout the audit – provides audited agencies with the opportunity to thoroughly review the draft, raise possible issues, provide additional documents and information, and respond to our audit findings and recommendations before the final report is published. The agency's written response to the draft report is not intended to be an opportunity to make claims about agency efforts falling outside the scope of our audit that we are not able to substantiate and address. By focusing its response on areas not specifically discussed in our report, we are concerned that OHA is not recognizing or fully understanding the audit issues we raised.

For instance, monitoring and evaluation are intended to ensure that the grantees are spending according to the grant's purpose, aligned with the agency's strategic priorities, and consistent with the trustees' fiduciary duties to beneficiaries. While OHA's competitive grants appear to be, for the most part, well-managed, we found instances in which mandated monitoring and evaluation were not conducted. In our report, we provided examples of Community grantees who did not receive a site visit during their grant period, and those grants thus did not comply with OHA's own established procedures. In its response, OHA provided "explanations" for two different Community Grants – grants that we reviewed and did not find exception with. It appears OHA is not aware of or neglects to mention that their examples are not the ones we identify in our report as lacking site visits. Either way, the implication is that we did not do our homework. We did.

In addition, as we point out in our report, State law requires that grants be evaluated annually, and OHA contends that its site visits serve as such an evaluation. In their response, OHA states that each grant has at least one site visit over the two-year grant term. For the grants we noted in our report, site visits were conducted in either the first or the second year of the grant period, not annually.

In the case of ʻAhahui Grants, OHA states that information provided in the final narrative and expenditure report is collected, but as we noted in our report, OHA had no clear policies and procedures in place on how to utilize that information during the period under audit. And, as we also reported, we were told by OHA personnel involved with ʻAhahui Grants that those final reports were not reviewed or evaluated by OHA. Additionally, OHA did inform us that they consider a grantee's prior performance in their grant application reviews, but this consideration is neither documented nor gathered consistently, and therefore, we were unable to substantiate this claim.

Distributing grant moneys throughout the community does not by itself better the conditions of OHA's beneficiaries, as OHA seems to suggest in its response. Proper vetting, monitoring, and evaluation of all OHA grants is necessary to help ensure that funds distributed are being used consistent with the intended purpose, as well as with OHA's overall mission. Although we recognize OHA's efforts to date to improve its competitive grants process, as we report, the agency's current process does not fully meet the statutory requirements for OHA grants, and more importantly, may not be fulfilling OHA's fiduciary duty to all beneficiaries.

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May 30, 2018

VIA E-MAIL: lao.auditors@hawaii.gov
and U.S. MAIL, FIRST CLASS

Mr. Leslie H. Kondo
Office of the Auditor
State of Hawai'i
Kekūanaō'a Building
465 S. King Street, Room 500
Honolulu, Hawaii 96813

RE: **Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations**

Dear Mr. Kondo:

The Office of Hawaiian Affairs ("OHA") has received your draft "Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, Report No. 18-08" and offers the following comments.

OHA thanks you for recognizing in the report that "[t]he amount of grants that OHA budgets for each year is significant." The more than $21.5 million that OHA released into the community in FY 15 and FY 16 (*see* Report No. 18-08 at 7), the years covered by this audit, substantially contributed to improving the lives of Native Hawaiians. These grants were awarded to more than 260 programs and events, that among other things, helped low-income Native Hawaiians rent and own homes;

provided reading and math assistance to at-risk youth; trained Native Hawaiians to obtain higher-wage employment; and helped manage lo'i and fishponds to feed Hawaiian communities.

We appreciate that you also acknowledge that our community and events grants, the subject of this audit, are "well-managed" and that our grants program has made progress in addressing concerns identified in the 2013 state audit, fully or partially implementing all but one of the 23 recommendations from the previous report.

However, we recognize that this audit intended to identify areas of improvement so that we can better fulfill our mandate of bettering the conditions of Native Hawaiians. We fully understand that the daunting challenges our beneficiaries face – as well as our sweeping mandate – require our commitment to continuous improvement and progress.

Auditor's Recommendations to Further Improve Monitoring and Evaluation of OHA's Competitive Grants to Fulfill its Fiduciary Duties to Beneficiaries

As part of an agency-wide directive, OHA's Lines of Businesses and their respective programs were tasked with updating all operational documents by June 30, 2018 for administrative approval. As part of this process, OHA's Transitional Assistance Program ("TAP") recognized the need to continually improve the grants processes, and it has already begun to make the appropriate changes recommended by the Auditor.

Community Grants

It is worthy to note that the 60 Community Grants OHA administered during FY 15 and FY 16 totaled more than $7 million and, among other things, helped thousands of beneficiaries through statewide services in the following areas: affordable home ownership and rental assistance; employment training and job placement; healthier lifestyle choices through diet and exercise to better manage obesity and chronic disease; increased access to prenatal services; tutoring and enrichment activities to improve proficiency in math and reading; and community opportunities to engage in cultural practices and pae 'āina sustainability.

The Auditor reviewed a sampling of nine Community Grants that were administered by OHA during FY 15 and FY 16. *See* Exhibit 6, Report No. 18-08. As noted by the Auditor, OHA's Community Grants are predominately well-managed. "TAP complied with its policies and procedures for planning, solicitation, application, review, and recommendation phases of the Community Grants cycle, and predominantly met the monitoring and evaluation requirements with limited exceptions." *See* Report No. 18-08 at 15.

Those limited exceptions included the observations that: 1) two of the nine Community Grants did not conduct site visits; and 2) for the two of seven grants for which site visits were performed, the monitoring reports were not sent to the grantees. TAP currently uses a Grants Tracking System database that maintains key information about each grant application and grant award that includes basic grant information, payments, reports, and standardized performance measures data. This database is used to track the 'Ahahui Grants, Community Grants, and Kūlia Initiatives. TAP also created a grant file checklist in its standard operating procedures as a guide for grants specialists to include all correspondence, and monitoring and evaluation reports in the hard-copy grant files. The Auditor noted that these actions constituted full implementation of Recommendation 16 from the 2013 Audit. *See* Report No. 18-08 at 29. Site visit dates and monitoring report dates are recorded as part of the Grants Tracking System. Each grant had at least one site visit over the two-year grant term (Fiscal Biennium ("FB") 2014-2015 and FB 2016-2017).

For one of the grantees in FY 15 that the audit found not to have had a site visit, OHA instead provided much needed technical assistance and support through a series of one-on-one meetings with the grantee as fiscal sponsor and with the community group implementing the program. The grantee had unforeseen internal organizational issues that needed to be addressed by the grant monitor through these one-on-one meetings; thus, OHA staff provided an even more thorough review than that ordinarily provided by an on-site visit. These technical support meetings were noted by the grant monitor in the grant files under correspondence and site visit reporting.

For the second grantee found not to have had a site visit, TAP staff explained that several attempts were made to coordinate a site visit with the grantee but scheduling was

made difficult due to the isolated location of the project. A site visit was scheduled for a Sunday but the grant monitor became ill and the trip had to be cancelled.

Where monitoring reports were not sent to two of the seven grantees for which site visits were performed, this discrepancy could not be explained as TAP underwent significant personnel changes in the past few years.

The Auditor recommends improved monitoring, tracking, and documenting of grantees' compliance with grant terms and conditions and grantees' achievement of applicable performance measures for use in future grant application reviews and award decisions. OHA has already addressed the Auditor's concerns by establishing a Grants Tracking System, as described above, to report on the progress of the granting process as well as the progress of individual grantees. OHA has also procured a grants management system that allows for more comprehensive tracking, monitoring, and evaluating of outcomes.

The Auditor further noted that all nine Community Grants completed grant Closeout Reports that require OHA to assess the extent to which the grantee met its outputs and outcomes, the significant accomplishments of the grant, and whether the grantee complied with OHA's requirements. *See* Report No. 18-08 at 17.

'Ahahui Grants

'Ahahui Grants help to fund one-time community events, up to $10,000, through a competitive grants process. The 62 'Ahahui Grants provided by OHA totaled $400,000 and supported events that offered Hawaiians opportunities to: participate in cultural programming; attend community health days; and access education and employment resources through college and career fairs. These events included the East Maui Taro Festival, the Prince Lot Hula Festival, and Nā Wahine o Ke Kai, the women's canoe race from Moloka'i to O'ahu.

The Auditor reviewed a sampling of ten 'Ahahui Grants that were awarded in FY 15 and FY 16. The Auditor noted that two of the ten grants did not have any attendance reports. The Auditor found that the monitoring and evaluation mandated under Haw.

Rev. Stat. § 10-17 were not consistently conducted for 'Ahahui Grants. *See* Report No. 18-08 at 11.

However, OHA monitors its grants by requiring each grantee to submit a final narrative and expenditure report, summarizing the event to ensure that the event was held as awarded. OHA staff from TAP and/or OHA's Community Engagement ("CE") Line of Business also attend events as appropriate and reasonable. OHA will assess improving coordination between TAP and CE and requiring OHA attendance at all 'Ahahui Grant-funded events to further improve its monitoring of 'Ahahui Grants.

As to evaluation of 'Ahahui grants, during the Audit review, TAP informed the Auditor that it recently implemented for FY 18 a standard Closeout Report similar to that required for Community Grants. The 'Ahahui Closeout Report Form that must be completed for each event by the grants staff includes an assessment of whether the event outcomes intended by the grantee were met; the reporting of any highlights or significant accomplishments of the event; and an evaluation of the grantee's organizational capacity to manage the event. This Closeout Report provides for an overall assessment of the event and of the grantee.

Furthermore, TAP informed the Auditor that it duly considers a grantee's prior year performance when discussing grant application reviews and recommendations for award. This may include reviewing an event's Final Report from a prior year, discussing with an OHA staff who attended a prior year's event, or reviewing the OHA staff Attendance Reports. TAP informed the Auditor that it is considering the addition of a check box and comment feature to its Grants Tracking System to record whether a grant was closed out in good standing as a way to further improve its evaluation of Community and 'Ahahui grants.

OHA recognizes the importance of continually reviewing its processes to dually ensure compliance and consistency with State laws, including Haw. Rev. Stat. §10-17, and to fulfill its fiduciary duties in serving the myriad of needs of its beneficiaries. OHA is currently revising its grant solicitation and application requirements and procedures for the next grant cycle to include the Auditor recommendations.

Mr. Leslie Kondo
Office of the Auditor
State of Hawai'i
May 30, 2018
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OHA Continues its Work on Improving its Policies and Procedures and Will Make Recommendations for Board and/or Administration Approval

The Board of Trustees' Ad hoc Committee on Grants and Sponsorships is continuing its assessment of OHA's existing grant making programs and intends to provide recommendations shortly to the Board regarding the grants the Auditor referred to in Report No. 18-03 as Kūlia Initiatives. Consistent with its scope, the Ad hoc Committee also intends to assess and make recommendations for improvement relative to Sponsorships, the Trustee Sponsorship and Allowance Fund, and the competitive Grants addressed in this subject audit, one program at a time.

Recently, OHA's Lines of Businesses and their respective programs were tasked with revising their standard operating procedures ("SOPs") as part of an agency-wide directive to have all operational documents updated by June 30, 2018 and thereafter approved by Administration. OHA is already considering the Auditor's recommendations as part of this agency-wide update of SOPs. Furthermore, any policy amendments that are recommended by the Ad hoc Committee on Grants and Sponsorships and subsequently adopted by the Board will be incorporated into the programmatic SOPs where appropriate.

OHA created a comprehensive data warehouse with key information pertaining to all grants awarded in FY 13 through FY 17. This data warehouse is updated annually and made electronically available to the Board through OHA's intranet site. In addition, OHA will continue to report on the grants it awards for each fiscal year as part of the OHA Annual Report.

Finally, OHA has procured a grants management system that would allow for more comprehensive monitoring, tracking, and reporting of grant status and grant outcomes.

Collectively, these efforts will help to fully implement the 2013 and current recommendations made by the Auditor and will enable OHA, the Board of Trustees, and Administration to make better informed decisions.

In closing, OHA remains committed to improving the overall administration and reporting of funds that it disburses to the Native Hawaiian community and to providing increased transparency and accountability to its beneficiaries. Mahalo for the opportunity to provide comments on this report, and we look forward to continuing our progress with improving our Community and 'Ahahui Grants programs.

'O wau iho nō,

Colette Y. Machado

Colette Y. Machado, Trustee
Chairperson, Board of Trustees

cc: OHA Board of Trustees
OHA Ka Pouhana, Chief Executive Officer

Appendix A

The following chart details OHA's grant requirements, as defined in Section 10-17, Hawai'i Revised Statutes, and our resulting comparative analysis of 'Ahahui Grants and Community Grants for compliance with those requirements.

Grants Statute Section 10-17, HRS Requirements	Requirement Met? 'Ahahui Grants	 Community Grants
(a) Applications for grants shall be made to the office and contain such information as the office shall require. At a minimum, the applicant shall show:		
(1) The name of the requesting organization or individual;	✓	✓
(2) The purpose for the grant;	✓	✓
(3) The service to be supported by the grant;	✓	✓
(4) The target group to be benefited;	✓	✓
(5) The cost of the grant; and	✓	✓
(6) That the grant shall be used for activities that are consistent with the purposes of this chapter.	✓	✓
(b) Grants shall only be awarded if:		
(1) The applicant has applied for or received all applicable licenses and permits, when such is required to conduct the activities or provide the services for which a grant is awarded;	✓	✓
(2) The applicant agrees to comply with applicable federal, state, and county laws;	✓	✓
(3) The grant shall not be used for purposes of entertainment or perquisites;	✓	✓
(4) All activities and improvements undertaken with funds received shall comply with all applicable federal, state, and county statutes and ordinances, including applicable building codes and agency rules; and	✓	✓
(5) The applicant will indemnify and hold harmless the office, the State of Hawai'i, its officers, agents, and employees from and against any and all claims arising out of or resulting from activities carried out or projects undertaken with funds provided hereunder, and procure sufficient insurance to provide this indemnification if requested to do so by the office.	✓	✓

Grants Statute Section 10-17, HRS Requirements	Requirement Met? 'Ahahui Grants	 Community Grants
(c) To receive a grant, an applicant shall:		
(1) Be:		
(A) A for-profit subsidiary of a nonprofit organization incorporated under the law of the State;	N/A[1]	N/A[1]
(B) A nonprofit community-based organization determined to be exempt from federal income taxation by the Internal Revenue Service;	✓	✓
(C) A cooperative association; or	N/A[1]	N/A[1]
(D) An individual, who in the board's determination, is able to provide the services or activities proposed in the application for a grant;	N/A[1]	N/A[1]
(2) In the case of a nonprofit organization, have a governing board whose members have no material conflict of interest and serve without compensation, have bylaws or policies that describe the manner in which business is conducted and policies relating to nepotism and management of potential conflict of interest situations, and employ or contract with no two or more members of a family or kin of the first or second degree of consanguinity unless specifically permitted by the office;	✗[2]	✗[2]
(3) Agree to make available to the office all records the applicant may have relating to the operation of the applicant's activity, business, or enterprise, to allow the office to monitor the applicant's compliance with the purpose of this chapter; and	✓	✓
(4) Establish, to the satisfaction of the office, that sufficient funds are available for the effective operation of the activity, business, or enterprise for the purpose for which the grant is awarded.	✓	✓
(d) Every grant shall be:		
(1) Monitored by the office to ensure compliance with this chapter and the purposes and intent of the grant; and	✗[3]	✓
(2) Evaluated annually to determine whether the grant attained the intended results in the manner contemplated.	✗[3]	✓[4]

Source: Office of the Auditor

[1] OHA requires that all 'Ahahui and Community Grant applicants "must have IRS tax-exempt non-profit status and be registered to do business in the State of Hawai'i, or be a government agency." As a result, these other types of eligible applicant organizations were not considered in our analysis and are deemed not applicable (N/A).

[2] Refer to Part 1 of this report for further details of the noncompliance found with Section 10-17(c)(2), HRS.

[3] Refer to Finding 1 in Part 1 of this report for further details of the noncompliance noted with Section 10-17(d)(1), -17(d)(2), HRS, for the 'Ahahui Grants we reviewed.

[4] Although we found that OHA predominantly met the evaluation requirement in Section 10-17(d)(2), HRS, for the Community Grants we reviewed, improvements are needed to ensure that the requirement is consistently met and that its policies and procedures accurately reflect the evaluation activities performed to fulfill the requirement. Refer to Finding 2 in Part 1 of this report for further details.