

What is a “Management Letter” in an audit?

Management Letter means **a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control**, that were identified during the audit and were not required to be included in the auditor's report on internal control, and other management issues.

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Akamine, Oyadomari & Kosaki, CPA’s Inc. excerpts from Management Letter.

“...during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.”

“A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.”

“During our audit, we became aware of the following deficiency in internal control, other than significant deficiencies or material weaknesses, that is an opportunity for strengthening internal controls and operating efficiency:

- Internal Control Over Recording NAHASDA Loan Terms Should Be Improved
- Policies for the Disposition of Aging Improvements Purchased Should Continue to Be Implemented
- Aging Receivables for General Leases, Licenses, and Rights-of-Entry Should be Addressed

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CURRENT YEAR (FY2020) FINDINGS  
AND RECOMMENDATIONS

INTERNAL CONTROL FINDING NO.1

Internal Control Over Recording of NAHASDA Loan Terms Should Be Improved

DHHL assists eligible low-income lessees by providing mortgage loans with favorable terms using federal awards under the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). DHHL has recently expanded the benefits to lessees by awarding certain lessees a combination loan and grant. In these arrangements, the lessee makes payments only on the loan portion, while the grant principal is gradually forgiven over the term of the loan.

During our audit, we noted 2 new loans made with NAHASDA funds during fiscal year 2020 which included a grant portion, but which were recorded as loans receivable.

The improperly recorded grant portion resulted in a reclassifying entry for the fiscal 2020 financial statements.

**Recommendation:**

We recommend the Department of Hawaiian Home Lands continue to improve the necessary internal controls over NAHASDA loans to ensure loan terms are accurately recorded in the loan subledger.

**DHHL'S RESPONSE:** Concur

Corrective action has been taken to the 2 new loans identified in the audit. The NAHASDA loans process has been reintegrated with the Homestead Services Division loan processing. There are a small number of loans pending that staff will take corrective action.

## INTERNAL CONTROL FINDING NO. 2

### Policies for Disposition of Aging Improvements Purchased Should Continue to Be Implemented

Improvements purchased are comprised primarily of single-family dwellings purchased from former lessees on DHHL land. These dwellings are awaiting re-award to new lessees. During our audit, we noted 12 improvements in DHHL's inventory which had an appraisal dated more than 5 years ago.

Since unoccupied buildings and improvements deteriorate over time unless properly maintained, policies should provide for disposition of aging, unsold improvements.

Administrative rules also require DHHL to make payment to former lessees only after commencement of a new lease (HAR Sec. 10-3-65(c)). Therefore, the delay in disposition of improvements also delays compensation of former lessees. At June 30, 2020, DHHL's payments to 12 former lessees were awaiting the disposition of the related improvement.

We noted DHHL has taken steps toward the disposition of certain aging improvements. During fiscal year 2020, 10 homes were demolished or re-awarded to new lessees. However, at June 30, 2020, DHHL still had inventory of 28 homes.

#### **Recommendation:**

We recommend the Department of Hawaiian Home Lands continue to implement policies that pursue the timely disposition of improvements purchased.

#### **DHHL'S RESPONSE:** Concur

Effective August 2020, the DHHL, with Chair's approval, may proceed with demolishing homes that have deemed to be beyond repair. There are approximately 10 homes in this bucket and the Homestead Services Division (HSD) is working with the Land Development Division (LDD) in procuring a vendor(s) to perform the work.

DHHL has addressed the issue of demolishing homes beyond repair in its fiscal year 2021 and 2022 budgets.

There are a few improvements purchased pending the completion of the successorship of the lease. HSD is taking steps, including cancelling the lease.

There are a few cases that HSD is in process before transmitting to CAD for re-award.

There are a number of lots that have already been transmitted for re-award.

### INTERNAL CONTROL FINDING NO. 3

#### Aging Receivables for General Leases, Licenses, and Rights-of-Entry Should Be Addressed

The Department, through its Land Management Division, earns income through general leases, licenses, and rights-of-entry for non-homestead use. The income from these leases are intended to financially support the Department's work of serving beneficiaries.

The Department reviews its accounts periodically and provides notices for delinquent lease accounts. Cases may be forwarded to the Department of the Attorney General, State of Hawai'i (AG) if the Department cannot collect on its receivables.

As of June 30, 2020, the Department had accounts receivable for leases of which approximately 79% was 90 or more days delinquent. The delinquent balances grew from 70% in fiscal year 2019. Several accounts with delinquent receivables terminated several years ago. High rates of uncollectible accounts increase the financial and administrative burden on the Department.

The Department should have adequate controls to ensure uncollectible accounts are timely identified and remitted to the AG.

#### **Recommendation:**

We recommend the Department of Hawaiian Home Lands review its account balances for general leases, licenses, and rights-of-entry for collectability and implement procedures for the disposition of aging receivables. In this connection, the Department should ensure uncollectible accounts are timely identified and remitted to the State Department of the Attorney General.

#### **DHHL'S RESPONSE:** Concur

DHHL will continue to process Default Notices and follow-up with delinquent tenants (GL/LIC/ROE).

Due to the COVID-19 Pandemic, LMD as authorized and approved by the HHC has implemented rent relief opportunities to any tenant who submitted an application by the deadline and met the criteria as required under the rent relief implementation. Only 4 out of 7 tenants were approved to participate in the rent relief implementation.

DHHL continues to work with State of Hawaii Attorney Generals' Office in pursuing litigation for back rent due and disposition termination.