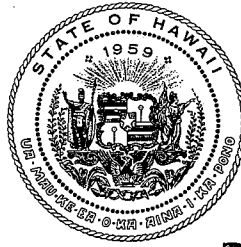


STATE OF HAWAII
OFFICE OF THE AUDITOR
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State Auditor

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DEPT. COMM. NO. 6

September 29, 2009

The Honorable Colleen Hanabusa
President of the Senate
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President:

I transmit to you a copy of our report, *Investment Portfolio Review of the Office of Hawaiian Affairs*.

The review was conducted by the Office of the Auditor and the investment consulting firm of Navigant Consulting, Inc. Overall, we found that the investment framework and process of the Office of Hawaiian Affairs (OHA) must be improved to ensure fiduciary obligations to beneficiaries are being met. The Board of Trustees does not possess an adequate level of general investment or financial knowledge to properly oversee the Native Hawaiian Trust Fund and its investments. Trustees are not required to obtain investment training and are not properly oriented to their roles and responsibilities with respect to the trust. The board's structure related to investments needs to be enhanced and more formalized. Important governance policies affecting the trust were similarly lacking. We also found deficiencies in OHA's monitoring of investment performance and of the investment-related activities of OHA's external advisors. Moreover, for the majority of the review period, the trust's investments were underperforming compared to average nationwide peer performance as well as OHA's own target earnings goals.

We hope that the report will assist you in reviewing the issues examined. We will place the report on our website, www.state.hi.us/auditor, and release it to the public and press, on Wednesday, September 30, 2009.

Sincerely,

Marion M. Higa
State Auditor

Enclosure

c: ✓Carol Taniguchi, Senate Clerk