



HOUSE COMMITTEE ON FINANCE
The Honorable Sylvia Luke, Chair
The Honorable Ty J.K. Cullen, Vice Chair

H.B. No. 959, H.D. 1, Relating to the Agribusiness Development Corporation

Hearing: Friday, February 24, 2017, 12:30 p.m.

The Office of the Auditor has **no position** regarding H.B. No. 959, H.D. 1, which directs us to conduct a “management and financial audit” of the Agribusiness Development Corporation. However, **we request that the committee consider clarifying the scope of the requested management and financial audit.**

We advise the committee that the financial audit required by the bill will provide an opinion on whether the Agribusiness Development Corporation’s (ADC) financial statements are presented fairly and in accordance with generally accepted accounting principles. Currently, the department of agriculture and the ADC financial records are audited annually as part of the state’s Comprehensive Annual Financial Report (or CAFR). That audit, however, involves very limited review and testing of the ADC financial records, if any. If the legislature is interested in something other than an opinion by a private CPA firm as to the presentation of the ADC financial statements, we recommend that the bill be amended to specifically state the specific aspects of the ADC finances that the legislature wants examined.

In addition, the bill’s direction to perform a “management audit” of the ADC is very broad and likely will require us to narrow the audit’s scope, **which may result in an audit that does not review the specific area or function that the legislature wants us to audit.** If there are specific issues related to ADC activities that the legislature wants us to audit, we recommend that the legislature define in the bill, as specifically as practicable, the scope of the audit request.

We are available to work with the committee to more clearly define an audit scope that includes the operations or practices that the legislature wishes for us to evaluate. Assuming that the bill passes out of the committee, we intend to discuss our concerns about the breadth of the audit request with the bill’s primary sponsors, if possible.

Thank you for considering our testimony related to the audit requested in H.B. No. 959, H.D. 1.

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



JAMES J. NAKATANI
Executive Director

STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION

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TESTIMONY OF JAMES J. NAKATANI
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION

BEFORE THE COMMITTEE ON FINANCE

Friday, February 24, 2017
12:30 p.m.

HOUSE BILL NO. 959
RELATING TO THE AGRIBUSINESS DEVELOPMENT CORPORATION

Chairperson Luke and Members of the Committee:

My name is James Nakatani, Executive Director of the Agribusiness Development Corporation (“ADC”). The ADC respectfully opposes House Bill No. 959 which requires the Auditor to conduct a management and financial audit of the Agribusiness Development Corporation.

The ADC is a State agency attached to the Hawaii Department of Agriculture. It is not like a department or even a division of a department. The agency currently has a staff of four at its main office. Because of its size, in addition to their respective responsibilities, each staff cross-trains and assists each other with whatever action demands their attention on any given day. These four manage and oversee all of ADC’s infrastructure improvement and maintenance, research and development projects, and leased lands and dam safety. They prepare for and attend ADC’s monthly board meetings and

diligently do all things required of them by their board. They conduct ADC's land and asset acquisitions including all due diligence required, ADC does not have the personnel to accommodate an audit. An audit would be too onerous at this time for an agency the size of ADC due to the amount of time and attention it will require.

Secondly, other measures that require the Auditor to conduct an audit typically include statements and findings of inadequacy or a lack of information followed by the reasons an audit would assist or benefit the legislature or the state, this bill offers no rationale or findings that would prompt an investigation.

Lastly, the ADC is administratively attached to the Hawaii Department of Agriculture and therefore, all financial encumbrances and expenditures are administered and disclosed by the department. For these reasons, the ADC respectfully asks the committee to hold this bill.

Thank you for the opportunity to testify.

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE HOUSE COMMITTEE ON FINANCE

**FEBRUARY 24, 2017
12:30 P.M.
CONFERENCE ROOM 308**

**HOUSE BILL NO. 959 HD1
RELATING TO THE AGRIBUSINESS DEVELOPMENT CORPORATION**

Chairperson Luke and Members of the Committee:

Thank for the opportunity to testify on House Bill No. 959 HD1, relating to the Agribusiness Development Corporation (ADC). This bill requires the Office of the State Auditor to conduct a management and financial audit of the ADC. The Department respectfully opposes this measure.

ADC is an attached agency to the Department of Agriculture. The Department fully supports the work that ADC performs each day as they serve as the agency dedicated to providing direction on the State's transition from plantation land and water systems for diversified agriculture, develop facilities to support diversified agriculture, and provide solutions for the many challenges that local agriculturalists face throughout the State. This work is critical in moving the State forward toward food security and self-sufficiency.

Moving forward with such an audit diverts ADC's limited resources. The Department respectfully asks that you defer this measure.

Thank you for the opportunity to testify on this measure.



R. R. KEMBLE

Hearing Testimony

For HB 959

Committee on Finance

Friday, February 24, 2017 -Room 308

Position – Support Undertaking of Management and Financial Audit of ADC

I strongly support the passage of HB 959 which charges the auditor to conduct a management and financial audit of ADC. Such action is much needed and long overdue. Listed below are some of the reasons behind my view.

- ADC has been operating since its inception without any Administrative Rules. The absence of such rules provides no transparent basis of known uniform standards, procedures and guidelines when the public deals with ADC. Information on the Agency's website is very dated and provides little if any qualitative goals and objectives from which to measure the Agency's performance and accomplishments. The Legislature should not allow any state agency to operate in this manner.
- The Agency ignores the spirit and intent of the state sunshine laws - its meeting agendas, meeting minutes, and meeting materials are not posted on the Agency's website. The Agency expended substantial sums for consulting reports and the findings of those reports were never published for public review and discussion. It is hard for the public to monitor the agency's progress without this basic information. The Legislature should not allow any state agency to operate in this manner.
- Unlike DOA, ADC tends to limit the use of its lands to less than what is permitted under state and county laws. Some of ADC's restrictions ignore legislative and executive policy. Despite the lack of published administrative rules, ADC imposes on its Galbraith lands, costly and time consuming administrative process should a farmer wish to incorporate on its farm operations solar energy facilities, farm to table activities, farm eco-tourism programs, value added ag processing and other ag related activities. Many of these terms and conditions imposed by ADC have minimum impact on large farming operating on ADC lands. However those operators are now downsizing their operations. Smaller scale farm operators are now interested in farming those lands. Like DOA, ADC should consider removing those use restrictions to entice smaller scale farmers to farm those lands and supplement their farming revenues.
- Farming is a capital and labor intensive business. The audit should review ADC current land licensing practices. Any ADC practices that restricts or hinders a farmer's ability to secure its own financing for its farm improvements should be abolished. DOA issued farm leases that are much more farmer financing friendly. Hopefully one of the proposed audit findings will entice ADC will follow suit.
- Sufficient Irrigation water at affordable rates is one of the most critical components for production agriculture. ADC's ongoing acquisition of fallow Dole and Castle and Cooke agriculture land at premium purchase prices should be carefully reviewed. Much of the lands being acquired have no water allocation. Available ground water resources for the area are limited. Given the state's investment in purchasing the Galbraith lands, the audit should help the agency define its priority of developing and placing into service an irrigation water system for the area. The audit needs to look into why ADC needed almost four years to secure a final environmental assessment for water infrastructure projects after the State's purchase of the Galbraith lands.