

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Acting Chairperson
Board of Agriculture

State of Hawaii
DEPARTMENT OF AGRICULTURE
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TESTIMONY OF THE DEPARTMENT OF AGRICULTURE
BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

FEBRUARY 14, 2019
10:00 A.M.
CONFERENCE ROOM 211

SENATE BILL NO. 1359 SD1
RELATING TO THE AGRIBUSINESS DEVELOPMENT CORPORATION

Chairperson Dela Cruz and Members of the Committee:

Thank you for the opportunity to present testimony on Senate Bill 1359 SD1. This bill requires the Department to perform a management and financial audit of the Agribusiness Development Corporation (ADC) and report to the legislature 20 days prior to the convening of the 2020 legislative session. The Department offers comments.

The ADC is tasked with an important role to transition the State's agricultural industry from plantations to diversified agriculture. This includes work to acquire and manage productive agricultural lands, water systems and infrastructure. An audit will take time and resources away from ADC's continuing efforts to support agricultural development around the State.

Thank you for the opportunity to testify on this measure.



DAVID Y. IGE
Governor

JOSH GREEN
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 WAYS AND MEANS
THURSDAY, February 4, 2019
10:00 a.m.

SENATE BILL NO. 1359
RELATING TO AGRIBUSINESS DEVELOPMENT CORPORATION

Chairperson Dela Cruz and Members of the Committee:

My name is James Nakatani, Executive Director of the Agribusiness Development Corporation (“ADC”). The ADC provides comments on Senate Bill No. 1359, which requires the Department of Agriculture to conduct a management and financial audit of the Agribusiness Development Corporation and appropriates funds.

A management and financial audit will disrupt the daily and project based tasks of the ADC staff; creating possible delays in meeting milestones and requirements for fiscal and managerial administration. Additionally, it is not clear for the reason of the audit, as no negligence in fiscal nor managerial administration has occurred nor been reported. However, an audit conducted by the HDOA will assure that the agriculture development background is present to frame ADC’s activities in context with the changing agriculture landscape.

Thank you for the opportunity to testify, and for your consideration of this bill.



SENATE COMMITTEE ON WAYS AND MEANS
The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair

**S.B. NO. 1359, S.D. 1, RELATING TO THE AGRIBUSINESS DEVELOPMENT
CORPORATION**

Hearing: Thursday, February 14, 2019, 10:00 a.m.

The Office of the Auditor has no position regarding S.B. No. 1359, S.D. 1, which requires that the Department of Agriculture (DOA) conduct “a management and financial audit of the Agribusiness Development Corporation.” However, we offer the following comments to inform the committee of our responsibility to contract for the financial audits of all the State departments, agencies, and programs that receive individual audits as well as for the State’s Comprehensive Annual Financial Report (CAFR).

Nineteen State departments, agencies, and programs currently have their financial statements audited annually. We contract with independent CPA firms to perform those audits on behalf of the departments, agencies, and programs. The contracts, generally, are for three years.

The Legislature created the Audit Revolving Fund, specifically directing that “[m]oneys in the audit revolving fund shall be expended by the auditor to conduct audits of the State’s departments, offices, agencies, and political subdivisions . . . and for the services of certified public accountants contracted to conduct such audits.” Section 23-3.6(b), HRS. The Legislature appropriates \$2,800,000 annually to replenish the fund and authorizes us to spend \$6,300,000 out of the fund to pay for the financial audits. See H.B. No. 1 (2019 Regular Session). The departments, agencies, and programs reimburse the fund for all or a portion of the contract amount. See Section 23-3.5, HRS.

We construe the provisions cited above to *require* that the Office of the Auditor – not the individual departments – procure the services of independent CPA firms for *every* financial audit of a State department, agency, and program. For that reason, we suggest that the bill be amended to require the Office of the Auditor to conduct a financial audit of the Agribusiness Development Corporation and to require the Agribusiness Development Corporation to reimburse the Office of the Auditor for the entire cost of the financial audit.

The bill does not specify the fiscal year for which the Agribusiness Development Corporation’s financial statements are to be audited. However, we understand the bill to require a financial audit of only one fiscal year. We strongly recommend that, if the committee believes that the Agribusiness Development Corporation’s financial statements should be independently audited, such an independent opinion of the agency’s financial statements should be required annually. Alternatively, we suggest that the bill require a financial audit of the Agribusiness Development

Corporation's financial statements for the fiscal years ending June 30, 2019, June 30, 2020, and June 30, 2021.

While we defer to the committee as to the appropriateness of the Department of Agriculture contracting for a "management" audit of the Agribusiness Development Corporation, we note that those types of audits are the primary work of our office. Whether the department is tasked with contracting for a management audit or we are required to conduct an audit of the Agribusiness Development Corporation's performance, we strongly suggest that the committee identify the specific programs or activities that it wants assessed. Without more specific direction, the entity tasked with performing the audit, be it us or an outside auditor, will develop audit objectives that may be different from those envisioned by the Legislature, and for that reason, the report may offer less value to the Legislature.

Thank you for considering our testimony related to S.B. No. 1359, S.D. 1.

SB-1359-SD-1

Submitted on: 2/13/2019 9:53:44 AM

Testimony for WAM on 2/14/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

SB-1359-SD-1

Submitted on: 2/13/2019 9:57:55 AM

Testimony for WAM on 2/14/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
HERBERT M. "TIM" RICHARDS, III	Testifying for Hawaii County Council	Support	No

Comments:

SB-1359-SD-1

Submitted on: 2/12/2019 10:28:13 AM

Testimony for WAM on 2/14/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Cathy Goeggel	Testifying for Animal Rights Hawai'i	Support	No

Comments:



HAWAI'I
CENTER FOR
FOOD SAFETY

LATE

**Senate Ways and Means Committee
Hawai'i Center for Food Safety supports: SB1359 SD1 with amendments**

Dear Chair Dela Cruz, Vice-Chair Keith Agaran, and members of the committee,

My name is Autumn Ness and I am the Co-Director of the Hawai'i Center for Food Safety. HCFS is a nationwide public interest, sustainable agriculture nonprofit organization whose mission centers on supporting the increase of sustainable local food production, and increasing public transparency in food production. We have over 1 million farmer and consumer members across the country, including nearing 10,000 in Hawai'i.

I am writing in support of SB 1359 SD1 with amendments. The Agribusiness Development Corporation manages land and resources that, managed well, could propel the State of Hawai'i closer to its food sustainability goals. An audit would make the operations of the ADC more transparent and instill faith in the public that our public funds are being used to advance our state food sustainability goals. An audit will also be a useful tool for the ADC itself, serving as a catalyst for re-examination of operations in such an important time for Hawai'i's agricultural economy.

HCFS supports amending SB1359 so that the audit be conducted by the state auditor, as the Department of Agriculture will see an increased workload in the coming year, given the passage of Act 45 in 2018, and the likelihood that they will have to draft rules on industrial hemp procedures. It is also unusual practice for a department of the administration to audit a corporation, such as the ADC.

Mahalo nui loa for your support.

Autumn Ness, Co-Director
Center for Food Safety, Hawai'i Program



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