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**SPECIAL BOARD MEETING**
**HAWAI'I TOURISM AUTHORITY**
**Tuesday, March 25, 2025, 11:00 a.m.**

**Virtual Meeting**

# MINUTES OF THE SPECIAL BOARD MEETING

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| **MEMBERS PRESENT:** | Mufi Hannemann (Chair), Mahina Paishon (Vice Chair), Kimberly Agas, Todd Apo, David Arakawa, Stephanie Iona, James McCully, Lisa Paulson, Roy Pfund, James Tokioka (Ex Officio, DBEDT Director), Chris West, Mike White |
| **HTA STAFF PRESENT:** | Daniel Nāho'opi'i, Kalani Ka'anā'anā, Isaac Choy, Caroline Anderson, Talon Kishi |
| **GEUSTS:** | Les Kondo, Ryan Horiuchi, Cory Kubota, Rep. Quinlan |
| **LEGAL COUNSEL:** | John Cole |

## 1. Call to Order

Chair Hannemann called the meeting to order at 11:02 a.m.

## 2. Roll Call to Announce Name of Participating Board Members and to Identify Who Else is Present with Board Member if Location is Nonpublic

Mr. Kishi did the roll call, and all the Board members were in attendance. Members who attended via Zoom were by themselves.

## 3. Opening Protocol

Mr. Ka'anā'anā opened the meeting with the Aloha chant.

**4. Presentation and Discussion on the FY2024 HTA Independent Financial Report, Issued March 2025**

Chair Hannemann welcomed the inaugural meeting of their interim President and CEO, Ms. Caroline Anderson. He thanked her for taking on the task as called for in the bylaws. He said this meeting had a hard stop at 12:30 p.m. They have a Board meeting on Thursday, and he looked forward to the presentation on the financial audit. He reintroduced Mr. Horiuchi, Mr. Kubota, and Mr. Kondo, the State auditor. Mr. Kondo said he was attending because they contract for the financial audits of State agencies and the annual Comprehensive Financial Report, which is the State of Hawaiʻi audit. They had contracted with Acuity to do the HTA's audit. Mr. Kubota is the managing partner of Acuity and Mr. Horiuchi is the partner in charge of the audit.

Mr. Kubota said the scope of the presentation would cover the fiscal year June 30, 2024, financial and federal compliance audit, and the special purpose financial statement audit of the HCC. All of the engagements were concluded, and the associated reports were issued. This was a discussion of the results. To summarize, the scope of the audit is to provide an opinion on the fair presentation of the HTA's financial statements, to consider the HTA's internal control over financial reporting in relation to their audit of the financial statements, perform tests of the HTA's compliance with certain provisions of laws, regulations, contracts and agreements with regard to the financial statements, and then to provide an opinion on the HTA's compliance with requirements related to major federal programs in accordance with OMB compliance supplement. Because the HTA receives and expends federal money, it is the driver behind the performance of the financial and compliance audit.

He went over financial highlights for FY2024, starting with the statement of net position. There was a lot of movement year-over-year between FY2024 and FY2023. Cash and investments in the State treasury decreased significantly in FY2024, about $37.2 million. That is primarily related to the lapsing of unspent federal monies on June 30, 2023. Capital assets increased by approximately $9.1 million related to planned capital improvement projects at the HCC. Other non-current assets decreased by $5.5 million, primarily related to payments made from the Convention Center R&M fund used by ASM for capital improvement projects around the center. Vouchers payable or accounts payable increased by about $14.5 million. That was primarily to increase activity around the HCC during FY2024 and accruals related to ongoing capital projects. The liability due to the State Department of Budget and Finance decreased from about $35.7 million to zero. That represents the repayment of funds back to the State treasury. The net position or Equity decreased by $1 million as of June 30, 2024, compared to a $25 million increase in 2023. That was just an increase in contract expenses during the year.

He spoke about the Statement of Activities/Income Statement. Charges for services increased by $13 million during FY2024, primarily driven by increased activity at the HCC. Federal grant revenue decreased by $48.1 million in FY2024, while State appropriations increased by $70.1 million in FY2024. Between 2020, there was a change in how the HTA received its operating funding, going primarily from being federally funded to receiving State appropriation. Contract expenses increased by $44.5 million primarily due to increased operations at the HCC and $4.5 million expended from the Tourism Emergency Special Fund. Transfers from other state departments decreased by $15 million to zero in FY2024 as the HCC Special Fund received a non-recurring $15 million transfer in proceeds to assist with capital projects.

He spoke about the required auditor communications, focusing on the results and certain communications the auditors are required to make in accordance with accepted auditing standards. So, in terms of their responsibility under accepted auditing standards, their responsibility is to evaluate and report on the fairness of the HTA's financial statements prepared in accordance with U.S. Accepted accounting principles. Based on the results of the audit procedures, they issued a clean, unmodified opinion on those financial statements for FY2024, June 30.

In terms of their responsibility as an independent auditor under government auditing standards and uniform guidance, because the HTA expended federal monies, part of their audit relates to compliance with the use of those federal monies in accordance with the OMB compliance supplement. They performed that audit and issued a qualified opinion on federal compliance. Two specific findings were reported. In terms of the planned scope of the audit, their scope was outlined in their engagement letter and contract with the State auditor's office dated July 8, 2024. They executed according to that scope. As part of their audit, they evaluated and plan the audit to identify potential misstatements of the financial statements. He showed the slide with the significant risks they identified, planned, and executed - Improper revenue recognition due to potential fraud, management override over controls, and the proper implementation of significant government accounting standards pronouncements and disclosures. They planned their audit to address those potential risks.

Significant accounting policies were disclosed in footnote one of the financial statements. During FY2024, the HCC adopted two new accounting standards, neither of which had a significant impact on the financial statements. But, based on their audit procedures, they believed that the HTA adopted and followed appropriate accounting policies that conform to accepted accounting principles. As part of their audit, they tried to identify significant estimates made by management that would influence the financial statements. They looked at the depreciable lives used by management to depreciate capital assets. They looked at accrued vacation liabilities and calculated the net pension and other post-employment benefits liability. Based on their audit procedures, those estimates were evaluated and were reasonable.

They looked for potential significant or unusual transactions as part of the audit. None were identified. They are required to report audit adjustments that they identify and propose, which management agrees with. They have a summary of adjustments and reclassification journal entries they proposed during the audit. Those were attached to the management representation letter, which was available for the committee's review. In addition, certain uncorrected misstatements or unadjusted differences were not recorded by management because they agreed with management that they were not material to the financial statements. Those were also attached to the representation letter and are available for review.

If they had encountered any difficult or contentious matters during their audit, they would be required to report that. There were none. If they had concerns about the HTA's ability to continue as a going concern for longer than a year, they would be required to report that and mention that in their report. No such issues arose during the audit.

He pointed out in footnote one to the financial statements the change in how the HTA is funded, and how its operations are funded, which is disclosed as a change and a potential uncertainty.

He spoke about other information containing the audited financial information. The HTA's audited financial statements are included in a submission to the federal government, and they will review them and look at the submission. They would be required to report any disagreements with management. They encountered none. If they had a disagreement on an accounting or audit matter, and management sought the opinion of another firm, they would be required to report that. That is referred to as opinion shopping. There were no such instances.

There were no major issues discussed with management prior to, or as a condition of their retention as an independent auditor, and they did not encounter any significant difficulties in the performance of their audit.

Internal control deficiencies - There were no material weaknesses in internal control over financial reporting. However, they did identify two findings during the federal compliance portion of the audit related to reporting that they considered material weaknesses, which resulted in the qualification of their compliance audit opinion. They included a couple of other comments or observations they identified during the financial statement audit. Housekeeping, in nature, did not rise to the level that requires reporting to the federal government but warranted communication with management and those charged with governance, and that was included in the internal control and business issues report. They did not identify or encounter any instances of fraud or illegal acts during their audit.

They confirmed that Acuity LLP is independent of the HTA and its related entities within the definition of the code of Professional Conduct of the AICPA. They exchanged the representation letter with management. It is available for anybody's review upon request.

For other matters to report, attached to the financial statements, management included required supplementary information, which included the management discussion, analysis, and budgetary comparison schedules. Those are not part of the core financial statements but supplement those financial statements. They do not opine on those pieces of the report. The schedule of expenditures of federal awards is also attached to the financial and compliance report. They applied certain audit procedures, including reconciling those amounts reported to the underlying financial statement records. They found them to be appropriate.

He opened the floor to questions.

Mr. Arakawa asked about the three categories of findings. Deficiency, material weakness, and significant deficiencies. He asked if Mr. Kubota could go over some of those findings.

Mr. Kubota said the HTA had findings on both extremes of the classification system. They reported two compliance findings that they deemed to be material weaknesses. That would be the most severe finding. That results in the qualification of their opinion over federal compliance specific to reporting. One item was the failure to submit a required report. The second item was related to a standard financial report, which stated that they could not reconcile the actual dollar amounts reported.

Mr. Arakawa asked if that report was eventually submitted. Mr. Kubota said it was. Mr. Arakawa asked if that report cost the HTA money. Mr. Kubota said that, to his knowledge, there was no financial consequence to the HTA, but they are still waiting for the federal oversight agency to accept and comment back to the HTA on the results of their findings.

Mr. Arakawa said they got a federal grant, and he asked for confirmation that the DLNR did the work. Mr. Kubota confirmed that as correct. Mr. Arakawa said when the work was finished, they paid the DLNR, but they failed to report that they paid the DLNR.

Ms. Anderson said her understanding is that the report in question is one they have to report on every year, the projects of the EDA Grant. They were just getting into the contracting period with the DLNR for that report, so there were not any outcomes or measures to be reported yet. She took responsibility. She did not submit the report because she did not realize that the report had to be done, and she did not have any measures or outcomes to report. Back then, it was still either planned for or procured.

Mr. Arakawa said that is understandable. He said that in the future, the policy or procedure is that if it has to do with DLNR and they have control of the whole project, they should not be applying for the grant because they cannot evaluate it.

Mr. Kubota said there were two reporting items. If the HTA is the prime recipient of a federal grant and then uses a sub-award or a sub-grant, in this case, it was DLNR, when they enter into that sub-grant, there is a federal reporting requirement to communicate the sub-award to the federal government. And they did receive evidence of that reporting.

Mr. Choy said it is a federal form to report that they gave $7.2 million to the DLNR. He was familiar with that form, but there were no improper payments or financial impact.

Mr. Kubota reiterated that reporting is a federal compliance criterion. It required submitting that report, but it was not done. Number two related to that federal program is the semi-annual. They understood what was done, so reports were filed, but they could not reconcile the actual dollar amounts on the report with the underlying records. It does not question the propriety of the activities. They needed to know the source of the number being reported.

Mr. Kubota said the recommendation to address these two would be for management to be aware of. Anytime a federal sub-recipient or sub-award is going to be made, it is a reporting requirement that needs to be adhered to. The second finding relates to the maintenance of the documentation to support the amount being reported. A reconciliation is needed that supports the amount reported.

Mr. Choy said this is for the drawdowns. They do the drawdowns because they have to call and submit receipts, which they did. They did not realize there was supposed to be a record beyond the federal agencies' approval to give them the drawdowns based on the invoices they turned in. He suggested getting accounting records and a few more procedures.

Dir. Tokioka asked if this had been done before or if it was the first time. Mr. Choy said this was the first time.

Ms. Anderson said that the EDA grant was non-competitive. So, the money went to Gov. Ige, and the Governor provided it to the HTA. It was for outdoor recreation, travel, and tourism to bring tourism back because of COVID. They entered into a partnership with the DLNR because the DLNR is outdoor recreation, and their visitors use the outdoors and love it. They meet monthly with the DLNR for a status update of what they are doing for their seven projects. Mr. Kishi was also on the monthly call.

Mr. Arakawa said they are not experts in some of the seven projects. The next time the Governor gives them money, and they do not know how to monitor the project, they should give it to the DLNR.

Mr. Kubota said the lesson to learn is that if they take federal money, there are responsibilities associated with taking it. They have to be aware of those responsibilities.

Ms. Agas asked Mr. Choy if there is a resource in the federal government to get assistance when federal grants come into play.

Mr. Choy said he is not aware of any resources in the federal government.

Ms. Agas asked if the auditor had an idea of someone who could assist.

Mr. Kubota recommended that if the authority decides to pursue or take federal money, it downloads the compliance supplement from the federal OMB website, laying out all of the auditable criteria expected from those specific federal programs.

Vice Chair Paishon thanked the auditing team for their work and for providing detailed reports so that they could learn from their past financial statements. She congratulated the HTA team, the entire executive leadership team, and Board members. She said it is significant when a large organization such as the HTA has only two findings. She said that is a good sign. She asked the auditors if they had any guidance relating to financial fiscal health.

Mr. Kubota said there are not any more specific items. Federal money is not free. It always comes with strengths. They need to be prepared to comply upon accepting federal money. There are a lot of compliance requirements.

Chair Hannemann said there is usually someone who tracks federal grants. He asked if there was someone for them. Dir. Tokioka was not aware of anyone at DBEDT. Different people are assigned from the Governor's office on some of the grants, but this grant came from the Ige administration, so he was unsure if they had a connection at that time. He would try to find out.

Mr. Kubota recommended contacting Mark if they decided to pursue more federal monies.

Mr. McCully asked if their external auditor for the AASC would provide them with guidance on whether internal controls had been properly executed. Mr. Kubota said that relative to internal controls over financial reporting, the answer would be yes, but it was related to federal compliance. Because of those two findings, the answer was no.

Mr. McCully said they will have to dive deeper at another meeting. They have to ensure that on their side, internally, their financial statements and reports are prepared and reported accurately in a timely manner. He asked if they achieved that or if there were deficiencies in their reporting. Mr. Kubota said in his presentation that he communicated that the financial statements were appropriately stated based on their audit.

Mr. McCully asked about their code of conduct to ensure financial integrity and no mismanagement of funds. He asked if Mr. Kubota had looked into that. Mr. Kubota said that is not what their audit scope is designed to do, but during their audit procedures, nothing that warranted reporting to the committee came to their attention.

Mr. Pfund said his question was related more to the attachment of adjusting journal entries to the management representation letter. He said there were large amounts, which was unusual. Mr. Kubota said to the extent that they are recurring in nature, and management proposes those adjustments to them as they are closing, he said Mr. Pfund is correct. When they start their audit procedures versus when they conclude the audit, several adjustments do occur. Some of them are proposed by management as they continue to close the books after June 30. Some of them are as a result of their audit procedures. They bring a transaction to management, and they will tell them yes or no, whether or not it impacts the period under audit. It is a combination of both. The objective would be to try to drive the number or volume of those adjustments down.

Mr. Pfund said he was more interested in why the amounts would be there when the accounting system had prior year balances, which they added to for current year activities. He said those are significant amounts. Mr. Kubota said those are mostly accruals.

Mr. Horiuchi said the nature of the reports that management receives is more on a cash basis of accounting. So, in every audit cycle, management needs to do a fair amount of lifting to convert the cash-based information received from DAGS to an accrual method of accounting. So that is the lion’s share of the large dollar value adjustments, especially the historical ones.

Mr. Arakawa asked if they would be on the same basis going forward. Mr. Choy said they do not get the figures until the end of the year. Mr. Arakawa said he understands the reason for the large number of people changing over.

Mr. White asked if receiving federal funding for a program comes with a list of required reporting responsibilities. Ms. Anderson said it does.

Mr. White spoke about what Mr. Choy mentioned. Mr. White said that because the federal government’s requirements are so broad when they get a grant, does it specify the responsibilities for all the reporting and the time frames and so forth, or do they need to go to the OMB website for compliance for more compliance information.

Mr. Kishi said they receive a standard award, terms and conditions, which is a fairly big package. He did review it. It fell through the cracks, but they have addressed the matter since the auditors pointed it out. He submitted the report since then. There is the compliance supplement. So those are two very good resources they can rely on for the future.

Dir. Tokioka said that, looking at the report, he did not see one of the items on the draft.

Mr. Arakawa said he intended to ask about the internal control and business issues report, which had two items on it. One was a space use, and the other was a prior year unadjusted audit control deficiency. Dir. Tokioka said he would like to know about that as well.

Mr. Kubota said the internal control and business issues report they consider to be a housekeeping report that they identified during their audit is in the package ending June 30, 2024.

Mr. Arakawa said there were two items listed and asked that they go through them.

Mr. Horiuchi said the objective of the financial audit was to render an opinion as to whether the financial statements were presented fairly. As Mr. Kubota mentioned, they are looking at whether revenue has been skewed because of potential fraud. So, as with any part of any audit, financial and performance, there is always a question to management about whether or not management is aware of any fraud. Because that certainly would be a significant issue in terms of the financial review to know whether or not there is any fraud. So, the Vice President of Finance, Mr. Choy, informed him of concerns about unlawful activity. He reported that he received complaints or concerns from other members of the HTA staff about these unlawful activities, concerns that they had about Chair Hanneman’s organizations, both Hawaiʻi Lodging and Tourism Association, and Pacific Century Fellows receiving free complimentary use of the

HCC facility. Mr. Choy felt that was unlawful and referred him to sections of the State ethics code that he believed may be violated. In a different light, he was executive director and general counsel of the State Ethics Commission, so he was familiar with the State Ethics Code. He asked Mr. Choy a number of questions and asked him to provide information that supported what he was describing to Mr. Horiuchi. He asked Mr. Choy for documents relating to the organization's HLTA and Pacific Century Fellows' (PCF) complimentary use of the convention center facility. He asked him for information relating to other organizations that had used the facility, either for free or at a discounted rate. He asked for a list of those organizations from January 1, 2022, through September 12, 2024, the date of his email to Mr. Choy. He asked Mr. Choy for about two and a half years of information, which he provided.

They met, and a binder was provided to Acuity. Acuity and he met with Mr Choy, and they met with the former CEO and President to discuss the issues that Mr. Choy was raising. They also met with Ms. Orton to discuss her concerns that were being raised about the organizations that Chair Hanneman associated with the complimentary or discounted use of the facility. After examining the information and talking to several people, they determined no fraud. They determined that there were uses of the facility, including Chair Hanneman's organizations, that those organizations did not pay to use the facility. So, a few organizations, in addition to Chair Hanneman's organizations, received either complimentary or discounted use of the facility. The use of the facility, complementary and discounted use, was inconsistent with the HTA's process. There are two ways the facility can be used. One is directly through the HTA, the other is through the HCC. So, in terms of where the HTA authorizes use in the facility, there is a form. On the back of the form, on the second page, there are the HTA policies as to what organizations receive complimentary use, and what organizations receive certain kind of discounts. It appeared to them that the organizations that were receiving either complimentary use, like Chair Hanneman's organization and a few others, as well as the discounted use, was not consistent with the policies. That said, the amounts total a few hundred thousand dollars of lost revenue.
As Mr. Kubota mentioned, and as reported in the audit report, the assets for the organization were $309 million, and in terms of revenues, they were $114 million for FY2024. In terms of expenditures, it was about $115,200,000, $200,000, which is immaterial to the large picture of the organization. It does not mean it is not important. As a former ethics person, he said it is extremely important. This had been referred to the Ethics Commission and the Attorney General's office for further review and consideration.

In terms of the financial audit, it is not their responsibility to assess whether or not there is any violation of the State ethics code or any other laws. They are looking at whether or not the financial statements of the organization are presented fairly. It was their understanding that the process now requires both the Vice President of Finance and the CEO to sign off when the

HTA is discounting the use of the facility. They did not see any policy or procedure that documents. They just saw an email that was sent to the HTA staff reflecting what should be done. He said other organizations have responsibility for that issue and are looking at that. Their responsibility is very different in terms of auditors, and it did not amount to fraud.

Mr. Kubota said their recommendation is clear. Have a look at the policies and procedures and have evidence approvals.

Mr. Horiuchi said that in terms of who approved the request to use the facility, they did inquire with the predecessor, the former CEO, and the president about whether he was involved. He said he was not involved and was unaware of how this was happening and whether or not the HTA was discounting the use of the facility. There are also issues about food and beverage, but again, that is a different organization’s issue.

Mr. Kishi acknowledged that Rep. Quinlan and Mr. West joined the meeting virtually.

Vice Chair Paishon thanked everyone for being diligent. She asked the Chair if he could explain some of the items that Mr. Kondo presented. She also asked if Mr. Choy provided the entire list of the documentation when Mr. Kondo asked for the list of organizations that had used the HCC at a complimentary or discounted rate.

Mr. Choy said he gave it to Mr. Kondo, not the full Board. Vice Chair Paishon requested a copy for the full Board.

Chair Hannemann said Mr. Nāhoʻopiʻi was also on the public link since both of them participated in the situation. He said he had been involved in the Pacific Century Fellows organization for many years. It is an emerging leadership group that provides opportunities for people to develop their leadership skills. Alumni have included former Gov. Ige, Sen. Brian Schatz, etc. That said, he had asked Mr. Nāhoʻopiʻi if they could get a briefing, Tourism Day. It is part of what the Fellows do. They get together, they identify the issues that they would like to explore, and more often than not, tourism is one of those issues. So, he had asked Mr. Nāhoʻopiʻi if they could get a briefing from the HTA at a place in Waikīkī that they identified for their Tourism Day. They wanted to look at Waikīkī, delve into regenerative tourism, and perhaps see some of the other things happening. Mr. Nāhoʻopiʻi suggested having it at the HCC, so they did that. He had told Chair Hannemann that he had consulted with the person in charge at the HVCB for Oʻahu. They spent three hours for that briefing, and from there they left the HCC and went on the regenerative tourism tour.

In terms of the HLTA, he thought they were referring to the Public Safety Conferences they had. That has been going on for eight years. From the beginning, they have been involved with the HTA. It is a group of stakeholders in Waikīkī, very focused on public safety. Their co-sponsors, in addition to the HTA include HH Visa, Waikīkī Improvement Association, Waikīkī Business Improvement District and Waikīkī and the HLTA. They have had meetings at the HCC prior to when he was mayor, and the HTA was always at the table. Since he has been Board chair they have had two conferences at the HCC, both with sponsorship from the HTA. One happened in 2023, and they paid for the food that was served to them. The second one happened in 2024, where they paid up to $8,000 for the use of the room and food. For each of those events, the HTA was a co-sponsor. The first one had Mr. Nāhoʻopiʻi as one of the speakers. The second one had Mr. Kaʻanāʻanā as a panel discussion moderator. The third is that the HLTA had its trade shows at the HCC. The three they had at the HCC, were in sponsorship with the Star Advertiser and the Hawaiʻi Restaurant Association at one time. This all happened before he was on the Board. Since joining the Board, they have moved to the Blaisdell Center simply because the cost of having that kind of trade show is much cheaper. He said they have always had dialogue with the HTA during that time. The emerging leaders need to know more about tourism.

Vice Chair Paishon thanked Chair Hannemann for explaining it further. She appreciated that Mr. Choy was doing his job ensuring procedures were in place and checking for the abuse of power. She asked Chair Hannemann if he knowingly or unknowingly attempted to abuse his power as the Chair of the HTA to receive the facility at a discount or complimentary.

Chair Hannemann said he did not attempt to abuse his power.

Vice Chair Paishon thanked the Chair of the Administrative Administration and Audit Committee, Mr. McCully because that particular committee had raised the need for a policy for using the HCC. That is the right thing to do. She wanted to ensure that privileges have not been extended to current Board members.

Mr. Arakawa asked if she was interested in the amounts that were comped. Vice Chair Paishon said that it would be helpful to reflect in the reports.

Mr. Kondo said there were twenty-four events and eight different organizations. It is unclear to him whether all of them were comped. Some organizations received comps. The HLTA, Pacific Century Fellows, Alawai Watershed Collaborative, and there were two Hawaiʻi Tourism Japan events, one with 7-11, and the other with hotel partner/PR partner meetings. Those two events appear to have been comped. Those are the only four organizations, five events that appear not to have paid any money.

Mr. Arakawa asked about the HLTA safety event. Mr. Kondo was unaware of this but was aware that the HLTA had a different event after his timeline, for which he asked Mr. Choy to provide records. That was directly through the HCC. It did not come through the HTA for use of the space. And that is the reason they spoke to Ms. Orton at the HCC. That one is a discounted rate.

Mr. Arakawa asked if they produced forms. Mr. Kondo said it was a space request form.

Mr. Arakawa said he reviewed a few of them. He said it is important for the people to know the process. The HCC prepares that form and sends over the costs.

Mr. Kondo said they were not provided that information. The only thing he was aware of that Mr. Choy provided were the HTA space request forms. Those who do not go to the HCC for their consideration as to the request to use the space for free or in a discounted amount. If there was other accounting involved, they were unaware of any relevant forms.

Mr. Arakawa said that based on the report, it would all be documented. He said they need to have better documentation on those types of requests. He said there is a specific section in the ethics law about space use or fair treatment. Mr. Kondo said that the provision that Mr. Choy raised was unlawful. His question to Mr. Choy immediately was, why did he take it to them? There should be a process in place internally. Mr. Choy had said he was concerned about bringing it to the CEO and President's attention because he felt there was some arrangement or was somehow involved. He had said he had no knowledge of any of these events that Chair Hanneman was describing, where he did have some involvement. There was a provision in the ethics code about unfair treatment. So, it prevents employees, which include all Board members, from misusing their position to get unwarranted benefits. That is an issue for the ethics commission to address, not for the auditors. There are other provisions. The ethics code, which is a standard of conduct, ensures that the public has confidence in state employees and that they think they are doing things for the right reasons. One of the provisions prohibits employees from doing substantial financial transactions with a subordinate. There are many provisions, but that is for ethics to look at and investigate.

Mr. Arakawa asked if he was referring to the president and CEO, Mr. Nāhoʻopiʻi. Mr. Kondo confirmed that it was Mr. Nāhoʻopiʻi. They had asked Mr. Nāhoʻopiʻi about the events but could not recall if he showed the documents.

Mr. Choy said when he discovered the suspicious transactions, it was his understanding that the person who approved all of the statutes was Mr. Nāhoʻopiʻi. He had gone with this information to the Director and was advised to go to the Attorney General and everybody else. He said he was following procedures. He said there had also been procurement and contract violations, and it is part of his job to look for suspicious transactions to ensure they are reported. He has reported a lot in the past few months. He agreed with Mr. Kondo's statement that the public must have confidence in the transactions involving taxpayer dollars.

Chair Hannemann said it is important to hear from Mr. Nāhoʻopiʻi.

Mr. McCully asked if Mr. Nāhoʻopiʻi had been able to listen to the meeting up until now. Mr. Nāhoʻopiʻi confirmed he had. Mr. McCully said that Chair Hannemann was convinced by Mr. Nāhoʻopiʻi to have his meeting at the HCC. Mr. Nāhoʻopiʻi said that for the briefing of the Pacific Century Fellows, the Chair put in a request to do a briefing, a Tourism Day briefing, which they do for many organizations. In this instance, they worked with OVB to produce what they could do for the day to see tourism on Oʻahu. In that planned itinerary, it was suggested that they have a briefing in the morning, and their briefing would involve multiple leaders of the HTA leadership as well as leadership from the HVCB, HTJ, and Ms. Orton. He suggested that the best place to do it would be the HCC, so they would not have to move around. Because it was such a large group, and it was in the morning, it was recommended that they serve food and coffee during their planning meeting. After the meeting, they left to go on the rest of their Fam tour, which was planned by OVB.

Mr. McCully asked if it was fairly common to invite groups to the HCC and not charge them for sitting around and using their rooms.

Mr. Nāhoʻopiʻi said that was correct.

Mr. McCully asked if they normally serve food and refreshments at those meetings.

Mr. Nāhoʻopiʻi said that was very common. Depending on the time of day, there may be some additional refreshments.

Mr. McCully questioned if the events that cost thousands of dollars should be comped. Mr. Nāhoʻopiʻi would not say it was comped. At the time, the agreement with the ASM in the contract for the HCC was that the use of the boardroom should include the availability of refreshments, including food and beverages. Typically, they look at that and see if they should or should not include those kinds of additional refreshments.

Mr. McCully asked if those costs they are bearing as the HTA come up in the report that the auditor reviews. He asked the auditor if he saw a succession of the comped bills for refreshments.

Mr. Kondo said all they got was the list from Mr. Choy. He was not familiar with the events. He said Mr. Nāhoʻopiʻi could be mixing up two different events. One was that the HTA approved it, and the other was that the HCC was discounted because there are two processes to use the HCC. The HCC does not contract with the organization when it comes through the HTA request form. So, they saw two requests, HLTA and Pacific Century Fellows, that came through the HTA request form. No contract with HCC, no insurance requirements. They saw a contract after the date that he had asked Mr. Choy for documents. And that was a September 12, 2024, event that went through the convention center. He saw that Chair Hanneman's organization paid $100 for using the space. It was discounted from $880. Talking to Ms. Orton, it sounded like she did not believe it was an unusual discount.

Mr. Nāhoʻopiʻi said the contract he referred to was the contract of the convention center's management. The previous contract did allow the use of Boardroom A and Boardroom B for certain uses, as stated in that space use request form. He agreed with the auditor's finding that the space use request form in the old version bypassed leadership and went directly to the convention center for the request from each. It was a self-assessment by the HTA staff about whether they qualified. It moved forward, and it did not have a review of leadership. He applauded the change in the policy as noted in the audit tourist report.

Mr. Kondo said they are focusing on the fact that the HTA has use policies that were inconsistent with how organizations were given the free or discounted use of the convention center based upon their understanding of the organization's name. In other words, based upon the HTA's own use policies, they should not have been comped. That is the issue that is reported in the comment: the HTA has procedures or controls that were not followed. The policy at the time did not appear to allow the complementary use. That is the comment. What Mr. Nāhoʻopiʻi noted about all the different events is a different issue. So, there is a different control that is missing there. It is a small amount of money, but State resources have been given away. They are all accountable for State resources. Other organizations somehow received complimentary use of the facility.

Mr. McCully said earlier that when he asked the auditor if there was anything that they needed to be concerned about at the AASC or as a Board regarding the HTA's management of public funds and code of conduct, is specifically why he asked the question. It could have been flagged more clearly or given an early notice to the Board itself. Mr. Choy's activities as an employee have to do with his peers and his relationship with the Board, the Chair in particular in this matter. Mr. Kondo said they would have brought it to the Board's attention immediately if there had been fraud.

Mr. McCully said he did not think it needed to rise to the level of a crime or fraud for code of conduct or management of public funds. That is a broader area of concern.

Mr. Kondo said that is not the auditor’s responsibility. He said they were identifying a comment about internal controls. It is for the ethics and other organizations to examine whether or not there was a violation of the ethics code.

Mr. McCully pointed out that the Chair shops for value and mentioned Mr. Nāhoʻopiʻi, convincing the Chair to use the HCC because it was good value.

Chair Hannemann said the trade show is in partnership with Star Advertiser, which paid for the usage of the HCC. It was not only a decision made by himself. They are partners in that trade show. So, they suggested they look for a cheaper place, which is why they moved there. He would have loved to have kept it at the HCC, but Star Advertiser paid for it. He stated that they were perfectly willing to have that Tourism Day briefing in Waikīkī, but it was suggested by the President and CEO that they use the HCC. It was not because he was looking for a place to get a free meal.

Mr. White said that Mr. Kondo was given an incomplete list. He asked if it is possible to get a complete list of those organizations that have used the facilities at either a comp level or a discount, because it does not sound like they have a complete list. He was also interested in the letter mentioned in the last paragraph before the recommendation, including lost revenue. There is a certain amount of lost revenue when there is a comp or discount. He questioned whether rent was paid when the Director was housed in boardroom B. It would be important for them to look at the amount of lost revenue in that case.

Dir. Tokioka appreciated the comment. He said DBEDT is the umbrella of the HTA and sixteen other agencies. At the time, the top fifth floor of the Capitol Modern Building was being renovated. So, he had five other agencies stationed at other places in DBEDT throughout downtown and elsewhere. He said they moved somewhere else whenever Ms. Orton needed the room, so he does not see how that revenue was lost. He is part of the Governor’s team and everybody in the government knew he was moving to the HCC. The two associations that Chair Hannemann is on are nonprofits, so he could not understand how that could be a comparison to his situation.

Mr. Arakawa said DBEDT is on the first floor of the HCC building.

Mr. White asked if they are charged rent.

Dir. Tokioka said no, but the federal government does pay rent for the labor. He said Chair Hanneman was requesting some information about his stay there. Mr. White said a part of DBEDT is paying rent in the HCC, even though the federal government is paying it.

Dir. Tokioka said that was correct.

Mr. White said he is interested in getting them all a list of non-financial uses to get the whole picture. If this is going to go to the ethics commission, then it is appropriate for them to have a complete list.

Dir. Tokioka said, as Mr. Kondo said, that it was a small financial amount. The AG's office deals with crimes and hundreds of thousands of dollars of theft. So, $14,000 doesn't rise to the level to get the AG to drop everything and work on it. He asked Mr. Choy why he approached him when he was alerted of this and did not go to Mr. Nāhoʻopiʻi directly. He asked Mr. Choy if he had done anything to protect himself because of what had happened.

Mr. Choy said that when he talked to the AG, he ensured it was under the whistleblower's provisions. He said the conversation was strange because Mr. Nāhoʻopiʻi testified that he was not aware of the transaction. He thought he approved all space use requests. His direct superiors are Mr. Nāhoʻopiʻi, Chair Hannemann, and then Dir. Tokioka, so he went directly to the Director, when he thought two people were in the transaction chain. Dir. Tokioka asked if Mr. Choy was concerned about any retaliation for the information that he had. Mr. Choy said he is always concerned about retaliation.

Dir. Tokioka said he took full responsibility for using the space while they were in the HCC.

Mr. White said Mr. Kondo mentioned an amount between $200,000 and $250,000. That figure might have been higher if he had not provided the costs for the various comps and discounts. Mr. Kondo said it was a guestimate and it was just to provide some context in relation to the amount of assets, revenues, and expenditures of the authority during the fiscal year.

Dir. Tokioka said he put it in writing and asked for permission to stay in the HCC, and he received permission. He asked Chair Hannemann if he had put any of the events in writing to be put forward to the Board, the CEO, or Ms. Orton. Chair Hannemann said he did not ask for free use. For the PCF, they were invited to the HCC. On the Public Safety Conference, the HTA has always been a partner. In 2023 and 2025, on those two occasions that they used the HCC for the Visitor Public Safety Conference, he was quoted $3,000 for the first year in 2023, and they have the documentation. In 2025, they ended up paying $8,179. They asked about its usage and cost. Everybody who was part of that pitched in to pay for the cost.

Dir. Tokioka asked if anything was in writing for the two items Mr. Kondo discussed. He cannot understand how the interim president and CEO would say he did not approve it, but it went to the HCC. He said Mr. Nāhoʻopiʻi had told the auditor he knew nothing about it, but Chair Hannemann said Mr. Nāhoʻopiʻi gave his permission.

Chair Hannemann said that for the PCF, he went to Mr. Nāhoʻopiʻi, but for the HCC, they approached Ms. Orton, and the cost came to $3,000 for the one year and $8,179 (when he was on the Board) for which they paid. There was no free use.

Dir. Tokioka asked Mr. Nāhoʻopiʻi if, at any stage, he considered circulating the information to the Board for permission to use the space, considering the two items were $14,000.

Mr. Nāhoʻopiʻi said he was not happy that there were skewed events and skewed positions. The list was edited. There were multiple requests from multiple Board members over various periods of time for those kinds of uses. He had requests to do the Okinawan delegation and multiple requests from DBEDT director for use of the room, as well as DBEDT agencies through the Director as well as the Governor. Use of the room happens quite often. They always determine if it is related to what they are doing. As for not knowing, he knew about the events. He had responded to the ethics commission because there was an investigation he did not sign off on, as identified by the auditor. He knew about the Hawaii Green Growth because he is also part of one of the leadership, an HTA sponsored meeting, and when they do briefings. He would not bring it up with the Board because they have multiple similar meetings and use of the room in various situations, which has happened for many years. He recalled that the Board had brought up not just the room use but also the fact that the HCC had been discounting various uses for organizations that come in. There is a policy for nonprofit use, which was brought up in 2023, where some legislators complained that their organization was not given a discount while other organizations were given discount. And that was discussed at the Board. That is why they have been working with the VP of finance to work with the HCC contract so that there is a clearer identification of what qualifies for a discount, what does not qualify for a discount, and who gets to be put into the HCC. He reminded everyone that the HCC is operated for revenue purposes. It is a sales and marketing approach. Sometimes, Ms. Orton has the right to offer a discount or free room if it will result in long-term business or an increase in food and beverage at a certain point. Those are all things that are not very clear in the process. If the issue is that people in control of the HTA should not be utilizing the room, they have to discuss all the examples. He is glad there is a request to look at all of the examples and uses of the room over a period of time and to see who requested, who paid, and who did not pay.

Ms. Iona thanked everyone who participated in the report. She said they did not come across any issues. In the hospitality industry, they have what is called discounted rates, which are comp rates versus retail rates. She questioned the exact cost, which varies according to who and what it is for. She said Mr. Kondo mentioned that the report he was given had no signatures.

Mr. Kondo said the space use request form had no signatures. He wanted to clarify what else he said. He agreed that there was no fraud. He did not say that it is a non-issue. He meant that it is a non-issue for the auditors because of the amount of money. It is an issue, and someone needs to look at it. The other issue is the discounted rate. It is not about the discount. Their issue as auditors is that what they are reporting is that there are internal controls, meaning that there are discounted or complementary use policies the authority and HCC have in place, and it does not appear they were followed.

Ms. Iona said that is an issue for the Board and the VP of Finance. She was the first person to tell him of the concerns they were receiving about inappropriate rentals and inappropriate funds being charged to people and not being charged to some people. That was in her interviews with the legislature. She did not recall getting a copy of the policies to review or approve. She asked Mr. Choy if he had given the Board copies. Mr. Choy said he was unsure of the timeframe she was discussing. She asked if he would distribute it to the Board whenever there were new policies. Mr. Choy said it was approved and voted on. She asked Mr. Choy if he provided information in the report about using the buildings during the wildfires.

Mr. Choy said they were all reported by HCC and billed to HiEMA. Ms. Iona asked if the HCC provided any discounts for those emergencies. Mr. Choy was unsure. He was unfamiliar with the rental arrangements with the Hawaiʻi Emergency Management but is in charge of the HCC reports. Ms. Iona asked if they had been fully paid. Mr. Choy said not yet.

Dir. Tokioka said they have been fully billed to HiEMA. He said the federal government does not work very fast. None of the spaces were comped, but the government, the state government, and the city government qualify for a 50% room rental discount. He asked Mr. Choy if that was part of the HCC's policy. Mr. Choy confirmed that as correct.

Dir. Tokioka was unsure what HiEMA was charged for, but they were charged. If FEMA were not in the room, they would have lost money because they were paying. Whether they got the check, he is unsure. Mr. Choy said that some of the reimbursements take five years to get.

Ms. Iona asked Mr. Choy about feeling uncomfortable about going to the CEO and asked why he decided to go to the Director. Mr. Choy said the CEO and the Chair were in the transaction chain, so he went to the Director. Ms. Iona asked why he did not feel comfortable going to his boss and asked if he made it a common practice to go to the director on more occasions than to his boss. Mr. Choy said if somebody is in the transaction chain, his professional standards say to keep going up the chain. Mr. Arakawa said that is a question for the personnel manager and the AG. He said it is a well-known law that if your supervisor may be involved in something that you are reporting, you do not take it to the supervisor. You take it above the chain.

Vice Chair Paishon echoed Ms. Iona's sentiments. She thanked the auditing team and Mr. Kondo. She said it is wonderful to receive reports with no material weakness, no significant deficiencies, and no report of fraud. She thanked Chair Hanneman for explaining the situation that surfaced about the allegation of abuse of power. She said he could enumerate the information and the data that substantiated that he did not receive complimentary use for his request and paid for the HLTA events. She ensured with Chair Hannemann that they agendize, when appropriate, the requests that have come up in the meeting. One is from Mr. White, an inventory of organizations of all the Board members, organizations, and/or staff members who may have received complimentary or discounted use of the convention center facilities. She requested a copy of Mr. Choy's list, which he had provided to Mr. Kondo. And lastly, the two recommendations that Mr. Arakawa put forward are good recommendations for developing two additional policies. One is that there should be a process to review a grant request that would involve another state department or agency. Secondly, when they are considering receipt of federal funding and support, another policy or procedure must be established again. Her final comment was that she was happy they were able to surface those items in a robust discussion and that there were procedural remedies they were thinking through.

Chair Hannemann said he can foresee other departments also wanting to use space at the HCC. The boardroom is a prime space, whether tourism-related, profit, or nonprofit government agency. There should be value in that, and there should be a policy.

Mr. Arakawa said they are talking about at least $14,000 in free food, beverage, and drink. He doubts that the HCC gives $14,000 of free food and drink to DBEDT.

Dir. Tokioka said DBEDT received no free food and drinks.

Chair Hannemann and Mr. Arakawa debated the times the HCC was asked to be used. Mr. Arakawa reiterated the $14,000 amount. He said it was not DBEDT as it did not get free food and drinks. Chair Hannemann reiterated that he is requesting a policy to be in place.

Dir. Tokioka said they were meeting because the auditor found a discrepancy and put it in the report.

Mr. McCully pointed out to the members of the Board that they do have a policy. It is 100-03 and concerns the code of conduct policy, which Mr. Kondo mentioned earlier. The policy purpose should be reviewed by these members prior to the Thursday meeting. There are a number of provisions that are directly relevant to what they are discussing. It is incumbent upon all of them, but most especially being the Chair of the Board, that he must be acutely aware and sensitive to the nature of a policy violation or a policy transgression.

Mr. White said it would be important for them to look at what discounts are given to other local organizations that have used the facilities for meetings or sporting events because they have to be very clear with the public. He appreciated Mr. Kondo's focus on ethics; they all need to have a strong focus there. Listening to Mr. Kondo's explanations, in his view, there is a rationale for what was done, and they have paid partially. He said before they take any further action, they need the full list of the discounts given by Ms. Orton to other organizations.

Chair Hannemann said to keep in mind that for the Public Safety Conference, the HTA also sponsored that conference. It also needs to be taken into account what they can contribute and bring to the table, and it must be added to the policy.

Mr. Arakawa agreed. He said the Hawaiʻi Hotel association should be invited too, but they are not invited to those events that the HLTA puts on. If they have a policy about doing industry-wide things, they should invite the largest organization that handles the most hotel rooms. If they are going to give discounts to hotel-related visitors, they must include everybody.

Dir. Tokioka said they could recess the meeting and reconvene it in the Thursday meeting as there are still a lot of comments.

Chair Hannemann agreed.

Dir. Tokioka asked to put that at the front of the agenda.

Dir. Tokioka spoke to Mr. White's comment about people getting freebies. He said they must take note of how many of them were Board members.

Mr. Kondo clarified that he only received documentation reflecting the HTA's approval or payment of costs associated with using the HCC by other private organizations between two and a half years. They have policies, and the HTA has policies, but the internal controls regarding the use of the HCC were not followed. The HTA approved freebies and discounted the use of the HCC. Mr. Hanneman and others were talking about policies relating to other state agencies. That is not what they looked at. That is not what the internal control report was about.

Chair Hannemann said the Board also wants to see completeness.

Mr. Kondo said the Board also approved HCC's use policies, and one of those policies is no freebies for nonprofits or Hawaiʻi Kamaʻāina organizations.

Dir. Tokioka asked for a motion to go into recess until Thursday.

Dir. Tokioka made a motion for the meeting to be recessed until Thursday at 9:30 a.m., to request the first item on the agenda.

Mr. McCully pointed out that members of the public had questions that would need to be answered at the next meeting.

**5. Discussion and/or Action on Personnel Issues*****

**6. Adjournment**

Chair Hanneman adjourned the meeting at 1:06 p.m.

Respectfully submitted,

Sheillane Reyes

_______________________________________

Sheillane Reyes
Recorder