



**AUDIT STANDING COMMITTEE MEETING**  
**HAWAII TOURISM AUTHORITY**  
**Friday, December 11, 2020**  
**Virtual Meeting**

**MINUTES OF AUDIT STANDING COMMITTEE MEETING**

<b>COMMITTEE MEMBERS PRESENT:</b>	David Arakawa (Chair), Micah Alameda, and Fred Atkins
<b>HTA BOARD MEMBER PRESENT:</b>	Richard Fried
<b>HTA STAFF PRESENT:</b>	John De Fries, Keith Regan, and Marc Togashi
<b>GUESTS:</b>	Eric Tsukamoto, Donn Nakamura, Lauren Kawajiri, and Talon Kishi
<b>LEGAL COUNSEL:</b>	Gregg Kinkley

**1. Call to Order:**

Chair David Arakawa called the meeting to order at 11:04 a.m. Keith Regan, HTA Chief Administrative Officer, provided instructions to the general public with regard to submitting testimony. Mr. Regan confirmed the attendance of the Committee members by roll call. Mr. Regan turned the floor over to Chair Arakawa.

**2. Approval of the Minutes of the December 12, 2018 Audit Standing Committee Meeting:**

Chair Arakawa requested a motion to approve the minutes of the December 12, 2018 Audit Standing Committee meeting. He noted that the Committee did not meet in December 2019 due to quorum issues, but the results of the audit were presented at the December Regular Board meeting and is reflected in the meeting minutes. Micah Alameda made a motion, which was seconded by Fred Atkins. The motion was unanimously approved.

**3. Presentation and Discussion on the Financial Statement Audit for Fiscal Year 2020:**

Chair Arakawa recognized Eric Tsukamoto of Acuity LLP (Acuity) to discuss the audit of the financial statements for Fiscal Year (FY) 2020. Mr. Tsukamoto summarized the contents of the required communications letter and noted that Acuity encountered no significant difficulties with HTA staff during the course of the audit.

Chair Arakawa asked whether it would be appropriate to share the audit results with the appropriate legislators and committees. Mr. Tsukamoto responded in the affirmative.



Mr. Tsukamoto said that Acuity audited each major fund for HTA, and HTA staff are responsible for preparing the financial statements in accordance with applicable law.

Marc Togashi, HTA Vice President of Finance, noted that the audit report is addressed to the Office of the Auditor and the HTA Board and that Acuity's contract is with the Office of the Auditor.

Mr. Tsukamoto highlighted three items on the Statement of Activities: the Legislature's cancelation of \$243 million in debt, the decrease of \$15.9 million in TAT revenues, and the decrease of \$20 million in HTA expenses. He also highlighted a \$308,000 increase to HTA's net pension liability.

Mr. Atkins asked if prior to the suspension of Transient Accommodation Tax (TAT) disbursements, did the Special Tourism Fund and the Hawai'i Convention Center (HCC) Special Fund receive \$65 million and \$13.7 million in disbursements respectively. Mr. Togashi responded in the affirmative and noted that the funds were received in monthly distributions.

Mr. Atkins asked what a restricted fund is. Donn Nakamura of Acuity responded that it is a technical classification for government accounting standards. Mr. Nakamura added that all HTA funds are committed funds designated by statute.

Mr. Atkins asked if the \$241,000 paid to AEG includes both a marketing fee and a management fee. Mr. Togashi responded that AEG charges a \$260,000 management fee to manage the operations of HCC. Due to COVID-19, changes to the scope of the contract are reflected by the \$241,000 in the financial statements. Mr. Atkins asked if the Hawai'i Visitors and Convention Bureau (HVCB) charges a separate fee to manage the marketing for HCC. Mr. Togashi responded that HVCB does not charge a fee, just payroll cost for employees.

Chair Arakawa asked for clarification about the reduction of the AEG management fee. Mr. Togashi responded that they renegotiated the management fee with AEG due to the low activity in HCC. Chair Arakawa asked if the cost to pay both AEG and HVCB exceeds the cost of paying AEG to manage both marketing and operations. Mr. Togashi responded that the streamline in operations has resulted in a reduction of costs. Chair Arakawa requested a cost comparison.

Mr. Atkins asked if AEG's contract was set to expire prior to making the marketing transition to HVCB. Mr. Togashi responded that the current contract with AEG runs through the end of December 2020. He noted that HTA is negotiating a contract extension with AEG, which the staff has the statutory authority to do.



Mr. Atkins asked about the investments in the Emergency Special Fund. Mr. Togashi responded that of the \$5 million in emergency funds, \$2.13 million is invested and \$3 million is in money market cash equivalents. Mr. Atkins asked if HTA can tap the investments without incurring penalties. Mr. Togashi responded that they purposely did not renew the investments and let them mature. He noted that the investments should mature early in the 2021 calendar year.

Mr. Alameda asked if HTA has received any reimbursement from the Coronavirus Relief Fund (CRF) for HTA's support of COVID-19 relief efforts. Mr. Regan responded that HTA has submitted a \$3.3 million reimbursement request, but the request remains outstanding. He added that HTA continues to reach out to Governor David Ige's office and Director Mike McCartney of the Department of Business, Economic Development and Tourism (DBEDT).

Chair Arakawa said that a follow-up letter should be sent and that six months interest should be added to the CRF reimbursement request. He said that he and HTA Board Chair Richard Fried would help prepare the letter.

Mr. Atkins asked if HTA will be cut off from CRF reimbursement if they do not receive the reimbursement by the end of the calendar year. Mr. Regan responded that the U.S. Treasury Department will claw back unused CRF funds after December 31, 2020. He said that HTA has made numerous attempts in writing, sent e-mails to various parties, and made re-transmittals of the original documents to numerous parties. He noted that Chris Tatum, former HTA President & CEO, called on Gov. Ige and Dir. McCartney, and that John De Fries, current HTA President & CEO is likewise making a strong push.

Gregg Kinkley, HTA Legal Counsel, cautioned that the discussion may be straying too far from the agenda item. Mr. Arakawa expressed concern that Mr. Kinkley may be trying to suppress this discussion.

Chair Arakawa asked the auditors if they think that HTA's collaborative effort with and financial contributions to the State, which were beyond HTA's scope of responsibilities, to address COVID-19, and that HTA has not yet received any reimbursement, should be included in Acuity's audit report. Mr. Nakamura responded that Acuity audits whatever is in the financial statements and that the expenditures and expenses were recorded. He added that this is something Acuity can review further.

Chair Arakawa noted that it is important to know whether Acuity believes the issue of CRF reimbursement is relevant to the audit. Mr. Regan said that Hawai'i Revised Statutes 201(b)(3) enabled HTA to participate in the COVID-19 relief efforts and would be happy to support the Committee and Acuity by answering any questions.



Mr. Atkins said that funds allocated to COVID-19 relief efforts up until June 30, 2020 should be reflected in the FY 2020 financial statements. He noted that funds allocated beyond that may be beyond the current agenda item.

Mr. Fried asked how much money HTA spent from March to June 30, 2020 to support the State. Mr. Togashi responded that the FY 2020 budget was encumbered by \$2.9 million, and the expenses are included in the financial statements under Contract Expenses.

Chair Arakawa asked if HTA had a contract with any other state agencies concerning the \$2.9 million. Mr. Togashi responded that the funds were disbursed through a variety of vehicles. Chair Arakawa said that HTA was previously audited for spending money without contracts. He noted that there should be a contract if the funds fall under Contract Expenses.

Mr. Kinkley said that he is HTA's legal counsel and operates with HTA's best interest in mind. Chair Arakawa expressed concern that Mr. Kinkley is trying to stymie discussion and that there may be a conflict of interest with the Attorney General's Office (AGO) because the AGO represents Gov. Ige and the people withholding CRF reimbursement. Mr. Fried responded that he has worked with Mr. Kinkley for many years and has known him to clearly represent HTA.

Chair Arakawa asked if the AGO has done anything on HTA's behalf to counsel Gov. Ige to reimburse HTA for \$3.3 million. Mr. Regan responded that the letters HTA has sent is based on instructions from the Office of Budget and Finance. Beyond that, communications have been with Gov. Ige, Dir. McCartney, and the Office of Budget and Finance directly.

Mr. De Fries said that he would reach out to the AGO and discuss this matter with them.

Chair Arakawa said that Mr. Togashi should discuss with the auditors whether there should have been a contract or some form of written understanding.

Mr. Kinkley said that there is no conflict of interest and a full investigation into this matter at the next Regular Board meeting would be fine. Chair Arakawa responded that it is important that the financial statements and audit report reflect accurate information and that the Committee should be able to discuss these issues.

Mr. Atkins recommended that moving forward any future assistance that HTA provides to the State should have a contract. He asked if HTA is still involved with COVID-19 relief efforts. Mr. Regan responded that HTA assists with the call center, the Hotels for Heroes Program, and the Visitor Aloha Society of Hawai'i (VASH) Flight Assistance Program. However, those programs are directly funded by the CRF, and HTA is not waiting on



reimbursement.

Chair Arakawa asked if HTA has been recording all of the staff time devoted to COVID-19 relief efforts. Mr. Regan responded in the affirmative, but the CRF reimbursement request does not include the staff hours related to those activities, which is consistent with what other agencies have done. Chair Arakawa responded that HTA is very different from other agencies because it is specially funded by TAT.

Mr. Alameda said that Chair Arakawa has raised valid points about the CRF reimbursement request and that further discussion should be an agenda item for the next Regular Board meeting. Mr. Kinkley noted that the agenda does not need to be changed, but out of an abundance of caution, an agenda item could be added to provide notice to the public.

Mr. Nakamura said that although there is no accrual, the \$2.9 million expense was not an immaterial amount, and Acuity will mention the reimbursement request in a footnote disclosure.

Chair Arakawa asked if the audit revealed any fraud, waste, or abuse. Mr. Nakamura responded in the negative. Mr. Fried commended Mr. Regan, Mr. Togashi, and the HTA staff for the clean audit report.

Mr. Atkins asked about the \$1.013 million disclosure relating to employee sick leave. Mr. Nakamura responded that it is a standard disclosure. Mr. Togashi added that it reflects the accumulated sick leave of current employees. Mr. Regan confirmed that it only includes current employees because accumulated sick leave is paid out or transferred if an employee transfers out of HTA.

Mr. Tsukamoto said that a compliance audit for federal requirements may be required for the FY 2021 audit.

Mr. Kinkley confirmed that the discussion of CRF reimbursement was in line with the agenda item.

Mr. Atkins made a motion for the Committee to recommend that the Board accept the financial statements and Acuity audit report, which was seconded by Mr. Alameda. The motion was unanimously approved.



**4. Adjournment:**

The meeting adjourned at 12:43 p.m.

Respectfully submitted,

*Reyn S.P. Ono*

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Reyn S. P. Ono  
Recorder