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Hawaii News

Politicians benefited from Hee's exorbitant spending

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Albert Hee

Internal Revenue Service auditor Crystal Carey had been poring over boxes of complex, convoluted accounting records for Waimana Enterprises Inc. for months when she asked to see the jewelry.

Waimana, the holding company founded by telecommunications entrepreneur Albert Hee, had acquired \$109,971 in paintings along with jewelry valued at \$505,502. Hee's accountants had been claiming depreciation of those assets for tax purposes, and Carey questioned that practice. She asked to see the items.

Hee obliged by showing Carey one ring valued at \$123,070, and another worth \$16,695. In written responses to IRS inquiries, the company asserted the jewelry purchases qualified as business expenses because Hee's wife, Wendy, and his two daughters wore the items to company functions as representatives of Waimana Enterprises.

The IRS auditor disagreed, concluding the jewelry was evidence Hee used Waimana's company funds to make personal purchases. In a report filed in federal court, Carey suggested that "the fact that only Mr. Hee's family members wore the jewelry, and not other employees, merely demonstrates who the real owner of the jewelry is: Mr. Hee."

Carey's audit of Waimana and a parallel IRS audit of a Waimana subsidiary called Sandwich Isles Communications Inc. eventually ballooned into a criminal prosecution that led to Hee's conviction last summer on seven federal tax charges.

The IRS investigation also exposed some eye-popping spending in a politically connected corner of Hawaii's business community that benefited from hundreds of millions of dollars in federal subsidies and contributed generously to the campaigns and causes of many of the state's leading politicians.



STAR-ADVERTISER

Albert Hee:
The executive had easy access to isle politicians in D.C.

The state Department of Hawaiian Home Lands in 1996 issued an exclusive license to Waimana to provide telecommunications service on Hawaiian homelands, and that license was later transferred in part to Sandwich Isles. The license was critically important because it enabled the companies to tap into rich veins of federal subsidies.

Sandwich Isles went on to borrow \$165 million from the U.S. Department of Agriculture's Rural Utilities Service to construct a telephone and data network to serve Hawaiian homelands, and obtained commitments from USDA for hundreds of millions of dollars in additional loans, according to data provided by Sandwich Isles.

Federal records show Sandwich Isles has also received \$242 million in federal Universal Service Fund subsidies since 2003 to further support the construction and operations of its telephone and data network, which now serves about 3,600 homelands customers.

Despite those extraordinary federal contributions, the Sandwich Isles network is still only 10 percent complete on Oahu, and 20 percent complete on Hawaii island, according to data provided by Sandwich Isles last week. The system is 60 percent complete on Maui, and is 95 percent complete on Kauai, the company says.

Last month, Hee told members of the Hawaiian Homes Commission that Sandwich Isles never made a profit, and therefore never contributed money to fund a job training and educational program for Hawaiians as stipulated in the license agreement.

But the IRS and FCC questioned the many millions of dollars in payments from Sandwich Isles to Waimana, and the IRS exposed a pattern of generous spending by Waimana from its 27th-floor offices in Pauahi Tower in downtown Honolulu.

In a document headlined "Badges of Fraud for Waimana Enterprises Inc.," auditor Carey observed Hee would use two personal credit cards to pay both personal expenses and company expenses, but did not keep receipts "so there is no way to distinguish between personal and business expenses," according to the report. "However, some expenses are clearly personal in nature such as purchases of purses, tennis shoes and other items of clothing."

When the auditor questioned Hee about a \$6,000 "consulting fee" paid to masseuse Diane Doll that had been deducted as a business expense, Hee replied: "You never know where you are going to get information about the competition from," according to the auditor's report.

Hee later declined to meet in person with auditors, and Carey reported she never got the chance to inspect other jewelry that Waimana had purchased such as "Ming's Carved Ivory Jewelry" that included earrings, a necklace, brooches, cuff links, pendants and bracelets.

The auditor noted the company paid membership fees for officers Gilbert Tam and Randy Ho at Waialae Country Club, and also covered membership costs at another club for former Kamehameha Schools trustee Robert Kihune, according to the auditor's report. Kihune, a retired vice admiral, is now chairman of the board for Sandwich Isles.

Season tickets were also provided to some employees for University of Hawaii football, women's volleyball and basketball games. The company also provided company cars for its executives to use, according to federal court records.

The auditor's report also noted Waimana failed to file taxes for the years 1997 to 2003 until 2005, which it described as "a significant issue of concern."

Hee, 61, was convicted July 13 in federal court in Honolulu of six counts of filing false income tax returns and one count that he corruptly impeded the IRS from correctly calculating and collecting his taxes, offenses that could carry prison terms of up to three years on each count.

Hee was convicted of concealing from the IRS that Waimana deducted \$2.75 million as business expenses that it had paid to cover Hee's personal expenses. Hee was also convicted of filing false federal tax returns because he failed to list those payments as personal income.

Among the supposed business expenses cited by prosecutors were \$718,559 the company paid for college tuition and living expenses for Hee's three children, \$92,000

in payments for massages for Hee, and \$121,878 in credit card charges made by Hee for personal expenses, according to the federal indictment.

The indictment also listed \$722,550 in payments by Waimana as "false wages" to Hee's children, whom the indictment alleged actually did little or no work for the company. The indictment also alleged Waimana claimed as wages \$590,201 that was paid to Hee's wife, when she allegedly did no work for the company.

The IRS audit and federal campaign spending records also underscore the political aspects of Waimana and Sandwich Isles.

Hee and executives from his companies together made thousands of dollars in contributions over the years to many of Hawaii's leading Democratic politicians, including the late U.S. Sen. Daniel Inouye, former Gov. Neil Abercrombie, former U.S. Rep. Colleen Hanabusa, former U.S. Sen. Daniel Akaka, U.S. Sen. Mazie Hirono, U.S. Sen Brian Schatz and former U.S. Rep. Ed Case.

Waimana executives also gave thousands of dollars to the Hawaii Democratic Party, and Hee personally made contributions to Democratic Party organizations in North Carolina, Ohio, Florida, Wisconsin, Iowa, New Hampshire, Pennsylvania and Virginia. He donated more than \$60,000 to the Obama Victory Fund in 2011 and 2012.

Hee and his family enjoyed comfortable access to Hawaii's politicians in Washington, D.C., and Hee's daughter, Adrienne, testified during the tax trial that she accompanied her father on trips to visit with the Hawaii delegation.

"On those trips we would go down to visit the FCC, to visit the senators at the time, Inouye and Akaka, in their offices. We'd also meet with different lobbyists and lawyers," she testified.

Waimana was a sponsor of the Hawaii State Society Inaugural Ball in 2009 in Washington, D.C., following President Barack Obama's election, which was an event that Inouye also supported. Wendy Hee testified she made a point of calling on the senator when she attended the event to be sure he knew Waimana was "there to help support" the celebration.

Hee told Forbes in a 2002 interview he was friendly with then-FCC Chairman Michael Powell, and FCC records show Inouye at times would contact the FCC on Hee's behalf.

Hee's political connections also cropped up during the audit. Among the items questioned by the IRS was \$44,644 that Waimana paid in 2005 in connection with the Washington, D.C., funeral for former U.S. Senate Sergeant-at-Arms Henry K. Giugni, who was a longtime aide to Inouye. Among other expenses, Waimana helped to pay for traffic control for the funeral procession for Giugni, according to federal court records.

Hee's tax convictions have now triggered an entirely new audit of Sandwich Isles by the

Federal Communications Commission as well as a separate review of Sandwich Isles by the Department of Hawaiian Home Lands.

Hee's tax convictions prompted the FCC to suspend federal subsidy payments to Sandwich Isles that are worth about \$1.36 million per month. In an Aug. 7 letter to Sandwich Isles announcing the suspension of payments, federal officials said they plan to investigate whether Sandwich Isles' transactions from 2002 to 2015 complied with FCC rules.

Janeen-Ann Olds, president and chief executive officer of Sandwich Isles, said last week the company has so far produced an estimated 40,000 pages of accounting and other records in an effort to satisfy the FCC.

Hee declined to be interviewed for this story.

THE TIMELINE

- >> **1996:** Waimana Enterprises Inc. is awarded an exclusive license to provide telephone and data services on Hawaiian homelands.
- >> **2000:** The U.S. Department of Agriculture's Rural Utilities Service approves a plan by Waimana subsidiary Sandwich Isles Communications Inc. to construct a broadband and telephone network to serve homelands customers.
- >> **2008:** The Internal Revenue Service begins its tax audit of Waimana. A tax audit of Sandwich Isles is already underway.
- >> **2009:** The IRS ends its civil audit of Waimana, and opens a criminal investigation.
- >> **2013:** The Federal Communications Commission reduces Universal Service Fund subsidies for Sandwich Isles Communications, arguing the company's costs "far exceed any reasonable level."
- >> **2014:** Waimana founder Albert Hee is indicted on tax charges.
- >> **2015:** Hee is convicted on seven tax-related charges that each carry penalties of up to three years in prison.