University of Hawai‘i
State of Hawai‘i
Internal Control and Business Issues Report
Year Ended June 30, 2015
To the Board of Regents  
University of Hawai’i

In planning and performing our audit of the consolidated financial statements of the University of Hawai’i (the “University”) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

We are pleased to present for your consideration, comments and observations identified during the course of our audit that were not required to be reported in our OMB Circular A-133 compliance audit report. This letter is intended solely for the information and use of the Board of Regents, management, and others within the University and is not intended to be and should not be used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact us.

Honolulu, Hawaii  
February 2016
University of Hawai‘i
State of Hawai‘i
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Year Ended June 30, 2015

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Comment No. 15-01: Property and Equipment Accounting Practices

During our audit, we noted the following matters related to the accounting of the University's property and equipment expenditures:

- We identified five capital projects with an approximate cost of $23 million that were not reclassified from construction in progress ("CIP") to depreciable assets in a timely manner in the Statements of Net Position. When a construction project is completed or an asset is placed into service, the University should reclassify the capitalized cost from CIP and commence depreciation of the asset over its estimated service life.
- We identified two capital projects for which retention payables of approximately $220,000 were not accrued for as of June 30, 2015.
- We identified two instances in which architecture and engineering ("A&E") costs of approximately $1,000,000 were improperly expensed.

Failure to properly account for capital assets could lead to material misstatement of the University's consolidated financial statements.

Recommendation

We recommend that the University do the following:

- Implement monitoring and oversight procedures to ensure that completed construction projects are identified in a timely manner;
- Monitor large, aging capital projects and determine whether the project should be placed into service and depreciated;
- Consider componentizing/capitalizing parts of the project if assets are separately identifiable and in use; and
- Review A&E costs expensed to determine whether capitalization may be appropriate.

Comment No. 15-02: Travel Completion Report

During our audit of the C3T major federal program, we noted an instance where a "Travel Completion Report" form was not submitted within 21 days from the end date of a trip. The instance of noncompliance was as follows:

- For the travel period from July 19, 2014 to July 28, 2014, the "Travel Completion Report" was not submitted until December 24, 2014.

Paragraph 14, subsection f, of section A8.851, Employee Out-of-State and Intra-State Travel, of the University's Administrative Procedures Manual states that "the Travel Completion report must be submitted to the traveler's business office within 21 calendar days from the end date of the trip."

Failure to submit the "Travel Completion Report" in a timely manner may result in the untimely disbursement of federal funds by the University.
Recommendation

We recommend that all reimbursement requests for travel expenditures are submitted and approved in a timely manner in accordance with University and RCUH policies.

Comment No. 15-03: Centralization of Student Financial Aid Packaging

During our prior audits, we noted that the University began to evaluate centralization of its student financial aid processing functions for the Community Colleges. We believe, with a reallocation of resources and permanent staffing of this system office, centralization can be further expanded to include packaging of aid, compliance reporting and other back office functions.

During our 2015 audit, we noted that the University has further implemented certain application processes and computerized procedures at the community college system level and is also evaluating additional financial aid processes that could be centralized. The Community College System Office has established three positions for fiscal year 2016 to further centralize financial aid functions.

Recommendation

We recommend that the University continue its consideration of centralizing many of the compliance monitoring and reporting functions at the system level to ensure consistent review of compliance requirements are done for all 10 campuses. We believe that the focus of the campus financial aid officer and counselors should be to counsel their students and attend to their specific needs.

Comment No. 15-04: Untimely Execution of Purchase Order

During our audit of the Title VII Native Hawaiian Education major federal program, we noted an instance in which a purchase order for $1,306 was executed and approved subsequent to the receipt of the goods or services from the vendor.

An executed and approved purchase order serves as an indication that a formal agreement between the vendor and the University regarding the nature and cost of goods or services to be provided has been reached.

Failure to complete a purchase order prior to the commencement of services or the receipt of goods from a vendor exposes the University to an undue risk of the misuse of federal funds.

Recommendation

We recommend that the University ensure that a purchase order is properly executed and approved prior to the receipt of goods or services from a vendor.
Comment No. 15-05: Untimely Approval of Procurement

During our audit of the R&D Cluster major federal program, we noted an instance in which an expenditure was reimbursed via the RCUH "Reimbursements for Cash Purchases Form," however, the item for which reimbursement was made exceeded the defined small purchase threshold and was procured without prior approval from the Fiscal Administrator or Designated University Official.

In the event that the "Reimbursements for Cash Purchases Form" is used, RCUH policy 2.703, Optional Procedures for Small Purchase – Reimbursement for Cash Purchases Form, requires prior approval from either the Fiscal Administrator or Designated University Official be obtained for all small purchases in excess of $250.

Failure to comply with internal policies and procedures exposes the University to an undue risk of the misuse of federal funds.

Recommendation

We recommend that proper approvals are obtained in accordance with University and RCUH policies.
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UNIVERSITY of HAWAI'I

SYSTEM

CORRECTIVE ACTION RESPONSES FOR THE INTERNAL CONTROL
AND BUSINESS ISSUES REPORT

FISCAL YEAR ENDED JUNE 30, 2015
Comment No. 15-01: Property and Equipment Accounting Practices

Individual Responsible: Susan Lin, Director, General Accounting and Loan Collection

Date Action Taken: Immediately

We agree with this finding and have formulated plans to establish systematic monitoring and oversight procedures to ensure timely capitalization of capital projects. In addition, we will develop tools (e.g., checklist, standard project completion form, and reference guide) and training for the project and financial administrators across the University system to improve the classification of A&E costs.

Independent of the audit, we will be implementing a capital project management software, e-Builder, to standardize capital project processes across all campuses and the system offices, provide transparency of the project status, and effectively manage project budget for all funding sources.

Comment No. 15-02: Travel Completion Report

Individual Responsible: Susan Horimoto, Fiscal Manager, Hawai‘i Community College

Date Action Taken: September 12, 2014

RCUH sent monthly reminder notices for the outstanding Travel Completion to the Hawai‘i Community College Business Office beginning on 09/12/14 through 11/12/14. The Business Office forwarded the reminder notices to the project for processing. The individual responsible for processing the Travel Completion Report at the project level did not initiate and complete reports in a timely manner and has since terminated.

Going forward, all delinquent Travel Completion notices sent by RCUH will be forwarded to the program staff as well as the individual traveler. The Business Office will withhold any subsequent travel advances for both a program and an individual traveler while there are outstanding travel completion reports for that program or individual.
Comment No. 15-03: Centralization of Student Financial Aid Packaging

Individual Responsible: Gregg Yoshimura, Financial Aid Specialist, UH System
Catherine Bio, Financial Aid/Special Projects, UHCC System

Date Action Taken: September 2015

UH Community College (UHCC) System Office has established three permanent positions for the Central Financial Aid Office (CFAO). Recruitment for these positions will begin in February 2016. The CFAO will take the lead in recommending best practices, procedures, and policies to help ensure compliance and promote student success. CFAO will work closely with the system office, as well as campuses, in identifying and expanding functions that can be done centrally to bring alignment and consistency as appropriate.

Comment No. 15-04: Untimely Execution of Purchase Order

Individual Responsible: Richard Okubo, Institutional Support, SEED

Date Action Taken: January 12, 2016

From this date forward, ‘after the fact’ purchase order requisitions will not be approved. If such a service is rendered prior to the issuance of a purchase order, the payment will be the responsibility of the individual who requests the service.

I have educated program staff and directors on the proper procedures for purchase order requisitions and the consequences of an untimely purchase order request. I will also remind them periodically.

Comment No. 15-05: Untimely Approval of Procurement

Individual Responsible: Stephen Chun, Administrative Officer, Natural Sciences Dean’s Office

Date Action Taken: January 12, 2016

I have reviewed and will adhere to RCUH Policy 2.703 and understand that this procedure should only be used occasionally, in the interest of speed and convenience. I have reminded my departments of the RCUH Procurement & Disbursing policies for proper purchasing procedures and the limitation of reimbursements for small purchases of $250 or less with personal funds, unless the Fiscal Administrator's or Designated University Official's prior approval is obtained.