In light of the evolving COVID-19 situation, protecting the health and welfare of the community is of utmost concern. As such, this will be a virtual meeting and written testimony and oral testimony will be accepted in lieu of in-person testimony. Meetings may be monitored remotely via the livestream pilot project. See the Board of Regents website for information on accessing the livestream: www.hawaii.edu/bor. Mahalo for your consideration.

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the March 4, 2021 Meeting

III. Public Comment Period for Agenda Items:

All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via the board’s website through the testimony link provided on the Meeting Agendas, Minutes and Materials page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail, or facsimile at (808) 956-5156. All written testimony submitted are public documents. Therefore, any testimony that is submitted for use in the public meeting process is public information and will be posted on the board’s website.

Those wishing to provide oral testimony for the virtual meeting may register here. Given constraints with the online format of our meetings, individuals wishing to orally testify must register no later than 7:00 a.m. on the day of the meeting in order to be accommodated. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier.

IV. Agenda Items

A. Review and Acceptance of Revenue Bond Covenant and Policy Compliance Status of Corrective Action

B. Review and Acceptance of Review of Clearing Accounts Status of Corrective Action

For disability accommodations, contact the Board Office at 956-8213 or bor@hawaii.edu.
Advance notice requested five (5) days in advance of the meeting.
C. Review and Acceptance of Review of the Waikīkī Aquarium
D. Update on Reviews of University Housing Program (for information only)
E. Audit Project Status Update
G. Designation of Committee Member Financial Expertise

V. Adjournment
Note: On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a public health emergency of international concern, subsequently declaring it a pandemic on March 11, 2020. On March 16, 2020, Governor David Y. Ige issued a supplementary proclamation that temporarily suspended Chapter 92, Hawai‘i Revised Statutes, relating to public meetings and records, “to the extent necessary to enable boards to conduct business in person or through remote technology without holding meetings open to the public.”

I. CALL TO ORDER

Chair Randy Moore called the meeting to order at 8:34 a.m. on Thursday, March 4, 2021. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Chair Randy Moore; Vice-Chair Alapaki Nahale-a; Regent Simeon Acoba; and Regent Ernest Wilson.

Committee members excused: Regent Wayne Higaki

Others in attendance: Board Chair Benjamin Kudo; Regent Eugene Bal; Regent Jan Sullivan; Regent Michelle Tagorda; Regent Robert Westerman (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Mānoa (UHM) Provost Michael Bruno; UH-Hilo Chancellor Bonnie Irwin; UH-West O‘ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Regent Wilson, moved to approve the minutes of the December 3, 2020, meeting, seconded by Regent Acoba, and noting the excused absence Regent Higaki, the motion carried, with all members present voting in the affirmative.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.
IV. AGENDA ITEMS

A. Review and Acceptance of Status of Corrective Action of UHM Student Housing Services

Glenn Shizumura, Director of the Office of Internal Audit (OIA), explained the background of a 2018 report on the status of corrective actions taken by UHM Student Housing Services and a subsequent review in 2019 which determined that, although some corrective measures had been implemented, a number of these actions were still in the process of being initiated. In a follow-up evaluation of an updated corrective action plan and the status of corrective actions taken, OIA has validated and concluded that all corrective actions have been implemented and specifically noted improvement shown in collection efforts.

Regent Acoba requested further details on efforts by the Office of the Bursar to collect $1.48 million in unpaid housing balances and asked what the administration’s assessment was for collecting this amount. Carolyn Aquino, Fiscal Administrator for Student Housing, provided a brief summary of the process used to collect unpaid housing balances noting that a large portion of the $1.48 million in unpaid balances cited are older in nature, dating as far back as 2004, and have been referred to the Bursar’s Office for collection. As such, UHM Student Housing Services has received approval from the Office of General Counsel (OGC) to write-off much of this amount. Regent Acoba inquired as to what was meant by the debt being “written-off”. Ms. Aquino replied that, per university policy, once a housing debt goes to collection, it is written-off even though collection of the debt is still being pursued. Regent Acoba continued asking at what point is the determination made to write-off debt. VP Young replied that the university refers accounts to a collection agency once it has exhausted all internal procedures for debt collection. A determination is then made by the collection agency as to whether collection of this debt is feasible. If the debt is determined to be uncollectable, the account is returned to the university at which time the debt is written-off. He also clarified that the term “write-off” does not mean that the debt is canceled, it is simply an accounting term used to signify that the debt has been removed from the accounts receivable balances of the university’s financial statements. VP Okinaga added that Hawai’i Revised Statutes (HRS) contains provisions regarding uncollectable accounts and establishes parameters for State agencies to use in determining when it is permissible to deem an account uncollectable and remove the debt from the accounting records. However, she reiterated that deeming an account uncollectable and “writing it off” does not excuse or forgive the debt which can still be collected at a future date should it become feasible. Regent Acoba commented that the university should develop a process for addressing these unpaid balances that contain specific timelines for resolving these issues. VP Young added that processes are in place to manage debt collection.

Given the previous discussion, Regent Acoba asked whether further evaluation would be conducted on collection efforts by UHM Student Housing Services. Internal Auditor Shizumura replied that, once an account is referred for collection, all possible avenues to collect the unpaid balance have been pursued.
Regent Wilson moved to accept the status of corrective action for UHM Student Housing Services, seconded by Vice-Chair Nahale-a, and noting the abstention of Regent Acoba and excused absence of Regent Higaki, the motion carried, with all other members present voting in the affirmative.

B. Review and Acceptance of Status of Corrective Action of University Housing Program

Internal Auditor Shizumura stated that audits of the University Housing Program (Program) conducted in 2010 and 2013 identified issues with the Program’s processes and procedures, as well as instances of non-compliance with university policies. In its re-evaluation of the Program in 2019, OIA concluded that corrective actions were taken regarding processes and procedures and compliance with applicable university policies was achieved but suggested several additional enhancements to the Program’s standard operating procedures manual. OIA has since determined that all additional recommendations have been implemented by the Program.

Regent Wilson moved to accept the status of corrective action for the Program, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

C. Review and Acceptance of the Office of Internal Audit Review of Associated Students of the University of Hawai‘i (ASUH) – Recognition Awards for Service (Service Awards) and Graduate Test Preparation Awards (GTPAs)

D. Review and Acceptance of the Status of Corrective Action of ASUH – Service Awards and GTPAs

Chair Moore stated that agenda items C and D were related and that the report and committee discussions and action would occur simultaneously for both agenda items.

Internal Auditor Shizumura explained that, for the fiscal year ended June 30, 2018, ASUH requested an operational audit of Service Awards, also known as stipends, and GTPAs. OIA conducted an audit and issued a report noting its findings, determinations, and recommendations for corrective actions to address identified issues and potential risks. Some delays occurred due to the timing of the issuance of this report and the onset of restrictions and other factors associated with the COVID-19 pandemic, which resulted in the presentation of the initial audit report at the same time as the status of corrective action and ASUH’s written response. OIA has determined that issues contained within the original report have been addressed and that all recommendations and corrective actions have been implemented.

Regent Acoba commended the ASUH students for their actions and efforts in addressing the issues contained in OIA’s evaluation of the Service Awards and GTPAs.

Regent Wilson moved to accept OIA’s review of ASUH Service Awards and GTPAs and the status of corrective action associated with this review, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

Cory Kubota, with Accuity LLP, recapped and reviewed topics covered last calendar year including the primary duties, roles, functions, and responsibilities of the committee with respect to ensuring that the administration has appropriate internal controls in place regarding financial reporting requirements, statutory compliance, and regulatory matters; the financial expertise of committee members; the prevention, deterrence, investigation and detection of fraud; the establishment and oversight of a whistleblower policy that contains sufficient protections for whistleblowers; committee meetings held in executive session; and communicating with the independent auditor. Mr. Kubota also reviewed the roles and responsibilities of the committee regarding the hiring, compensation, and evaluation of the university's external auditor, providing specific examples of qualities the committee should be looking for during the evaluation. The issue of single audits, which are federally required audits performed on non-federal entities that expend $750,000 or more in federal awards during the entity's fiscal year and consist of both financial and compliance reviews regarding federal rules and regulations was also discussed.

Chair Moore asked whether it was customary for an audit committee to specifically indicate the members of the committee who possess financial expertise. Mr. Kubota replied that, in a commercial setting, it is typical for an audit committee to cite the individual serving as the financial expert. While this designation generally does not occur for government auditing entities, he stated that the Independent Audit Committee’s charter is very explicit in stating that an individual must serve as the financial expert for the committee and it is a best practice to cite that individual. Chair Moore informed committee members that the committee will address this issue on a future agenda.

Regent Wilson questioned whether any issues or problems have been experienced by Accuity with regard to holding meetings in executive session due to Hawai’i’s public meetings law. Mr. Kubota replied that Accuity has not experienced difficulties to date stating that Accuity seeks the advice of OGC to determine whether a private meeting with a Regent or a meeting in executive session is allowable under Hawai’i law. If OGC determines that it is not, the item is brought forward and discussed at a normal meeting. Chair Moore remarked that a bill currently moving forward at the Legislature addresses this issue by allowing the committee to meet in executive session in certain situations.

Regent Acoba requested clarification on the relationship between OIA and Accuity and asked whether Accuity ever evaluates the job performance of OIA. Mr. Kubota responded that, while OIA is a unit within the university that performs both financial and operational audits as directed by the committee and Accuity is an external auditing agency that has no direct ties to the university that only performs financial audits, the two entities generally function as counterparts, often exchanging information to reduce duplicative work. OIA also provides additional support for Accuity when it performs its external audits of the university. He also stated that Accuity does not evaluate the job performance of OIA.
Given the inclusion of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds in some of the university’s financial statements, Regent Wilson asked if federal guidance has been provided regarding single audits of financial statements containing these funds. Mr. Kubota replied in the affirmative noting that organizations and auditors are currently reviewing these guidelines and establishing audit procedures to address them in order to meet the federal deadline for completion of the single audits which has been extended by three months due to delays in the provision of this guidance.

Regent Wilson inquired about Accuity’s relationship with the federal General Accounting Office (GAO). Mr. Kubota stated that, while Accuity liaises mainly with the university’s internal accounting office which manages the university’s year-end financial audit processes, it has not experienced any issues in its limited interactions with GAO.

Regent Acoba asked if there are ever instances where an audit conducted by OIA overlaps one conducted by Accuity. Mr. Kubota responded in the affirmative and provided examples of instances where this overlap has occurred.

Referencing a comment that the Office of Research Services (ORS) is responsible for monitoring federal compliance, Regent Acoba asked whether the committee should rely on ORS reports or the external auditor’s reports to monitor adherence to federal regulations. Mr. Kubota responded that the committee should rely on the audit conducted by the external auditor to monitor compliance with federal regulations but should also utilize OIA to conduct follow-up audits to ensure that corrective actions are being implemented should the external auditor discover any federal compliance issues.

Chair Kudo opined that while OIA and the external auditor perform similar functions and often work hand-in-hand, their specific roles differ. The external auditor conducts audits that are financial in nature and generally at a high level. Although OIA also conducts financial audits, their audits primarily involve the management and operations of the university usually in response to a complaint or controversy. The enormity of the university requires that both of these entities monitor the university in their respective areas of expertise so that both the board and administration are provided with information and feedback to fully understand the entirety of the financial and operational management of the university. Mr. Kubota concurred with Chair Kudo’s assessment stating that the work of the external auditor follows generally accepted auditing standards and is more broad-based and financial in nature. OIA generally conducts audits that are more operational in nature and has the ability to perform audits that are more specific.

Regent Acoba stated that, in his opinion, the administration’s policy and process for pursuing uncollected receivables appeared disjointed and that possible statute of limitations issues existed that could impact these processes. He asked whether the external auditor had any ideas on how to approach this issue. Mr. Kubota replied that university already has a formal process and policy with respect to the collection of receivables and the “writing off” of debt noting that these procedures are mainly geared towards how receivables are reported and reflected in financial statements. He reviewed the process used for collecting unpaid balances and stated that the university already appears to be exhausting all avenues available to recoup these funds. Regent
Acoba thanked Mr. Kubota for his explanation but stated that he believes issues with the process remain.

F. **Whistleblower Report**

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports noting changes in the report format to reflect the expanded collection of information and further breakdown and analysis of data points regarding whistleblower cases in response to requests made by the committee. He reviewed some of the specific information contained within these reports noting that the primary type of whistleblower complaints being made continues to be cases involving employment or human resources related issues.

Regent Acoba remarked that he appreciated the comprehensiveness of the new reporting format. He also asked whether OIA has assessed the effectiveness and impacts of the whistleblower program, as well as whether there was widespread knowledge of the program’s existence, by conducting a survey of the university community or some other means. Internal Auditor Shizumura replied that OIA has not conducted a formal survey assessing the impacts, effectiveness, or widespread knowledge of the program but stated that a systemwide email notification regarding the whistleblower hotline is sent to all students, faculty, and staff of the university at the beginning of each semester. In reviewing the data on the numbers and types of cases reported, OIA believes that knowledge of the program is widespread since a large number of cases are reported within the first month of the start of each semester and a number of cases are reported by individuals outside of the university.

Regent Tagorda arrived at 9:56 a.m.

G. **Enterprise Risk Management (ERM) Update**

VP Gouveia provided an ERM update noting that the administration continually assesses risk exposures to the university as part of its internal control process and the committee’s internal control program. She stated that this provides the administration with the opportunity to report to the committee on any areas of concern, from a risk-management standpoint, that it believes should be addressed by the board. Key risks and risk categories were reviewed with VP Gouveia noting that the top risk categories identified by the administration were financial resiliency and the maintenance of health and safety. The risk categories of information technology and governance and compliance are also being closely monitored. VP Gouveia stated that the administration will continue to advance a culture of risk management throughout the organization.

Chair Moore asked what the time horizon was for the assessment of risks and whether the mapping of risk categories change if the horizon was longer versus shorter. VP Gouveia replied that the administration uses a shorter to mid-range horizon on the scale of three to five years. She noted that the ERM is primarily used as a tool to place the administration in the best position to strategically focus its resources in addressing near-term risks. However, she opined that longer timeframes for risk assessment,
perhaps in the range of 10 to 12 years, would be a valuable tool and could be included in the administration’s ERM analysis.

Regent Acoba thanked VP Gouveia for the ERM update and stated that having this view of risks that exist for the university from the administration’s is helpful.

Regent Sullivan and Regent Bal arrived at 9:59 a.m.

V. EXECUTIVE SESSION

Vice-Chair Nahalea made a motion to convene in executive session, seconded by Regent Wilson, and noting the excused absence of Regent Higaki, and with all members present voting in the affirmative, the committee approved convening in executive session to consider the hire, evaluation, dismissal, or discipline of an officer or employee, where consideration of matters affecting privacy will be involved, pursuant to Section 92-5(a)(2), HRS.

The meeting recessed at 10:10 a.m.

Chair Moore called the meeting back to order at 10:34 a.m. and announced that the board met in executive session to discuss personnel-related matters as stated on the agenda.

VI. ADJOURNMENT

There being no further business, Regent Wilson moved to adjourn, seconded by Regent Nahale-a, and noting the excused absence Regent Higaki, and with all members present voting in the affirmative, the meeting was adjourned at 10:35 a.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary of the Board of Regents
UNIVERSITY OF HAWAI‘I
REVENUE BOND COVENANT AND POLICY COMPLIANCE

Status of Corrective Action

April 2021
To the University of Hawai‘i Board of Regents
and
University of Hawai‘i Associate Vice President for Budget and Finance/Controller

The purpose of this report is to evaluate the status of corrective actions to address improvement opportunities and mitigate risks documented in the Office of Internal Audit’s (Internal Audit) report titled “Revenue Bond Covenant and Policy Compliance” (report dated April 28, 2020). The improvement opportunities and risks related to processes, procedures and applicable policies as well as the post-issuance compliance and arbitrage risks associated with Revenue Bonds (Bonds) issued by the University of Hawai‘i (University).

Internal Audit’s April 2020 report concluded that the University Bond System (UBS) office must finalize written processes and procedures that commenced in 2014 with respect to the Bonds pre-issuance, issuance, and post-issuance compliance processes. The April 2020 report also recommended revisions to Administrative Procedure (AP) 8.560, Post-Issuance Tax Compliance Procedures for Tax-Exempt and Build America Bonds in addition to reviewing and, if necessary, revising Executive Policy (EP) 2.212, Management of University Bond System.

The April 2020 report also noted that BLX Group, LLC (BLX) was historically engaged by the University to provide post-issuance compliance accounting and tax advisory services for the University’s non-taxable Bonds. However, the BLX contract expired in December 2018. Accordingly, Internal Audit recommended that UBS personnel, an external entity or a combination of both perform procedures to identify any post-issuance compliance and arbitrage issues.

As noted in the accompanying report, UBS has implemented the improvement opportunities and mitigated the risks noted in the April 2020 report except for finalizing minor revisions to EP 2.212.

Sincerely,

Glenn Shizumura
Director
I. BACKGROUND

Overview
The University of Hawai‘i (University) issues taxable and non-taxable Revenue Bonds (Bonds) pursuant to Subpart D of the Hawai‘i Revised Statutes (HRS) Chapter 304A Part VI. Bonds are authorized for issuance through various resolutions issued by the University’s Board of Regents (BOR). All Bonds must comply with Bond’s debt covenants to prevent an Event of Default. However, the non-taxable Bonds must also comply with federal income tax regulations including private business use and arbitrage rebate requirements.

The University Bond System (UBS) office is responsible for overseeing administration and accounting activity of the Bonds. UBS is under the management of the Associate Vice President for Budget and Finance/Controller. UBS personnel consist of the Bond System Controller (also known as a Senior Fiscal Specialist) and a Bond System Accountant (also known as a Fiscal Specialist).

During the year ended June 30, 2020, the Office of Internal Audit (Internal Audit) issued an audit report titled “Revenue Bond Covenant and Policy Compliance” (report dated April 28, 2020 and issued in October 2020). In connection with this audit, Internal Audit reviewed AP 8.560, Post-Issuance Tax Compliance Procedures for Tax-Exempt and Build America Bonds, Executive Policy (EP) 2.212, Management of University Bond System, and draft Bond processes and procedures. In addition, Internal Audit reviewed the University’s contract with BLX Group LLC (BLX) and evaluated whether UBS, an external service provider, or a combination of both should perform post-issuance compliance and arbitrage rebate analyses.

Both Internal Audit’s report and the Office of the Vice President for Budget and Finance and Chief Financial Officer (CFO) response (dated August 26, 2020) were reviewed and approved by the BOR Committee on Independent Audit (Audit Committee) on October 1, 2020.

II. CORRECTIVE ACTION STATUS

This section of the report evaluates the corrective action status of Internal Audit’s recommendations and includes: 1) a condensed summary of observations and recommendations presented in Internal Audit’s April 28, 2020 report, 2) management’s response, 3) an evaluation of the status of corrective action, and 4) Internal Audit’s conclusion.

A. Processes and Procedures and Policies

Internal Audit Observation and Recommendation
The UBS management has not yet finalized written processes and procedures with respect to the Bonds pre-issuance planning, issuance, and post-issuance compliance processes. Draft process and procedures documentation commenced in 2014 and are anticipated to be completed by the end of 2020. Internal Audit was informed that the revised post-issuance compliance processes and procedures will be incorporated into a revised AP 8.560. Internal Audit’s review of a draft of the AP 8.560 revision noted no procedures to monitor Bond covenant compliance which could result in an Event of Default. Accordingly, Internal Audit recommends that UBS management consider the following:

1. Processes and Procedures - finalize and adopt draft written processes and procedures for the pre-issuance planning and issuance processes.
2. Policies-
   a. finalize a revised AP 8.560 that includes:
      1) clarification of supervisory responsibility to monitor performance of UBS duties
      2) responsibility to determine whether the Bonds will be taxable or non-taxable
      3) policies and procedures to monitor Bond covenant compliance
   b. review and, if necessary, revise EP 2.212 as the stated review date is August 2018

Management Response
Initially in 2014, the pre and post-issuance processes were being incorporated in AP 8.560. Subsequently, a decision was made to have separate documents. The pre-issuance items are in the draft Revenue Bond Issuance Process documents and the post-issuance items are in the draft AP 8.560.

1. The Revenue Bond Issuance Process draft will be updated/revised accordingly after going through the revenue bond issuance. The Revenue Bond Issuance Process will be completed by December 2020.

2. Policies:
   a. Draft AP 8.560 will be revised accordingly and Internal Audit's recommendations will be considered in the review and update process to be completed by December 2020.
   b. EP 2.212 will be reviewed and updated as necessary by December 2020.

Status
1. In October 2020, the University issued $217,165,000 in Series 2020 Revenue Bonds for the purpose of financing the costs of certain University projects and refunding previously issued Bonds. Internal Audit noted that the Revenue Bond Issuance Process (consisting of the Bond’s pre-issuance and issuance processes) was not updated and finalized in connection with this Bond issuance or by December 2020. The Bond System Controller stated that UBS followed their historical Revenue Bond Issuance Process in connection with the October 2020 Bond issuance. The Bond System Controller stated that the Revenue Bond Issuance Process was delayed due to other priorities such as the annual financial audit.

   Internal Audit reviewed an updated Revenue Bond Issuance Process document dated March 25, 2021 noting the inclusion of significant processes and procedures recommended in Internal Audit’s April 2020 report.

2. Policies:
   a. AP 8,560 was revised and finalized effective December 2020 to address Internal Audit’s recommendations (use of Bond proceeds, identification and correction of violations related to the use of Bond proceeds or Bond-financed assets, tax training, and annual review), as well as a clarification of supervisory responsibility to monitor UBS duties (Associate Vice President for Budget and Finance and Controller (Controller)). Internal Audit noted that the revised AP 8,560 does not document personnel responsible to determine whether the Bonds will be taxable or not but was informed by the Bond System Controller that the CFO is responsible for that determination.

   Policies and procedures to monitor debt covenant compliance stated in AP 8.560 includes, but not limited to, UBS monitoring the use of Bond proceeds throughout the term of the Bonds and maintaining records for any contracts or arrangements involving the use of Bond-financed facilities to ensure compliance with covenants and restrictions set forth in applicable University resolutions, Tax Certificates, and Official Statements. The Bond System Controller also stated that UBS utilizes the post-issuance responsibilities questionnaires to determine or calculate private business use and follows up with questions or requests additional information from project personnel, as needed.
b. Internal Audit was informed by the Bond System Controller that EP 2.212 was reviewed by the Bond System Controller, Controller, and CFO. The Bond System Controller stated that minor revisions to EP 2.212 will be completed and finalized by June 30, 2021.

Conclusion
Corrective action implemented pending the minor revisions to EP 2.212.

B. BLX services/Work to be performed by UBS

Internal Audit Observation and Recommendation
BLX reporting has not indicated any post-issuance compliance or arbitrage issues. However, the BLX contract expired in December 2018 and no private use procedures have been performed since contract expiration. Accordingly, Internal Audit recommends that UBS personnel perform procedures to gain assurance that the Bonds comply with all federal, State of Hawai‘i, University resolution, Tax Certificate, and Official Statement requirements, as applicable to the respective Bond. On a prospective basis, Internal Audit believes that substantially all services provided by BLX can be performed internally by the UBS office given the compliance methodologies, tools and instruction provided by BLX.

Management Response
The UBS office will continue to perform BLX services that they have been doing along with other listed services that can be effectively performed. Given the importance of complying with federal tax laws, private business use and arbitrage rebate analysis and compliance services should continue to be done by third party experts.

Private business use – The Financial Management Office has been working with the Office of Procurement Management to get a contract for the private business use analysis and compliance services. Invitation to submit proposals was sent to potential contractors and the review committee will be reviewing the proposals that were submitted.

Arbitrage – The University along with other State agencies with tax-exempt Revenue Bonds and/or certificates of participation has been participating in the State Budget and Finance's Arbitrage Rebate Compliance Services contracts since 2008. The current contract covers fiscal year 2019, 2020, and 2021 and allows for contract extension for 2022 and 2023.

Status
Internal Audit noted that UBS continues to perform post-issuance compliance procedures including completing the checklist of post-issuance requirements; distributing and reviewing post-issuance responsibilities questionnaires; and preparing Bond expenditure analyses.

Internal Audit noted that BLX has been engaged pursuant to a contract dated November 30, 2020 to perform private business use analyses for fiscal years 2020, 2021, and 2022 with an option to extend for an additional two-year period. Contracted services include, but are not limited to, the following:

- Analyze Bond contracts and private use materials for compliance with IRS Safe Harbor guidelines
- Determine the amount of private business use within the Bond-financed facilities
- Prepare an annual report of findings for each Bond
- Determine appropriate courses of action and solutions for private business use exceeding allowable limits under the Federal tax law

Internal Audit noted that the contract does not include services for fiscal year 2019. UBS performed a limited internal private business use analysis for Bonds outstanding as of and for the year ended June 30,
2019 and identified no violations or non-compliance issues. Since UBS cannot perform a comprehensive private business use analysis, BLX was engaged in November 2020.

Additionally, as mentioned in the audit report dated April 2020, Internal Audit verified that the Bonds are included in the arbitrage compliance services contract between the State of Hawai‘i Department of Budget and Finance and BLX.

Conclusion
Corrective action implemented.
UNIVERSITY OF HAWAIʻI

REVIEW OF CLEARING ACCOUNTS

Status of Corrective Action

April 2021
To the University of Hawai‘i Board of Regents 
and 
University of Hawai‘i Vice President for Budget and Finance / Chief Financial Officer (CFO)

In September 2019, the University of Hawai‘i (University) Office of Internal Audit (Internal Audit) issued an audit report titled *The University of Hawai‘i Review of Clearing Accounts* (report dated September 12, 2019). This audit was the result of Internal Audit noting in excess of 950 University accounts designated as Clearing accounts, of which less than 250 were active. Clearing accounts are used by the University to temporarily record transactions that could not be otherwise recorded due to the closing/expiration of general ledger accounts. Administrative Procedure (AP) 8.650, *Continuation Accounts*, requires periodic compliance reviews of Clearing accounts by the General Accounting Office (GAO) and Office of Research Services (ORS).

In connection with the 2019 audit, Internal Audit reviewed and analyzed Kuali Financial System (KFS) accounts identified as a Clearing account to assess compliance and evaluate the process to monitor compliance with AP 8.650. Internal Audit also evaluated the process of reclassifying Clearing account transactions/balances to the appropriate KFS account and evaluate the impact, if any, to the year-end financial statements.

Both Internal Audit’s report and the University’s Financial Management Office response (dated November 15, 2019) were reviewed and approved by the University’s Board of Regents (BOR) Committee on Independent Audit (Audit Committee) on December 5, 2019. The accompanying report evaluated the corrective action status of Internal Audit’s recommendation noting that corrective actions to mitigate the significant risks and issues have been implemented.

Sincerely,

Glenn Shizumura  
Director
I. BACKGROUND

The University of Hawai‘i (University) Kuali Financial System (KFS) includes approximately 80,000 general ledger accounts as of June 30, 2019 of which 972 were designated as a “Clearing” or “CL” account type. Of the 972 Clearing accounts, 231 accounts were classified as active (i.e., financial transactions were recorded to the account during the current year or the account had a balance carried forward from the prior year). The number of Clearing accounts has increased by approximately 650 since June 30, 2012 (the date when accounts were transitioned from the legacy general ledger system to KFS). The Office of Internal Audit (Internal Audit) was informed that Clearing accounts are utilized to record transactions temporarily until reclassified to the appropriate account. Transactions are recorded to these accounts because an account has closed/expired. Administrative Procedure (AP) 8.650, Continuation Accounts, requires periodic compliance reviews of Clearing accounts by the General Accounting Office (GAO) and Office of Research Services (ORS).

Internal Audit determined the monitoring and reclassifying of transactions recorded to Clearing accounts requires additional work compared to transactions recorded to non-Clearing accounts. Accordingly, fewer Clearing accounts should reduce the time incurred by Fiscal Administrators (FAs) reclassifying Clearing account transactions/balances, as well as reduce the burden on the GAO and ORS in connection with the review and monitoring of these accounts. Internal Audit’s Review of Clearing Accounts report dated September 2019 included the observations and recommendations described below in Section II.

II. CORRECTIVE ACTION STATUS

This section evaluates the corrective action status of Internal Audit’s recommendations and includes: 1) a condensed summary of observations and recommendations presented in Internal Audit’s 2019 report, 2) a condensed overview of management’s response, 3) an evaluation of the status of corrective action and 4) Internal Audit’s conclusion.

A. Need for Clearing Accounts

**Internal Audit Observation and Recommendation**

Perform a review of all Clearing accounts to determine whether all are required to be maintained in KFS. It is Internal Audit's understanding that KFS requires a Clearing account to be associated with all closed accounts. However, management should collaborate with the University's KFS Team to determine whether this requirement can be overridden. Having fewer accounts will reduce the time required to process and review Clearing Accounts on a periodic basis.

**Management Response**

Financial Management Office (FMO) management will collaborate with the KFS Team to explore the possibility of overriding the requirement for a clearing account for all closed accounts by December 31, 2019.

**Status**

The Director of GAO stated that a review of all Clearing accounts was performed from November 2019 through March 2020 concluding that the creation of Clearing accounts is essential to ensure that transactions recorded to KFS with an incorrect account code can be monitored by GAO and ORS to ensure the proper reclassification of transactions. Consultation with the KFS Team concluded that overriding the KFS automated control of recording incorrectly account coded transactions to a Clearing account could result in undetected errors in KFS.
Conclusion
Corrective action implemented.

B. Inactive Accounts

Internal Audit Observation and Recommendation
Given there are in excess of 80,000 KFS accounts (an increase of more than 30,000 since the transition from the legacy general ledger system to KFS) of which only approximately 20,000 were active during the year ended June 30, 2019, GAO management should evaluate the inactive accounts and consider deleting/archiving these accounts. However, Internal Audit was informed by the Director of GAO that deleting/archiving inactive accounts may impact the reporting and accounting for capital assets, which may be linked to inactive accounts used to fund the purchase of certain capital assets.

Management Response
Knowing that deleting accounts will negatively impact capital asset reporting, FMO Management will explore the possibility of archiving inactive accounts with the KFS Team by December 31, 2019.

Status
As of March 31, 2021, KFS includes approximately 88,000 accounts of which approximately 1,400 are classified as a Clearing account. The quantity of KFS and Clearing accounts have increased since June 30, 2019 by 8,000 and 400 respectively. Approximately 1,300 of the 1,400 Clearing accounts as of March 31, 2021 are designated active equating to an approximate 1,100 increase in active Clearing accounts since June 30, 2019.

The Director of GAO stated that the KFS and Clearing accounts increase of 8,000 and 400 is primarily associated with extramural grants awarded subsequent to June 30, 2019. The significant 1,100 increase in active Clearing accounts and decrease in inactive accounts was the result of GAO reclassifying transactions previously accumulated in a single GAO Clearing account to newly created Clearing accounts then assigning these new Clearing accounts to a specific FA. This assignment shifts the monitoring and reconciling responsibilities of the Clearing account transactions from GAO personnel to a specific FA who would have the knowledge to reconcile and reclassify transactions recorded in their respective Clearing accounts to the appropriate KFS account. GAO anticipates that substantially all of the 1,300 Clearing accounts will have an account balance of -0- at June 30, 2021.

The Director of GAO also stated that inactive Clearing accounts do not negatively impact GAO’s review and monitoring of Clearing accounts as GAO can sort Clearing accounts by active vs inactive status and accordingly focus their review and monitoring only on active accounts.

Conclusion
Corrective action implemented.

C. AP 8.650 Continuation Accounts

Internal Audit Observation and Recommendation
Revise AP 8.650 to specifically state the frequency with which FAs are required to reclassify Clearing accounts.
Management Response
The frequency for FA reclassification of clearing account transactions will be included in AP 8.650. The AP will be updated by GAO by February 28, 2020.

Status
Internal Audit reviewed a redlined draft of the revised AP 8.650 noting that FA’s will be required to monitor their Clearing accounts monthly and to reclassify or reconcile transactions posted to Clearing accounts annually. The Director of GAO stated that the revised AP 8.650 will be finalized in May 2021.

Conclusion
Internal Audit recommendation addressed. Corrective action will be implemented upon the finalization of the revised AP 8.650.

D. Review of Non-ORS Clearing Accounts

Internal Audit Observation and Recommendation
Consistent with ORS procedures, on at least a quarterly basis, GAO personnel should monitor and review all non-ORS Clearing accounts and request that FAs reclassify Clearing account transactions/balances to appropriate KFS accounts. Alternatively, GAO could consult with the KFS team to determine whether an automated solution for emailing notifications to FAs with uncleared Clearing accounts could be developed.

Management Response
GAO will improve the process for reviewing all non-ORS Clearing accounts on a quarterly basis. The KFS team will also be consulted to determine whether an automated solution for emailing notifications to FAs with uncleared Clearing accounts can be developed by February 28, 2020.

Status
The Director of GAO stated that GAO reviews all non-ORS Clearing accounts on a quarterly basis. Manual e-mails continue to be sent to FA’s with uncleared Clearing accounts on a quarterly basis as an automated solution continues to be investigated.

Conclusion
Corrective action implemented.

E. Communication of Clearing Account Requirements

Internal Audit Observation and Recommendation
At least annually, additional reminders regarding Clearing accounts should be provided to FAs during regularly scheduled FA meetings, including the following topics:

- The purpose of Clearing accounts
- University policy for management/monitoring of Clearing accounts
- Adequate documentation for clearing transactions
- The process for transition of responsibility for Clearing accounts as required due to personnel turnover
Management Response
On an annual basis, reminders regarding Clearing accounts will be incorporated in regularly scheduled FA meetings and/or in other communication that reach the FA group (e.g. monthly newsletter from FMO). These reminders will include the purpose of Clearing accounts, policies for management of these accounts, best practices for adequate documentation for clearing transactions and the process for transition of responsibility for Clearing accounts. Communication for the fiscal year ending June 30, 2020, will be done by March 31, 2020.

Status
Internal Audit reviewed the PowerPoint presented and discussed at the January 2020 FA Townhall meeting noting that relevant policies and practices were addressed with respect to Clearing accounts. FMO’s newsletter (What’s New in Financial Management) for April 2021 reminded all FA’s to monitor their Clearing accounts monthly. The Director of GAO anticipates discussing an updated presentation in May 2021.

Conclusion
Corrective action implemented.

F. Evaluation of Existing Accounts

Internal Audit Observation and Recommendation
Review KFS accounts with "Clearing" and/or "Suspense" in the account name but not designated as Clearing accounts in KFS to determine whether the accounts are being used as Clearing accounts. If the account meets the criteria of a Clearing account, the account type in KFS should be changed to "CL" in order to ensure proper monitoring, review and reclassifying occurs in a timely manner. If not, the word "Clearing" and/or "Suspense" should be removed from the account name to avoid confusion.

Management Response
General Accounting will perform a review of designated Clearing accounts as well as accounts with "Clearing" and/or "Suspense" in the account name and initiate corrections as deemed appropriate by January 31, 2020.

Status
The Director of GAO stated that the review of accounts with “Clearing” and/or Suspense” in the account name is ongoing. The Director of GAO also stated that the substantial number of accounts with “Clearing” and/or Suspense” in the account name reviewed through March 31, 2021 met the criteria of a Clearing account.

Conclusion
Corrective action implemented.
UNIVERSITY OF HAWAI‘I AT MANOĀ

REVIEW OF THE WAIKĪKĪ AQUARIUM

January 2021
January 29, 2021

To the University of Hawai‘i Board of Regents

and

The University of Hawai‘i at Mānoa Provost

Founded in 1904 and administered by the University of Hawai‘i at Mānoa (UHM) since 1919, the Waikīkī Aquarium (Aquarium) is located on the shoreline of Waikīkī Beach across from Kapi‘olani Park. According to the Aquarium website, the Aquarium has in excess of 500 exhibits displaying more than 3,500 marine specimens. Prior to the current COVID-19 pandemic, the Aquarium was open daily from 9:00 a.m. to 4:30 p.m., except Honolulu Marathon Sunday and Christmas Day. The Aquarium is currently closed and anticipates re-opening in July 2021.

The Aquarium’s revenue sources include admission fees, facility rental fees for private events and luaus, gift shop sales, State of Hawai‘i appropriations and funding from the Friends of the Waikīkī Aquarium (FOWA). Personnel related costs is the most significant expense. During the three years ended June 30, 2020, the Aquarium’s cash basis expenses exceeded revenues during the years ended June 30, 2020 and 2018. The Aquarium also projects a cashflow deficit of approximately $887,000 for the year ended June 30, 2021.

In connection with this audit, Internal Audit identified various financial, operational and compliance risks and challenges. These risks and challenges include the performance of incompatible financial duties by Aquarium personnel, the lack of comparing and reconciling financial information from Aquarium financial systems to the University of Hawai‘i’s Kuali Financial System in addition to the inconsistent preparation of accurate and complete financial reports, the lack of a written plan to address the current and potential ongoing financial deficits, non-compliance with certain University of Hawai‘i policies including the form and content of contracts with external parties, minimal management and monitoring of the operations of Aquarium’s gift shop, uncertainties regarding the resolution of the wastewater discharge matter and not recording third party vendor payments made on behalf of the Aquarium in the Aquarium’s internal financial reports. These risks, challenges and Internal Audit’s recommendations are more fully described in the accompanying report. To the extent practicable, Internal Audit believes the Aquarium should implement the recommendations noted in this report in connection with their July 2021 re-opening.

Sincerely,

Glenn Shizumura
Director
I. Background / Objectives

Founded in 1904 and administered by the University of Hawai‘i at Mānoa (UHM) since 1919, the Waikīkī Aquarium (Aquarium) is located on the shoreline of Waikīkī Beach across from Kapi’olani Park. According to the Aquarium website, the Aquarium has in excess of 500 exhibits displaying more than 3,500 marine specimens with a mission to inspire and promote understanding, appreciation, and conservation of Pacific marine life. The Aquarium’s exhibits, education programs, and research focus on the unique aquatic life of Hawai‘i and the tropical Pacific. Prior to the current COVID-19 pandemic (see discussion in section II. Impact of COVID-19), the Aquarium was open daily from 9:00 a.m. to 4:30 p.m., except Honolulu Marathon Sunday and Christmas Day.

The Director of the Aquarium (Director) reports to the UHM Provost pursuant to the Aquarium organization chart and functional statement dated July 1, 2020. The functional statement states the Director serves as a liaison between the Aquarium and University of Hawai‘i (University) administration, government agencies, community groups, and the Friends of the Waikīkī Aquarium (FOWA). The organization chart lists nine general-funded full-time employees. Internal Audit was informed that the Aquarium employed 26 special-funded employees as of June 30, 2020.

The objective of this audit is to review the financial aspects of the Aquarium and the related operational and compliance components.

II. Impact of COVID-19

From March through June 2020, the Aquarium was closed due to the State of Hawai‘i’s COVID-19 stay-at-home order. The Aquarium reopened in late June 2020 with hours of operations consistent with the pre-COVID-19 hours. In late August 2020, the City and County of Honolulu (C&C of Honolulu) issued the “Act Now Honolulu” emergency order. Due to restrictions on group size and social distancing requirements, the Aquarium closed for a second time and anticipates re-opening in July 2021.

Although closed to the public, Aquarium personnel perform routine and preventative maintenance to sustain the Aquarium’s exhibits. On September 2, 2020, the Director and Aquarium Administrative Officer (Administrative Officer) guided Internal Audit personnel on a tour of the Aquarium (admission counter, gift shop, exhibit, and exhibit support areas). Internal Audit observed that the exhibits appeared well-maintained, gift shop merchandise were organized, and Aquarium staff understood their job and responsibilities.

The Director submitted a memorandum dated November 2020 to the UHM Interim Vice Chancellor for Research requesting a Research Training and Revolving Funds (RTRF) loan of $500,000 to be repaid within five years of receipt. The loan was approved in December 2020 but has not been funded as of the date of this report.

The Aquarium’s financial projection for fiscal year 2021, including actual results through November 2020, is as follows:
Table 1: Waikīkī Aquarium Financial Projection-Fiscal Year 2021

Waikīkī Aquarium
Projected Statement of Cash Receipts and Disbursements (Unaudited)
Year Ended June 30, 2021

<table>
<thead>
<tr>
<th>Ref.</th>
<th>July - November 2020 Actual</th>
<th>December 2020-2021 Expected</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admission fees</td>
<td>1</td>
<td>$21,385</td>
<td>$ -</td>
</tr>
<tr>
<td>Gift shop</td>
<td>1</td>
<td>47,862</td>
<td>-</td>
</tr>
<tr>
<td>State of Hawai‘i general fund appropriations</td>
<td>2</td>
<td>291,395</td>
<td>407,954</td>
</tr>
<tr>
<td>Research Training and Revolving Funds</td>
<td>-</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>FOWA receipts</td>
<td>-</td>
<td>195,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Total receipts</td>
<td>-</td>
<td>$555,642</td>
<td>$942,954</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel:</td>
<td>2</td>
<td>291,395</td>
<td>407,954</td>
</tr>
<tr>
<td>General fund</td>
<td>2</td>
<td>692,318</td>
<td>416,000</td>
</tr>
<tr>
<td>Special fund</td>
<td>-</td>
<td>983,713</td>
<td>823,954</td>
</tr>
<tr>
<td>Total personnel</td>
<td>2</td>
<td>1,976,113</td>
<td>1,240,954</td>
</tr>
<tr>
<td>Utilities</td>
<td>-</td>
<td>197,642</td>
<td>195,000</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>121,163</td>
<td>64,000</td>
</tr>
<tr>
<td>Total disbursements</td>
<td>-</td>
<td>$1,302,518</td>
<td>$1,082,954</td>
</tr>
<tr>
<td><strong>Disbursements in excess of receipts</strong></td>
<td>-</td>
<td>$(746,876)</td>
<td>$(140,000)</td>
</tr>
</tbody>
</table>

Source: Administrative Officer

1. **Receipts**
   Admission fees and gift shop sales were earned during the Aquarium’s re-opening from late June through August 2020. The Administrative Officer could not provide a reason for gift shop sales exceeding admission fees by $26,000.

2. **Personnel**
   The Aquarium laid off 16 special-funded employees in October 2020. As of December 2020, Aquarium employees consist of nine general-funded employees and ten special-funded employees. Internal Audit was informed that the Aquarium hired three part-time employees in December 2020 to assist in exhibit maintenance.

3. **Other**
   Internal Audit noted that other disbursements include repairs and maintenance, supplies (including feed for the exhibits), freight, and printing.

As noted above, the Aquarium has received a RTRF loan commitment and funding from the FOWA. However, the Aquarium projects a cashflow deficit of approximately $887,000 for fiscal year 2021. The Aquarium has not developed a plan to address its projected cashflow deficit for fiscal 2021 and the potential ongoing financial and operational challenges (i.e., restrictions on group size and social distancing requirements) presented by COVID-19.
III. Work Performed

Internal Audit performed the following in connection with this audit:

A. Obtained and reviewed the Aquarium’s financial results for fiscal years ended June 30, 2020, 2019 and 2018 and related significant financial processes and procedures.

B. Performed inquiries and reviewed documents supporting significant sources of revenues. Evaluated compliance with applicable University policies and procedures.

C. Reviewed financial information and agreements with affiliated entities.

IV. Observations and Analysis

A. Financial Results

The Aquarium’s cash basis revenues and expenses for the three years ended June 30, 2020 and the financial processes associated with reporting and monitoring these revenues and expenses are described below:
1. Revenues and expenses

Table 2: Waikīkī Aquarium Financial Results

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Ref.</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admission fees</td>
<td>1</td>
<td>$1,387,345</td>
<td>$2,077,377</td>
<td>$2,013,297</td>
</tr>
<tr>
<td>Facility rental</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private events</td>
<td>3</td>
<td>144,739</td>
<td>174,770</td>
<td>183,725</td>
</tr>
<tr>
<td>Luau</td>
<td>4</td>
<td>291,890</td>
<td>454,664</td>
<td>380,745</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>21,539</td>
<td>17,150</td>
<td>12,206</td>
</tr>
<tr>
<td>Total facility rental</td>
<td>6</td>
<td>458,168</td>
<td>646,584</td>
<td>576,676</td>
</tr>
<tr>
<td>Gift shop</td>
<td>7</td>
<td>517,604</td>
<td>721,255</td>
<td>355,693</td>
</tr>
<tr>
<td>Photograph fees (net of commissions of $132,776, $207,774, and $92,435 in 2020, 2019 and 2018)</td>
<td>8</td>
<td>132,775</td>
<td>183,584</td>
<td>75,629</td>
</tr>
<tr>
<td>State of Hawai‘i general fund appropriations</td>
<td>9</td>
<td>699,349</td>
<td>662,168</td>
<td>644,518</td>
</tr>
<tr>
<td>FOWA receipts</td>
<td>10</td>
<td>275,486</td>
<td>45,000</td>
<td>81,164</td>
</tr>
<tr>
<td>Vending commissions</td>
<td>11</td>
<td>42,032</td>
<td>52,323</td>
<td>45,199</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>63,796</td>
<td>35,883</td>
<td>18,843</td>
</tr>
<tr>
<td>Total revenues</td>
<td>13</td>
<td>$3,576,555</td>
<td>$4,424,174</td>
<td>$3,811,019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>14</td>
<td>$2,334,785</td>
<td>$2,473,775</td>
<td>$2,255,972</td>
</tr>
<tr>
<td>Utilities</td>
<td>15</td>
<td>750,663</td>
<td>466,578</td>
<td>440,103</td>
</tr>
<tr>
<td>Supplies</td>
<td>16</td>
<td>370,606</td>
<td>365,140</td>
<td>371,719</td>
</tr>
<tr>
<td>Gift shop inventory purchases</td>
<td>17</td>
<td>204,970</td>
<td>353,770</td>
<td>154,181</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>18</td>
<td>151,277</td>
<td>113,288</td>
<td>126,944</td>
</tr>
<tr>
<td>Contract services</td>
<td>19</td>
<td>140,649</td>
<td>190,869</td>
<td>367,072</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>20</td>
<td>59,724</td>
<td>56,278</td>
<td>71,507</td>
</tr>
<tr>
<td>Bank fees</td>
<td>21</td>
<td>34,634</td>
<td>46,729</td>
<td>42,370</td>
</tr>
<tr>
<td>Computer software</td>
<td>22</td>
<td>20,929</td>
<td>23,893</td>
<td>6,995</td>
</tr>
<tr>
<td>Freight and delivery</td>
<td>23</td>
<td>11,981</td>
<td>18,151</td>
<td>17,424</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>63,796</td>
<td>35,883</td>
<td>18,843</td>
</tr>
<tr>
<td>Total expenses</td>
<td>25</td>
<td>$4,107,119</td>
<td>$4,126,212</td>
<td>$3,854,287</td>
</tr>
</tbody>
</table>

| Revenues in excess (deficiency) of expenses | 26   | ($530,564) | $297,962  | ($43,268)  |

Source: Administrative Officer

1. Admission fees
   
   Internal Audit was informed that the pre-COVID-19 attendance at the Aquarium approximated 700 guests per day (70% tourists and 30% residents). See additional discussion in section IV.B.1 Admission fees.

2. Facility rental
   
   FOWA members may rent the Aquarium’s facilities for private events such as weddings, birthdays, graduations and corporate events on Tuesday and Saturday from 5:15 p.m. – 10:30 p.m. In addition, Diamond Head Luau operated a luau at the Aquarium on Sunday, Monday, Thursday, and Friday from 5:00
p.m. - 7:45 p.m. The Aquarium also rents its facilities for educational purposes including public school conferences and Earth Day expositions. See section IV.B.2. Facility rental.

3. Gift Shop
The Aquarium’s gift shop sells a variety of apparel, giftware, toys, art and souvenirs. The gift shop was operated and managed by the FOWA through December 31, 2017, with the Aquarium receiving 20% of gross sales. As of January 1, 2018, FOWA transferred the operations and management of the gift shop to the Aquarium pursuant to a verbal agreement with the Director. No written documentation was provided to Internal Audit related to the transfer. Aquarium personnel did not provide a reason or rationale for FOWA operating and managing the gift shop through December 2017.

FOWA’s 2019 audited financial statements stated that gift shop inventory with a cost basis of $94,375 was sold to the Aquarium in January 2018. The Aquarium classified the $94,375 payment in fiscal year 2019 as gift shop inventory purchases. The cost basis of gift shop inventory at June 30, 2020 was approximately $75,000.

Event Photo Solutions provides photography services to Aquarium customers pursuant to a three-year agreement commencing on February 1, 2018. Photography services were suspended in March 2020. Event Photo Solutions earns a commission of 55% of gross sales during the first year of the agreement and 50% thereafter. The gift shop processes and collects photograph sales. See section IV.B.3. Gift shop.

4. FOWA
FOWA’s June 30, 2019 audited financial statements notes that FOWA was organized as a 501(c)(3) entity in 1995. FOWA is described on their website as a membership organization consisting of individuals and organizations interested in the purposes of the Aquarium and governed by a board of directors.

FOWA receipts include cash contributions, 50% of membership fees and gift shop sales commissions (2018 only). The opportunity to rent the Aquarium’s facility for private events is listed as a FOWA membership benefit on the FOWA application. The Aquarium facility rental agreement states that renters of the Aquarium facilities must be a current FOWA member. See additional discussion of FOWA in section IV.C1. Friends of the Waikiki Aquarium.

5. Personnel
The Aquarium employed nine full-time general-funded employees during the three years ended June 30, 2020. Full-time special-funded employees fluctuated but approximated 26 over this three-year period.

6. Utilities
Utility expenses include electricity, internet, telephone, water and related sewage fees. The increase during fiscal year 2020 is attributed to charges associated with salt water discharge into the C&C of Honolulu sewer system. See additional discussion in section IV.A.3. Wastewater discharge.

7. Supplies
Supplies primarily consist of food for exhibits as well as aquatic equipment (i.e., lighting, water test kits and filters, etc.), janitorial supplies, vehicle gasoline and office supplies.

8. Repairs and maintenance
Repairs and maintenance expenses include routine and preventative maintenance associated with water inspections, water filtration services, and generator repair.
9. **Contract services**
   Contract services include pest control, garbage disposal, consultants and engineers for tank pumps, and servicing of office equipment.

10. **Computer software**
    Computer software expense represents the annual subscription renewal of the Aquarium’s admissions and private event facility rental point-of-sale (POS) system. The Administrative Officer did not provide a reason for the lack of a 2018 expense.

### 2. Monitoring financial results

Administrative Procedure (AP) 8.025, *Fiscal Responsibilities within the University* describes the responsibilities of University employees performing and/or authorizing fiscal and administrative functions. Responsibilities include, but are not limited to:

- ensuring the availability of funds and controlling expenses
- reconciling transactions and accounts on a regular basis
- recording and reporting transactions properly and accurately
- ensuring proper segregation of duties
- applying efficient and effective operational practices and procedures

The Aquarium’s functional statement dated July 1, 2020 requires the Administrative Officer to prepare monthly, annual, and internal financial and budgetary statements for the Director, University, and Aquarium departments.

Compliance with the requirements of AP 8.025 and the Aquarium’s functional statement are evaluated below.

**a) Financial reporting**

Internal Audit noted that the Administrative Officer prepares a revenues and expenses report only at year-end. Monthly and other periodic internal financial reports are not prepared to evaluate and monitor financial results during the year. The Administrative Officer relied on a financial reporting software to produce financial reports from the Kuali Financial System (KFS). Internal Audit compared the Aquarium’s financial reports to KFS noting that the Aquarium’s financial reports were incomplete and did not include all Aquarium KFS accounts. The Administrative Officer was informed of this issue and subsequently prepared revised financial reports (see Table 2).

In connection with Internal Audit’s review of FOWA receipts, the following revenue and expense classification errors were noted:

- FOWA gift shop sales commissions of $81,164 were classified as facility rental revenue rather than FOWA receipts in 2018
- FOWA contributions of $45,000 were classified as other revenue rather than FOWA receipts in 2019
- FOWA contributions of $125,000 were recorded as a reduction to utilities rather than FOWA receipts in 2020

The classification errors were corrected in the Statements of Revenues and Expenses presented in Table 2.

**b) Budget to actual monitoring**

The Manoa Budget Office (MBO) provides the Aquarium with its general fund allocation at the beginning of each fiscal year. The Administrative Officer documents the Aquarium’s projected revenues (admissions, facility rentals, etc.) and expenses by category (i.e. personnel, utilities, etc.) on a MBO provided budget template for submission to MBO.
Internal Audit was informed a year-end budget to actual report is submitted to MBO with written explanations for variances greater than 10% of the budgeted amount. However, the Administrative Officer does not prepare and analyze a budget to actual report on a periodic (monthly, quarterly, etc.) basis to evaluate and monitor actual financial results against budget to determine if reductions to future expenses or modification of revenue generating strategies are warranted.

Conclusion
Compliance
The Aquarium does not prepare financial reports on a monthly basis as required by its functional statement. The Aquarium’s year-end financial (revenue and expense) reports reflected incomplete information from KFS with respect to the Aquarium’s accounts resulting in inaccurate financial reports. The Aquarium’s comparison of its internally prepared financial report to KFS would have identified this discrepancy requiring further investigation and correction to their year-end financial reports. Accurate monthly financial reporting, including analyzing budget to actual variances provides the Aquarium with timely and relevant financial information for ensuring availability of funds, controlling expenses, and detecting classification errors.

Recommendation
Compliance
Internal Audit recommends the Administrative Officer comply with all provisions of AP 8.025 and the Aquarium’s functional statement including the preparation of complete and accurate financial reports in addition to the preparation and analysis of monthly budget to actual revenue and expense reports. All financial reports should be compared with KFS to validate the accuracy and completeness of the information presented. These financial reports should be distributed to the Director and applicable University and Aquarium personnel for review and analysis.

3. Wastewater discharge

Internal Audit was informed that the Aquarium agreed to pay the C&C of Honolulu Department of Environmental Services (ENV) $50,000 per month commencing in October 2019 for historical wastewater discharges including salt water into the C&C of Honolulu sewage system. The total amount owed pursuant to a Board of Water Supply (BWS)/ENV bill dated October 21, 2019 was $890,000. Internal Audit was also informed that the Aquarium notified ENV in March 2020 of its intention to suspend future payments. The amount due to the BWS/ENV as of March 2020 is $553,000. The Director and Administrative Officer asserted that the Aquarium was not assessed fines, interest or penalties associated with the historical disposal of salt water into the C&C of Honolulu sewage system and that the payment suspension will not result in penalties or accrued interest. The Director and Administrative Officer did not provide written documentation to support this assertion.

The Director and Administrative Officer stated a new wastewater discharge system will be constructed at the Aquarium to eliminate discharge of salt water into the C&C of Honolulu sewage system. Internal Audit reviewed the University’s fiscal year 2021-2023 capital improvement budget presented at the November 2020 Board of Regents meeting noting that $10.5 million is included in the Capital Improvement Project (CIP) biennum budget ($1.5 million in fiscal year 2022 and $9 million in fiscal year 2023) for repairs and the design and construction of a new wastewater discharge system to comply with the C&C of Honolulu National Pollutant Discharge Elimination System (NPDES) and Industrial Wastewater Discharge permits and applicable State of Hawai‘i and C&C of Honolulu laws, rules and regulations. The $10.5 million supplements $600,000 appropriated by the State of Hawai‘i Legislature during the 2019 legislative session.
Conclusion
Compliance
The Aquarium has incurred a significant financial obligation with respect to its discharge of salt water in the C&C of Honolulu sewage system. Although Aquarium management is currently unaware of additional financial obligations, the Aquarium may be assessed additional fees, fines and penalties in the future. The Aquarium’s current financial results presented in this report indicates an inability to pay the current and potential future financial obligations associated with this matter.

Recommendation
Compliance
Aquarium management must determine its total financial obligation (including any potential future fines and penalties) with respect to the historical discharge of salt water into the C&C of Honolulu sewage system and identify a source of funding to relieve this obligation. Ongoing and continued consultation with University leadership including the Office of General Counsel (OGC) is essential to ensure that all regulatory compliance and financial obligations will be addressed timely and appropriately.

B. Sources of Revenue

The following describes the Aquarium’s significant sources of revenues:

1. Admission fees

Customers purchase admission tickets at the Aquarium ticket counter or the Aquarium website. The type and quantity of ticket purchased (i.e., adult, child, FOWA member, etc.) is recorded in the Aquarium’s Blackbaud Altru (Altru) POS system.

a) Ticket counter
The Aquarium’s ticket counter includes two registers each staffed with a cashier responsible for recording, receiving payment and issuing tickets to customers. At the close of business, the Visitor Services Supervisor counts all proceeds (cash, traveler’s checks and credit/debit card) in each register drawer and compares the daily proceeds to the total daily sales recorded in Altru. The Visitor Services Supervisor stores the cash register drawers in an office safe. On the next business day, the Visitor Services Supervisor prepares a deposit slip of the prior day’s cash and traveler’s check proceeds for deposit via an armored car service. The Visitor Services Supervisor records the proceeds into KFS. Internal Audit was informed that the Administrative Officer reviews daily admission sales posted to KFS approximately once a week.

Adequate segregation of incompatible duties is a significant internal control objective requiring no employee to be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. Incompatible duties exist if one employee has custody of assets, has the responsibility to record transactions associated with those assets, and performs an internal control function over those recorded transactions. The Visitor Services Supervisor has custody of the register drawers, compares the register drawer proceeds to sales recorded in Altru, and records the proceeds to KFS. Accordingly, the duties performed by the Visitor Services Supervisor increase the risk of errors or fraud related to admission fees. The Administrative Officer is responsible for ensuring proper segregation of incompatible duties pursuant to AP 8.025.

b) Online tickets
The proceeds from online ticket sales are deposited into a FOWA bank account and remitted to the Aquarium monthly. The Administrative Officer stated that Altru limitations prevent online tickets sales to be credited to the University’s general bank account.
The Administrative Officer compares online ticket sales recorded in Altru to the monthly check received from FOWA and investigates and resolves differences prior to recordation in KFS. Internal Audit reviewed the online sales reports and a sample of FOWA checks noting no differences. The average annual online ticket sales for fiscal years 2020, 2019 and 2018 approximated $27,000.

c) Admission fees and tickets issued by customer category:

Table 3: Admission fees by customer category recorded in Altru

<table>
<thead>
<tr>
<th>Customer category</th>
<th>Fee</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult (13-64)</td>
<td>$12</td>
<td>$905,447</td>
<td>$1,253,326</td>
<td>$1,283,642</td>
</tr>
<tr>
<td>Adult - Kama‘aina (13-64)</td>
<td>8</td>
<td>151,164</td>
<td>252,012</td>
<td>261,865</td>
</tr>
<tr>
<td>Junior (4-12)</td>
<td>5</td>
<td>100,773</td>
<td>159,970</td>
<td>154,849</td>
</tr>
<tr>
<td>Children (3 and below)</td>
<td>Free</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Senior (65 and over)</td>
<td>5</td>
<td>72,817</td>
<td>102,773</td>
<td>106,772</td>
</tr>
<tr>
<td>Military</td>
<td>8</td>
<td>76,540</td>
<td>126,886</td>
<td>123,492</td>
</tr>
<tr>
<td>FOWA members</td>
<td>Free</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other (educational programs, disabled)</td>
<td>-</td>
<td>77,482</td>
<td>145,001</td>
<td>104,881</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$1,384,223</strong></td>
<td><strong>$2,039,968</strong></td>
<td><strong>$2,035,501</strong></td>
</tr>
</tbody>
</table>

The Administrative Officer was unaware of and could not provide an explanation regarding the differences between the total admissions fees recorded in Altru and the Statements of Revenues and Expenses (Table 2).

Table 4: Tickets issued by customer category recorded in Altru

<table>
<thead>
<tr>
<th>Customer category</th>
<th>Quantity</th>
<th>2020</th>
<th>2019</th>
<th>Discounts</th>
<th>Refunds</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult (13-64)</td>
<td>78,794</td>
<td>$947,472</td>
<td>$40,004</td>
<td>$2,021</td>
<td>$905,447</td>
<td></td>
</tr>
<tr>
<td>Adult – Kama‘aina (13-64)</td>
<td>18,904</td>
<td>151,812</td>
<td>-</td>
<td>648</td>
<td>151,164</td>
<td></td>
</tr>
<tr>
<td><strong>Total Adult</strong></td>
<td>97,698</td>
<td>1,099,284</td>
<td>40,004</td>
<td>2,669</td>
<td>1,056,611</td>
<td></td>
</tr>
<tr>
<td>Junior (4-12)</td>
<td>24,251</td>
<td>121,690</td>
<td>20,475</td>
<td>442</td>
<td>100,773</td>
<td></td>
</tr>
<tr>
<td>Children (3 and below)</td>
<td>17,249</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Senior (65 and over)</td>
<td>14,756</td>
<td>73,880</td>
<td>950</td>
<td>113</td>
<td>72,817</td>
<td></td>
</tr>
<tr>
<td>Military</td>
<td>9,575</td>
<td>76,832</td>
<td>12</td>
<td>280</td>
<td>76,540</td>
<td></td>
</tr>
<tr>
<td>FOWA members</td>
<td>6,058</td>
<td>48,468</td>
<td>48,468</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other (educational programs, special packages, disabled)</td>
<td>19,669</td>
<td>99,536</td>
<td>21,848</td>
<td>206</td>
<td>77,682</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>189,256</td>
<td>$1,519,690</td>
<td>$131,757</td>
<td>$3,710</td>
<td>$1,384,223</td>
<td></td>
</tr>
</tbody>
</table>
The Aquarium provides admission fee discounts to members of various organizations including hotels, airlines, tour companies and magazines. The Aquarium Events Coordinator solicits various companies as a marketing strategy to attract more customers and thereby increasing revenue. The Aquarium believes that these discounts have increased revenues. However, the Aquarium has not determined if the discounts has resulted in an increase in customer volume such that the revenues earned exceed the discounts provided.

**Conclusions**

**Financial**

The Visitor Services Supervisor duties include custody of assets (register drawer proceeds), performing a control function by comparing register drawer proceeds to sales in Altru, and recording proceeds to KFS. The performance of these duties increase the risk of errors or fraud related to admission fees. The Administrative Officer is responsible for ensuring proper segregation of incompatible duties.

The Administrative Officer’s lack of knowledge and inability to explain the Altru vs. KFS admission fee differences is attributable to Aquarium personnel not consistently comparing accounting transactions summarized in Altru and posted to KFS. Performing a monthly reconciliation (comparing and investigating accounting differences) between an accounting sub-system (Altru) and the general ledger (KFS) is a standard accounting practice that mitigates the risk of errors reflected in KFS and should result in accurate, complete and reliable financial reports.
Altru limitations requiring online ticket sales proceeds to be credited to a FOWA bank account appears unreasonable and may be attributable to Aquarium personnel lacking a full understanding of Altru’s functionality. Although FOWA is an affiliate of the Aquarium, the rights and ownership of the ticket proceeds belong to the Aquarium and accordingly should be credited to the Aquarium upon the processing of the ticket sale.

The Aquarium has not quantified the financial impact of providing admission fee discounts. Accordingly, it is uncertain if the admission fee discounts result in increased revenues and profits.

Recommendations

Financial

Internal Audit recommends that the Administrative Officer assign any two of the three duties performed by the Visitor Services Supervisor to other Aquarium fiscal personnel. Alternatively, if reassignment of incompatible duties is not practical, the Administrative Officer should perform a daily comparison of Altru admission sales to KFS admission sales to reduce the risk of errors or fraud due to the lack of segregation of duties.

The Administrative Officer must also compare and investigate differences related to accounting transactions summarized in Altru and posted to KFS. Performing a monthly reconciliation between Altru and KFS results in accurate recordation of admission fees in KFS and financial reports.

The Administrative Officer should consult with Altru to determine a solution allowing online sales proceeds to be credited to the University’s general bank account upon the processing of the ticket sale. Additionally, Internal Audit recommends the Aquarium analyze and quantify the financial cost/benefit of its admission fee discounts to determine if a positive financial benefit is achieved and if revisions to the discounts are warranted.

2. Facility rental

a) Private events

As noted previously, FOWA members may use the Aquarium’s facilities for private events such as weddings, birthdays, graduations and corporate events for a rental fee.

Table 5: Private Events Revenue by Fiscal Year

<table>
<thead>
<tr>
<th>Year ended June 30</th>
<th>Number of Events</th>
<th>Rental Revenue per Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>41</td>
<td>$144,739</td>
</tr>
<tr>
<td>2019</td>
<td>58</td>
<td>$174,770</td>
</tr>
<tr>
<td>2018</td>
<td>55</td>
<td>$183,725</td>
</tr>
</tbody>
</table>

Source: Administrative Officer

1) The University’s primary policies and procedures governing third party use of University facilities are summarized as follows:

i. Executive Policy (EP) 8.200, Policy on Contracts and Signing Authority

Establishes policies and procedures for all written contracts between the University and non-University affiliated entities including the use of University facilities. Facilities use agreement templates and insurance coverage requirements are provided in the appendices. OGC must review and approve changes to the facility use template prior to execution. Waivers or changes to insurance coverage requirements must be approved by the Office of Risk Management (ORM) with input from OGC.
ii. **EP 11.202 Management and Regulation of the Sale, Service and Consumption of Alcoholic Beverages on University Premises**

Establishes policies and procedures under which the sale, service, or consumption of alcoholic beverages may be permitted on University premises. The service of alcoholic beverages at any University event must be approved by the campus Chancellor or an authorized designee. Alcoholic beverages may be sold or exchanged for consideration only with an appropriate license from the liquor commission. A beverage service contractor must obtain and display its license to sell alcoholic beverages on University premises.

iii. **AP 1.200, University of Hawai‘i – Manoa Facilities Use Practices and Procedures (AP 1.200)**

Regulates the use of campus facilities at the UHM. Organizations are not allowed use of campus facilities where such use is in competition with other privately-owned facilities. The use of University facilities for an event where food is to be consumed or distributed is prohibited without specific written approval of the UHM Environmental Health & Safety Office (EHSO) and the Vice President for Budget & Finance/Chief Financial Officer (CFO) or his/her designee, except when food is to be supplied by the UHM food contractor.

iv. **AP 8.400, Risk Management (AP 8.400)**

Provides systemwide and campus administrators with guidelines and procedures for implementing various categories of risk management measures. All agreements with inherent liability exposure where third-party entities or individuals will be performing services for the University are required to include an indemnification clause and maintain liability insurance in the minimum amount of $1 million per occurrence.

v. **AP 8.710 Credit Card Program (AP 8.710)**

AP 8.710 applies to credit card payments processed by the University as the designated merchant. Each University merchant is required to comply with the applicable Payment Card Industry Data Security Standard (PCI DSS) requirements based on their payment processing method/merchant environment. These requirements include, but are not limited to the recording, retention and storage of cardholder data.

2) **Aquarium facility rental agreement**

Internal Audit was informed that the Aquarium facility rental agreement for private events was prepared by Aquarium personnel without consultation with OGC or ORM. As described above, the appendices to EP 8.200 include facilities use agreement templates and insurance coverage requirements. AP 8.400 also includes liability insurance and indemnity requirements. Internal Audit reviewed a sample of facility rental agreements for fiscal year 2020, 2019 and 2018 events noting that the Aquarium’s facility use agreement lacked many terms and conditions described in the EP 8.200 facilities use agreement template (e.g., indemnification clause, type of insurance and minimum insurance coverage, etc.).

The Aquarium does not provide food and beverage services but allows the renters to provide or hire caterers for food and beverage (including alcohol) service. AP 1.200 requires written approval from the EHSO and the CFO or his/her designee, except when food is to be supplied by the UHM foods contractor. In addition, EP 11.202 requires prior written approval by the campus Chancellor or an authorized designee to distribute and consume alcoholic beverages on University premises. Internal Audit noted that the Aquarium did not obtain the required approvals related to the serving of food and consumption of alcoholic beverages.

AP 1.200 includes a provision prohibiting the use of UHM facilities where such use is in competition with privately-owned facilities, unless an exception is granted by the University President. The rental of
Aquarium for private events appears contrary to this provision as it competes with privately-owned facilities available for private event rental. The Aquarium did not obtain the requisite approval for this provision.

In connection with Internal Audit’s review of a sample of facility rental agreements, Internal Audit noted that the facility rental agreement includes a page documenting the renter’s credit card data (primary account number, cardholder name, expiration date, etc.) Internal Audit was informed that the facility rental agreements are maintained indefinitely in a cabinet in the office of the Events Coordinator. The retention and storage of cardholder data, specifically the primary account number, subsequent to the expiration of its business need is noncompliant with AP 8.710 and PCI DSS requirements.

3) Rental fee
The rental fee for events of up to 100 guests is $2,000. For events of over 100 guests, the rental fee is $2,000 plus $8 per guest in excess of 100. The Aquarium could not provide a financial analysis supporting the sufficiency of the rental fee when compared to the Aquarium’s associated expenses (personnel, utilities, garbage disposal, facility wear and tear, etc.) Accordingly, although generating revenues to supplement the Aquarium’s operations, it is uncertain if the rental fee charged for private events provides the Aquarium with a sufficient profit or any profit.

4) Event recordation
The Events Coordinator collects the rental fee and records the private event on a spreadsheet noting the event date, customer name, rental fee payment dates and amounts. Payment of the $2,000 rental fee is required to confirm a reservation with a balance due (if guests exceed 100) after inspection of the facility at the conclusion of the event. Internal Audit was informed that the collection of the rental fee is processed through Altru. However, private event revenue is recorded to KFS by the Events Coordinator using the private event spreadsheet as the source document. As noted in section IV.B.1. Admission fees, adequate segregation of incompatible duties is a significant internal control objective that requires no employee to be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. The Events Coordinator is responsible for the recordkeeping, custody, and recording of the rental fee receipts in KFS. These duties performed by the Events Coordinator increase the risk of errors or fraud related to private event rental fees.

Although admission fees processed by Altru are posted daily to KFS, Aquarium personnel lacked an explanation for not applying the same process in recording private event rental fees to KFS. Accordingly, utilizing the spreadsheet rather than Altru increases the risk of untimely recordation of rental fees to KFS. Internal Audit also noted that the Administrative Officer does not compare private event rental fees listed on the spreadsheet or processed by Altru to KFS.

Conclusions
Operational and Financial
The Events Coordinator performs incompatible duties that increase the risk of errors or fraud related to private event rental fees. A lack of segregation of duties exists between recordkeeping, receipt and custody of rental fees and recording rental fee revenue to KFS. The rental fees recorded to KFS by the Events Coordinator are not reviewed by the Administrator Officer for accuracy and completeness.

Internal Audit noted that the Aquarium did not evaluate if the private event rental fees are sufficient to cover the associated expenses. Accordingly, it is uncertain if the rental fee charged provides the Aquarium with a sufficient profit or any profit.
Compliance
Based on the procedures performed, the Aquarium is in noncompliance with various University policies and procedures including the following:

- EP 8.200 – exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
- EP 11.202 – no University approval and vendor/customer liquor commission license for the service of alcoholic beverages
- AP 1.200 – facility rental competes with privately-owned facilities; no University approval for not utilizing UHM’s food and beverage vendor
- AP 8.400 – lack of indemnification clauses and minimum insurance coverage requirements
- AP 8.710 - indefinite retention and storage of credit cardholder data

Noncompliance with University policies and procedures exposes the University to significant financial, operational, and reputational risk that would be mitigated by adherence to these requirements.

Recommendations
Operational and financial
Internal Audit recommends that Altru be used as the source for recording private event rental fees to KFS. The Administrative Officer should assign any two of the three duties performed by the Events Coordinator to other Aquarium personnel such as the Visitor Services Supervisor. If reassignment of incompatible duties is not practical, the Administrative Officer should perform a daily comparison of all Altru proceeds (admission fees and private event rental fees) to KFS revenues to reduce the risk of errors or fraud due to the lack of segregation of duties.

Internal Audit recommends that the Aquarium consider performing an analysis comparing rental fees with the incremental payroll and overhead expenses (e.g. utilities; maintenance of the private event area, etc.) associated with the events to evaluate the sufficiency of rental fees and adjust the rental fees as warranted.

Compliance
Internal Audit recommends the Aquarium comply with applicable University policies and procedures and consult with OGC and ORM personnel as needed. Cardholder data should not be retained indefinitely. The Aquarium should consider destroying Cardholder data approximately one week after all rental fees have been paid and settled.

b) Luau
The Aquarium engaged Diamond Head Luau to operate a luau on the Aquarium’s lawn pursuant to a five-year agreement that expired in December 2019 (Note: Internal Audit was informed that a Call for Offers for luau vendors is drafted but not finalized). Rent during the first year (2015) was $1,500 per luau for the first 150 paying guests (four years of age or older). Rent increased each year by $100 per luau (i.e., $1,600 per luau during 2016). However, Internal Audit noted that during year five (January 2019 – December 2019), rent increased to $2,100 per luau (should be $1,900 per the agreement) Diamond Head Luau paid $5 per guest in excess of 150 guests per luau. The Aquarium also charged Diamond Head Luau additional fees agreed to verbally but not documented in the agreement. An extra $200 was charged in addition to the fixed luau rent for the Friday event. Early entry, tent set up, and trash removal were also charged as additional fees for certain months during the three years ended June 30, 2020. These monthly additional fees in the aggregate generally approximated $4,000. Similar to private events, the Aquarium did not prepare a financial analysis supporting the sufficiency of the luau rent and additional fees.
AP 8.230, *Contracting for Services* describes procurement requirements for the acquisition of third party services by contract. Internal Audit understands that the Diamond Head Luau agreement was not reviewed and approved by the University’s Office of Procurement Management (OPM).

The University’s policies and procedures governing third party use of University facilities described in the prior section are also applicable to the Aquarium’s luau operations. Similar to the Aquarium’s private events facility rental agreement, Internal Audit was informed that the Aquarium did not consult with ORM and OGC with respect to the Diamond Head Luau agreement. Internal Audit also noted the Diamond Head Luau agreement lacked many terms and conditions included in EP 8.200 and AP 8.400.

As noted previously in section *IV.B.2.a. Private events*, AP 1.200 includes a provision prohibiting the use of UHM facilities where such use is in competition with privately-owned facilities. The rental of Aquarium for a luau also appears contrary to this provision as it competes with privately-owned luaus. The Aquarium did not obtain the requisite approval for this provision.

Diamond Head Luau’s luau package includes a buffet dinner and cocktails (adults). As also described in section *IV.B.2.a. Private events*, AP 1.200 and EP 11.202 requires prior written approval from appropriate University leadership to distribute and consume food and alcohol on University premises. Internal Audit noted that the Aquarium did not obtain the necessary approvals related to food and alcoholic beverage distribution and consumption in connection with Diamond Head Luau agreement.

Internal Audit was informed that Diamond Head Luau continued the luau operations pursuant to a verbal agreement with the Director until the Aquarium closed in March 2020 due to COVID-19. During its operations from January to March 2020, Internal Audit noted that rent increased to $2,200 per luau. The Aquarium’s verbal agreements with Diamond Head Luau are contrary to EP 8.200 that requires all University contracts to be in writing.

**Table 6: Luau Revenue by Fiscal Year**

<table>
<thead>
<tr>
<th></th>
<th>Year ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
</tr>
<tr>
<td>Luau fixed rent</td>
<td>$168,330</td>
</tr>
<tr>
<td>Friday luau additional rent</td>
<td>67,600</td>
</tr>
<tr>
<td>Rent for guests in excess of 150</td>
<td>24,865</td>
</tr>
<tr>
<td>Other revenue</td>
<td>31,095</td>
</tr>
<tr>
<td><strong>Total per Table 2</strong></td>
<td><strong>$291,890</strong></td>
</tr>
</tbody>
</table>

*Source: Administrative Officer*

Internal Audit obtained a sample of invoices prepared by the Aquarium and verified luau fixed rent and recalculated Friday luau rent and fees for guests in excess of 150, noting the following exceptions:

- Friday luau rent invoiced could not be recalculated at the stated rates in multiple instances in fiscal years 2019 and 2018. The rent invoiced was both greater and less than the recalculated rent.
- The additional fee invoiced per guest in excess of 150 was less than the $5 per guest in multiple instances.

The Administrative Officer was not able to provide an explanation regarding these exceptions. Internal Audit determined that the Aquarium lacks processes and procedures to ensure luau revenues are invoiced accurately and timely. Additionally, Internal Audit noted that the Aquarium does not assign a unique and sequential number to its invoices and lacks a process to ensure the invoice is recorded to KFS upon issuance.
Conclusions

Operational and financial
The Aquarium lacks processes and procedures to ensure luau revenues are invoiced and recorded to KFS accurately and timely. Accordingly, the Aquarium may be invoicing and recording incorrect luau revenues. Processes and procedures mitigating this issue can be performed by the Administrative Officer and include reviewing invoices and the calculated luau revenues in addition to comparing the invoices to luau revenues recorded to KFS on a monthly basis. With respect to the invoices, assigning unique and sequential numbers would assist in the proper application of invoice payments.

Similar to private event rental fees, the Aquarium did not evaluate if the luau rent and additional fees are sufficient to cover the associated expenses. Accordingly, it is uncertain if the rental fee charged provides the Aquarium with a sufficient profit or any profit.

Compliance
Based on the procedures performed, the Aquarium is in noncompliance with various University policies and procedures including the following:

- EP 8.200 - exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
- EP 11.202 – no University approval and vendor/customer liquor commission license for the service of alcoholic beverages
- AP 1.200 – facility rental competes with privately-owned facilities; no University approval for not utilizing UHM’s food and beverage vendor
- AP 8.230 – luau agreement not reviewed and approved by OPM
- AP 8.400 – lack of indemnification clauses and minimum insurance coverage requirements

Noncompliance with University policies and procedures exposes the University to significant financial, operational, and reputational risk that would be mitigated by adherence to these requirements. The prevalence of verbal agreements creates additional issues of enforcing agreed upon terms and conditions.

Recommendations

Operational and financial
Internal Audit recommends the Administrative Officer review all luau invoices and the calculated luau revenue for accuracy in addition to comparing the invoices to luau revenues recorded to KFS on a monthly basis. The Administrative Office should also develop a method to assign unique and sequential numbers to invoices.

Internal Audit also recommends that the Aquarium consider performing an analysis comparing luau revenues luau related expenses (e.g. utilities, maintenance of the luau area, etc.) to evaluate the sufficiency of the amounts charged for the luau. This analysis will also assist the Aquarium in evaluating luau proposals received in connection with the Call for Offers.

Compliance
Internal Audit recommends the Aquarium comply with applicable University policies and procedures and consult with OGC, ORM and OPM personnel as needed. Ensuring that all agreements are in writing will mitigate any issues and disputes with external parties with respect to agreed upon terms and conditions.
3. Gift Shop

As discussed in section IV.A.1. Gift Shop, the Aquarium commenced operating the gift shop on January 1, 2018. Since January 2018, the gift shop employed a Manager, Assistant Manager, and several volunteers. The Manager was laid off in October 2020.

a) Operations

Sales at the registers are a shared responsibility of all employees (Manager, Assistant Manager, and volunteers). Cash, credit cards, and traveler’s checks are accepted methods of payment. Retail prices are established by the Manager with a target gross margin range of 50% to 55%. Internal Audit noted the Aquarium does not determine and compare actual gross margins recognized on an annual or periodic basis to the target gross margins.

Cash, traveler’s checks and credit card proceeds are counted and reconciled by the Manager or Assistant Manager to register sales recorded in the NCR Counterpoint (NCR) POS system twice daily (a.m. and p.m.). The counting of the proceeds is performed after the cash register drawer is transferred to a secured room. Once reconciled, the Manager or Assistant Manager prepares a bank deposit slip and places the daily proceeds in a deposit bag that is separate from the ticket counter’s deposit bag. The ticket counter’s deposit bag and cash register drawer are stored in a separate safe from the gift shop’s deposit bag and cash register drawer. On the following business day, the gift shop’s deposit bag is picked up by an armored car service and deposited to the bank. The Manager records sales from the previous day to KFS.

Internal Audit was informed an annual physical inventory count is performed every June 30 by all gift shop employees. Inventory counts are performed by scanning item barcodes into the physical inventory module linked to the NCR system and manually inputting quantities. If the NCR system identifies a discrepancy, the employee will perform a recount. If a discrepancy is confirmed by a recount, Internal Audit was informed that the Manager adjusts the NCR system to reflect the physical count of inventory on hand. The Administrative Officer could not quantify these adjustments since the Administrative Officer does not review or approve the adjustments.

The Administrative Officer reviews gift shop sales posted to KFS weekly. However, Internal Audit was informed that the Administrative Officer does not compare NCR month and year-end sales and inventory purchases to KFS nor does the Administrative Officer evaluate the gift shop’s financial results on an annual or periodic basis.

b) Photograph

The Aquarium engaged Event Photo Solutions to provide photography services at the Aquarium effective February 1, 2018 for a three-year period with an option to renew the agreement annually thereafter for an additional three years. Internal Audit noted that the Aquarium did not comply with the provisions of AP 8.230 and understands that the Event Photo Solutions agreement was not reviewed and approved by OPM. Internal Audit’s review of the Event Photo Solutions agreement noted term and condition deficiencies when compared to the EP 8.200 facilities use agreement templates. Internal Audit was also informed that OGC and ORM were not consulted in connection with this agreement.
Table 7: Photograph Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Photograph Sales</th>
<th>Commission (%)</th>
<th>Event Photo Solutions Commission per Table 2</th>
<th>Aquarium Photograph Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 (July 2019 – March 2020)</td>
<td>$265,551</td>
<td>50%</td>
<td>$132,776</td>
<td>$132,775</td>
</tr>
<tr>
<td>2019 (Feb. 2019 – June 2019)</td>
<td>$150,103</td>
<td>50%</td>
<td>$ 75,052</td>
<td>$ 75,051</td>
</tr>
<tr>
<td>2019 Total</td>
<td>$391,288</td>
<td></td>
<td>$207,704</td>
<td>$183,584</td>
</tr>
<tr>
<td>2018 (Feb. 2018 – June 2018)</td>
<td>$168,064</td>
<td>55%</td>
<td>$ 92,435</td>
<td>$ 75,629</td>
</tr>
</tbody>
</table>

Source: Photograph sales reports generated from NCR and commissions paid provided by the Administrative Officer.

Conclusions

Operational and financial

The dismissal of the Manager in October 2020 may result in the Assistant Manager performing incompatible duties of having custody of the cash register drawer, comparing the register drawer receipts to sales recorded in the NCR system, and recording sales to KFS. The Administrative Officer must be cognizant of this issue to decrease the risk of errors or fraud related to gift shop sales. The Administrative Officer also does not review and analyze the gift shop’s financial results and does not compare NCR month and year-end sales and inventory purchases to KFS.

Inventory adjustments recorded in the NCR system to reflect the physical inventory count are not reviewed and approved by the Administrative Officer. The Aquarium does not determine and compare the actual gross margin percentage on gift shop sales with the target range to determine if the expected results are achieved. The lack of monitoring gross margins coupled with the lack of analyzing gift shop financial results creates a significant uncertainty regarding the gift shop’s operations and profitability.

Compliance

Consistent with Internal Audit’s private events and luau conclusions, the Aquarium did not comply with various University policies and procedures including the following:

- EP 8.200 - exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
- AP 8.230 - Event Photo Solutions agreement not reviewed and approved by OPM
- AP 8.400 - lack of indemnification clauses and minimum insurance coverage requirements

Noncompliance with University policies and procedures exposes the University to significant financial and reputational risk that would be mitigated by adherence to these requirements.

Recommendations

Operational and financial

Upon the re-opening of the gift shop, the Administrative Officer must ensure that a single employee (Assistant Manager) does not have custody of the cash register drawer, compares the register drawer receipts to sales recorded in the NCR system and records the sales to KFS.

The Administrative Officer must review and approve all inventory adjustments and manage and monitor the gift shop’s financial results. Preparation of periodic and annual revenue and expense reports in addition to comparing actual gross margins to targets will assist the Administrative Officer monitor financial results.
Compliance
Consistent with Internal Audit’s private events and luau recommendations, Internal Audit recommends the Aquarium comply with applicable University policies and procedures and consult with OGC, ORM and OPM personnel as needed.

C. Affiliates

1. Friends of the Waikīkī Aquarium

In 1976, FOWA was organized and established accounts at the University of Hawai‘i Foundation (UHF) to support the Aquarium. In connection with its support to the Aquarium, FOWA signed an agreement with the University to operate a retail store at the Aquarium. In 1995, FOWA was organized as a separate 501(c)(3) entity. As discussed in section IV.A.1. Gift Shop, the FOWA operated the gift shop through December 31, 2017. An agreement dated January 1, 2013 and expiring on December 31, 2017 committed the FOWA to operate the gift shop and remit 20% of the gift shop gross sales (actual sale price of all goods and merchandise sold) to the Aquarium monthly. Other terms included restrictions on the type of merchandise offered in the gift shop and its hours of operation. Aquarium personnel were not aware of any agreements between the FOWA and the Aquarium prior to 2013.

A Memorandum of Understanding (MOU) effective January 1, 2020 documents FOWA’s financial commitments to the Aquarium. The following summarizes significant terms of the MOU:
- FOWA commits 50% of their membership revenues to the Aquarium annually
- FOWA commits a significant part of the net revenues for exhibits, and for matching funds for capital improvement projects funded by the University (Note: the MOU does not define or quantify “significant part of net revenues”)
- FOWA will provide other reasonable contributions, promotion, and support
- Aquarium will provide reasonable access to website, internet, phone, and computer system (Altru read only access)
- Aquarium will provide free admission for FOWA members and facilities for fundraising

Internal Audit obtained FOWA’s audited financial statements for the fiscal years ended 2019 and 2018. Internal Audit was informed that the fiscal year 2020 audit has not been completed since FOWA recently changed their fiscal year from June 30 to December 31. Internal Audit condensed FOWA’s 2019 and 2018 Statements of Financial Position for presentation in Table 8.
Table 8: FOWA Financials

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (including interest-bearing accounts)</td>
<td>$ 478,573</td>
<td>$ 601,431</td>
</tr>
<tr>
<td>Investments</td>
<td>4,111,133</td>
<td>3,907,435</td>
</tr>
<tr>
<td>Other assets</td>
<td>14,902</td>
<td>122,485</td>
</tr>
<tr>
<td>Total assets</td>
<td>$4,604,608</td>
<td>$4,631,351</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$ 197,818</td>
<td>$ 226,358</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets without donor restrictions</td>
<td>3,863,692</td>
<td>3,856,632</td>
</tr>
<tr>
<td>Net assets with donor restrictions</td>
<td>543,098</td>
<td>548,361</td>
</tr>
<tr>
<td>Total net assets</td>
<td>4,406,790</td>
<td>4,404,993</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$4,604,608</td>
<td>$4,631,351</td>
</tr>
</tbody>
</table>

The January 2020 MOU states that FOWA was established to support the Aquarium through fundraising and membership programs. FOWA’s fiscal year 2019 net assets of $4.4 million ($3.9 million without donor restrictions) is substantial. However, annual contributions received from FOWA as reflected in Table 9 represent approximately 6% of FOWA’s net assets. Based on inquiry with the Aquarium management, the Aquarium has not collaborated with or provided FOWA with any funding request for fiscal year 2021 and thereafter.

Table 9: Receipts and Support from FOWA

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$260,386</td>
<td>$ 45,000</td>
<td>$ -</td>
</tr>
<tr>
<td>Membership commission</td>
<td>15,100</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gift shop sales commission</td>
<td>-</td>
<td>-</td>
<td>81,164</td>
</tr>
<tr>
<td><strong>Receipts per Table 2</strong></td>
<td>275,486</td>
<td>45,000</td>
<td>81,164</td>
</tr>
<tr>
<td><strong>Support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital improvement projects</td>
<td>-</td>
<td>136,703</td>
<td>222,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$275,486</td>
<td>$181,703</td>
<td>$303,468</td>
</tr>
</tbody>
</table>

Source: Administrative Officer

In addition to the above, the Aquarium also received $195,000 in October 2020.

FOWA’s audited financial statements disclose that FOWA funded Aquarium improvements and enhancements of new or existing exhibits and facilities amounting to $136,703 and $222,304 during the fiscal years ended June 30, 2019 and 2018. Internal Audit reviewed FOWA fiscal year ended June 30, 2019 and 2018 transaction details provided by the Administrative Officer noting that the Aquarium’s capital improvement projects included architectural services, exhibit water chiller improvements and lawn renovations. Internal Audit was informed that FOWA directly contracted and paid vendors for these improvements and enhancements at the request and on behalf of the Aquarium. The Aquarium did not record these improvements benefiting the Aquarium and paid by the FOWA in KFS or the Aquarium’s internal financial reports. The Administrative Officer informed Internal Audit that there
were no FOWA funded improvements during fiscal year 2020. The Administrative Officer stated that the Aquarium does not monitor FOWA’s compliance with the terms and conditions of the MOU.

2. University of Hawai‘i Foundation

The Administrative Officer informed Internal Audit that the Aquarium has 18 UHF accounts of which 13 have no restrictions. Internal Audit reviewed a sample of UHF Establishment of Account forms verifying the Administrative Officer’s representation of accounts without restrictions. Internal Audit noted that UHF accounts without restrictions are available for direct payment of Aquarium operating expenses. Expenses presented in Table 10 represent Aquarium expenses including supplies, repairs and maintenance, and utilities paid by UHF on behalf of the Aquarium. However, Internal Audit was informed that the Aquarium did not record the benefit received from UHF for payment of these expenses in KFS or the Aquarium’s internal financial reports.

Table 10: Aquarium UHF Balances (Cash Basis)

<table>
<thead>
<tr>
<th>Year ended June 30</th>
<th>Beginning Cash Balance</th>
<th>Revenues</th>
<th>Expenses</th>
<th>Other</th>
<th>Ending Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$980,480</td>
<td>$34,912</td>
<td>$(152,684)</td>
<td>$6,209</td>
<td>$868,917</td>
</tr>
<tr>
<td>2019</td>
<td>$884,102</td>
<td>$102,797</td>
<td>(9,540)</td>
<td>$3,121</td>
<td>$980,480</td>
</tr>
<tr>
<td>2018</td>
<td>$978,966</td>
<td>$31,044</td>
<td>$(132,706)</td>
<td>$6,798</td>
<td>$884,102</td>
</tr>
</tbody>
</table>

Source: UHF Project Fund Balance and Cash Available reports provided by the Administrative Officer.

Conclusions

Operational and financial
The Aquarium’s historical and projected operating deficits in addition to the University’s funding reduction from the State of Hawai‘i requires the Aquarium to pursue other sources of revenue. The FOWA’s net assets may represent an additional source of funding for the Aquarium. However, the Aquarium has not secured a commitment nor provided an explanation for the lack of commitment from FOWA for additional funding.

The Aquarium does not monitor the FOWA’s compliance with the terms and conditions of the MOU to determine if the FOWA is providing the required financial support to the Aquarium.

The Aquarium also does not record FOWA and UHF payments (capital improvements and expenses) directly to vendors on behalf of the Aquarium in KFS or the Aquarium’s internal financial reports.

Recommendations

Operational and financial
Internal Audit recommends the Aquarium collaborate with the FOWA in order to secure funding commitments, as well as seek other sources of revenue to support the operations of the Aquarium.

Internal Audit recommends the Aquarium establish processes and procedures to monitor the FOWA’s compliance with the terms and conditions of the MOU and ensure the FOWA is providing the required financial support.

FOWA and UHF vendor payments on behalf of the Aquarium results in a financial benefit to the Aquarium. Internal Audit believes this financial benefit should be recorded, at a minimum, in the Aquarium’s internal financial reports to provide a comprehensive representation of the Aquarium’s net position and results of operations. Exclusion of these on behalf payments will result in an understatement of incurred expenses (or capital asset additions) which may result in improper budgeting guidance for subsequent years.
V. Overall Conclusions and Recommendations

Conclusions

Financial

1. Segregation of duties
   The Visitor Services Supervisor and Events Coordinator perform incompatible duties within the admissions and private event rental processes, respectively. Custody of assets (sales proceeds), recording of transactions, and comparing proceeds to recorded transactions performed by a single employee result in a lack of segregation of duties and increase the risk of errors or fraud related to these revenue sources. The gift shop may experience a similar segregation of duties issue upon its re-opening with the Assistant Manager as a result of the dismissal of the Manager.

2. Altru
   Admission fees recorded in Altru and KFS did not agree. These differences could not be explained by the Administrative Officer and would have been detected if Aquarium personnel compared transactions summarized in Altru and posted to KFS on a monthly basis. The asserted Altru limitations requiring online ticket sales proceeds to be credited to a FOWA bank account appear unreasonable.

   Private event rental fees are also processed by Altru. However, and contrary to the posting of admission fees to KFS, private event rental fees are posted to KFS from a manual spreadsheet.

3. Operating deficit
   The Aquarium projects a cashflow deficit for the year ended June 30, 2021 and has incurred historical operating deficits. However, the Aquarium has not developed a plan to address these deficits and the potential ongoing financial and operational challenges (i.e., restrictions on group size and social distancing requirements) presented by COVID-19.

Operational and financial

4. Financial analysis
   The Aquarium has not evaluated the adequacy of private event rental fees and luau revenues to cover the associated expenses to determine if the amounts charged provide the Aquarium with sufficient profit or any profit. With respect to the gift shop, the Administrative Officer does not review and analyze financial results including comparing actual to target gross margins on a periodic or annual basis. Accordingly, it is uncertain if these revenue sources are providing a financial benefit to the Aquarium. The Aquarium has also not quantified the financial impact of admission fee discounts to determine if the discounts increase revenues and profits.

   The Aquarium also does not prepare accurate and complete financial reports as well as monthly budget to actual reports. See additional discussion below in the Compliance section.

5. Processes and procedures
   The Aquarium lacks processes and procedures related to the invoicing and recording of luau revenues to KFS. In addition, gift shop inventory adjustments are not required to be reviewed and approved by the Administrative Officer. Accordingly, the risk of potential errors increases with respect to luau revenues and gift shop inventory.

6. FOWA and UHF
   Net assets of FOWA may represent an additional source of funding for the Aquarium. However, the Aquarium has not secured a funding commitment from the FOWA. Additionally, the Aquarium does not monitor FOWA’s compliance with the terms and conditions of their MOU to determine if the Aquarium is receiving the required
financial support or record FOWA and UHF payments (capital improvements and expenses) directly to vendors on behalf of the Aquarium in KFS or the Aquarium’s internal financial reports.

Compliance

7. Executive Policies and Administrative Procedures
The Aquarium does not monitor its financial results in accordance with AP 8.025 or the Aquarium’s functional statement. Monthly internal financial and budgetary statements are not prepared, transactions and accounts are not reconciled from Aquarium sub-systems to KFS on a regular basis, and reporting of transactions lack accuracy and completeness.

The Aquarium is also in noncompliance with various University policies and procedures with respect to the use of the Aquarium’s facilities for private events, luau and photography services as follows:
• EP 8.200 – exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
• EP 11.202 – no University approval and vendor/customer liquor commission license for the service of alcoholic beverages
• AP 1.200 – facility rental competes with privately owned facilities; no University approval for not utilizing UHM’s food and beverage vendor
• AP 8.230 – luau and photography agreements not reviewed and approved by OPM
• AP 8.400 – lack of indemnification clauses and minimum insurance coverage requirements
• AP 8.710 – indefinite retention and storage of credit cardholder data

Noncompliance with University policies and procedures exposes the University to significant financial, operational, and reputational risk that would be mitigated by adherence to these requirements. The prevalence of verbal agreements creates additional issues of enforcing agreed upon terms and conditions.

8. Wastewater discharge
The Aquarium has incurred a significant financial obligation with respect to its discharge of salt water. Current financial results indicate an inability to pay these obligations.

Recommendations

Financial

1. Segregation of duties
The Administrative Officer should assign any two of the three duties performed by the Visitor Services Supervisor and Events Coordinator to other Aquarium fiscal personnel. If reassignment of incompatible duties is not practical, the Administrative Officer should perform a daily comparison of admission and private event fees recorded in Altru with KFS. The Administrative Officer must also ensure adequate segregation of duties upon re-opening of the gift shop.

2. Altru
Internal Audit recommends that the Administrative Officer compare and investigate differences related to transactions summarized in Altru and posted to KFS to ensure accurate recordation of sales proceeds. The Administrative Officer should also consult with Altru to determine a solution allowing online admission sales proceeds to be credited directly to the University bank account. Consistent with admission fees, private event fees processed in Altru should be used as the accounting source for recording private event fees to KFS.

3. Operating deficit
The development of a plan to address the Aquarium’s current and potential ongoing financial and operational challenges is critical. Immediate consultation with University senior leadership is warranted.
Operational and financial

4. Financial analysis
   The Aquarium must evaluate the adequacy of private event rental fees and luau revenues to cover the associated expenses to determine if the amounts charged provide the Aquarium with sufficient profit or any profit. The Administrative Officer must also prepare periodic and annual financial reports for the Gift Shop to analyze financial results including comparing actual to target gross margins on a periodic and annual basis. The Aquarium must also quantify the financial impact of admission fee discounts to determine if the discounts increase revenues and profits. Based on the results of these evaluations and analyses, the Aquarium must determine if any adjustments or revisions to pricing and operations are warranted.

5. Processes and procedures
   In order to decrease the risk of potential errors with respect to luau revenues (assumes the execution of a new luau contract), the Aquarium should develop processes and procedures related to the invoicing and recording of luau revenues to KFS. Process and procedures may include requiring the Administrative Officer to review all luau invoices and calculated luau revenues, compare luau invoices to KFS on a monthly basis and develop a method to assign unique and sequential numbers to invoices. With respect to gift shop inventory, the Administrative Officer should review and approve inventory adjustments to the NCR system.

6. FOWA and UHF
   Collaboration with FOWA to secure funding commitments, as well as pursuing other sources of revenue to support the operations of the Aquarium will assist in addressing the operating deficit noted above. The Aquarium should also establish processes and procedures to monitor FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support.

   The Administrative Officer should, at a minimum, record FOWA and UHF vendor payments made on behalf of the Aquarium in the Aquarium’s internal financial reports to provide a comprehensive representation of the Aquarium’s net position and results of operations. Exclusion of these on behalf payments may result in improper budgeting guidance for subsequent years.

Compliance

7. Executive Policies and Administrative Procedures
   Preparation of accurate and complete financial reports (financial results and budget to actual) on a monthly and annual basis is critical for financial planning, assessing operations and determining future strategies. These reports should be distributed to appropriate University personnel for review and comment. In addition, transactions and accounts recorded to Aquarium sub-systems must be reconciled to KFS on a monthly and annual basis. Reconciliations will assist in the detection of errors in Aquarium financial reports or transactions posted to KFS.

   The Aquarium must become more knowledgeable with respect to University policies and procedures and ensure compliance with all applicable policies and procedures impacting the Aquarium’s operations. Immediate consultation with OGC, ORM, and OPM personnel should occur as issues arise.

8. Wastewater discharge
   The Aquarium must determine its total financial obligation and identify a source of funding. Ongoing and continued consultation with University leadership and OGC is essential to ensure that all regulatory compliance and financial obligations will be addressed timely and appropriately.
April 28, 2021

TO:       Regent Randolph Moore
          Chair, Committee on Independent Audit

VIA:      David Lassner
          President

VIA:      Michael Bruno
          Provost

From:     Andrew Rossiter
          Director, Waikīkī Aquarium

Subject:  Response to the January 2021 Office of Internal Audit Review of the Waikīkī Aquarium

The following are responses to the January 2021 Office of the Internal Auditor’s Review of the Waikīkī Aquarium.

Financial

Segregation of duties

From Internal Audit Report:

The Administrative Officer should assign any two of the three duties performed by the Visitor Services Supervisor and Events Coordinator to other Aquarium fiscal personnel. If reassignment of incompatible duties is not practical, the Administrative Officer should perform a daily comparison of admission and private event fees recorded in Altru with KFS. The Administrative Officer must also ensure adequate segregation of duties upon re-opening of the gift shop.

Response:

The Aquarium agrees with Internal Audit’s recommendation and is in the process of formulating a plan to separate two of three duties mentioned to other responsible staff. The plan will be completed for implementation prior to reopening both the Aquarium and Gift Shop. Hiring exceptions to fill cashier and front desk manager positions necessary to re-open the Aquarium will be submitted next month; filling these positions will allow for separation of duties.

Responsible Person: Administrative Officer
Altru

From Internal Audit Report:

Internal Audit recommends that the Administrative Officer compare and investigate differences related to transactions summarized in Altru and posted in KFS to ensure accurate recordation of sales proceeds. The Administrative Officer should also consult with Altru to determine a solution allowing online admission sales proceeds to be credited directly to the University bank account. Consistent with admission fees, private event fees processed in Altru should be used as the accounting source for recording private event fees in KFS.

Response:

The Aquarium agrees with Internal Audit’s recommendations. An additional process will be added to end of day balancing to include daily sales reports including private event proceeds for verification purposes. Initial discussions have begun with the Friends of the Waikiki Aquarium’s (FOWA) staff as well as Blackbaud/Altru representatives to assist in processing all online sales to the University bank account. At the time the Altru system was installed, the software did not have the capability to direct specific transactions to multiple banks. Software upgrades have now enabled this functionality.

Implementation of balancing daily Altru/KFS transactions will begin upon our reopening. Due to the recent resignation of FOWA’s Executive Director, coordinating the redirection of online admission sales (representing less than 2% of annual sales) to the University bank account is targeted for the 3rd quarter of 2021.

Responsible Person: Administrative Officer

Operating deficit

From Internal Audit Report:

The development of a plan to address the Aquarium’s current and potential ongoing financial and operational challenges is critical. Immediate consultation with University senior leadership is warranted.

Response:

The Aquarium concurs with the recommendation. The Aquarium apprised University senior leadership of COVID-related financial impacts last spring, and continues to work with the Offices of the Provost, the Office of the Vice Chancellor for Administration, Finance, and Operations, and others to address both financial and operational challenges. Internally, a timeline is being developed to plan for reopening including critical staffing needs, must-do maintenance projects and increased fee considerations.

Additionally, as soon as the program was launched, the Aquarium applied for a federal Shuttered Venue Operators Grant, administered by the Small Business Administration (SBA). If the application is successful, the Aquarium could receive approximately $1.5 million to offset COVID-incurred revenue losses and settle outstanding payments. Possible special appropriations from the State Legislature may also materialize. Federal Higher Education Emergency Relief Funds awarded to UH Manoa under the CARES Act and subsequent COVID-related relief bills (CRRSAA, ARPA) are available to replenish lost
revenues if other sources are insufficient. Additional revenues will become available in the near future following recommencement of the luau concession on the Aquarium grounds.

Implementation of the timeline for reopening includes identifying operational challenges with associated costs, and remains a work in progress as we get closer to reopening. Included in our timeline for reopening are estimated revenue and expenditure scenarios based on different occupation capacities, and assuming no tourists, 50% tourists, and fully operational at 2019 levels. Scenarios involving a potential entry fee increase have also been considered. The plan will also include our operational needs, to include filling critical revenue-generating staff positions, such as at the front desk and Gift Shop. With anticipated increases in visitors to the Aquarium, janitorial staff will need to be rehired. The Aquarium intends to operate with minimal staff and assess revising our hours of operation to maintain the health and safety of our visitors, staff and animals.

Responsible Persons: Director, Administrative Officer, Department Heads with oversight from OVCAFO and Provost.

Operational and financial

Financial Analysis

From Internal Audit Report:

The Aquarium must evaluate the adequacy of private event rental fees and luau revenues to cover the associated expenses to determine if the amounts charged provide the Aquarium with sufficient profit or any profit. The Administrative Officer must also prepare periodic and annual financial reports for the Gift Shop to analyze financial results including comparing actual to target gross margins on a periodic or annual basis. The Aquarium must also quantify the financial impact of admission fee discounts to determine if the discounts increase revenues and profits. Based on the results of these evaluations and analyses, the Aquarium must determine if any adjustments or revisions to pricing and operations are warranted.

Response:

The Aquarium concurs with the recommendations, and a detailed breakeven analysis will be conducted to determine profitability of our private events and luau. This will be completed prior to resuming the luau and private events.

At the conclusion of the annual Gift Shop inventory, a review and recap of sales pricing and gross margins will be undertaken to include considerations for allocating common expenses such as utilities, security and space. The purpose of this review is to ensure our pricing and profit margins are maximized. At least quarterly, product sales reports will be reviewed to assess product flow, length of time in inventory and pricing. Additionally, monthly sales/revenue reports will be reviewed and distributed to Department Heads and Gift Shop personnel. Implementation for this recommendation will commence at reopening; however, staff have already begun to identify older inventory and price for sale accordingly.

WAIKĪKĪ AQUARIUM • UNIVERSITY OF HAWAIʻI AT MĀNOA
2777 Kalākaua Avenue, Honolulu, Hawaiʻi 96815-4027 • Phone: (808)923-9741 • Fax: (808)923-1771 • www.waquarium.org

The University of Hawaiʻi is an Equal Opportunity/Affirmative Action Institution
The primary purpose for offering discounts from a marketing/revenue perspective is to drive interest in visiting the Aquarium from a segment of visitors that can choose other venues. This would also include in-kind marketing promotions with a specific value placed on the promotion.

We currently review and assess our discount programs with our Kiosk survey and Altru sales reports providing details on redemption and continued viability. These discounts were primarily reduced fees targeted for specific groups.

Further quantifying and analyzing the impacts of admission fee discounts on revenues will be undertaken once the Marketing/Community Outreach position is filled (anticipated to be in third quarter of FY 2022). However, we will continue to hold our quarterly sales/marketing meetings with our visitor services, Gift Shop, volunteer and events coordinators focusing on anticipated outcomes and duration of promotions.

Responsible Persons: Director, Administrative Officer

Processes and Procedures

From Internal Audit Report:

In order to decrease the risk of potential errors with respect to luau revenues (assumes the execution of a new luau contract), the Aquarium should develop processes and procedures related to the invoicing and recording of luau revenues to KFS. Process and procedures may include requiring the Administrative Officer to review all luau invoices and calculated luau revenues, compare luau invoices to KFS on a monthly basis and develop a method to assign unique and sequential numbers to invoices. With respect to gift shop inventory, the Administrative Officer should review and approve inventory adjustments to the NCR system.

Response:

We agree with the potential risks identified by Internal Audit. A process and procedure will be developed according to the “Call for Offerors” procurement currently being reviewed for a luau vendor, including required monthly sales reports and appropriate verifications from the vendor. These reports will assist the Events Coordinator in preparing their invoice. The Fiscal Administrative Assistant and/or Administrative Officer will verify the invoices and ensure monies received match the invoice, and will address any differences with the Events Coordinator. The payment will then be posted to KFS. Implementation of this recommendation will occur when the luau concession resumes.

An additional procedure will be included in the Gift Shop’s operating manual to include a section on inventory adjustments, requiring an additional person to review and approve. All invoices are processed through KFS with a specific Requisition and Purchase Order number assigned. Implementation of this inventory procedure will commence at reopening.

Responsible Persons: Administrative Officer
FOWA and UHF

From Internal Audit Report:

Collaboration with the FOWA to secure funding commitments, as well as pursuing other sources of revenue to support the operations of the Aquarium will assist in addressing the operating deficit noted above. The Aquarium should also establish processes and procedures to monitor the FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support.

The Administrative Officer should, at a minimum, record FOWA and UHF vendor payments made on behalf of the Aquarium in the Aquarium’s internal financial reports to provide a comprehensive representation of the Aquarium’s net position and results of operations. Exclusion of these on behalf payments may result in improper budgeting guidance for subsequent years.

Response:

The Aquarium concurs with this recommendation, and in October 2020, the Provost formed an Aquarium Renewal Task Force, whose role is to plan, fund and coordinate Aquarium renewal and renovation issues moving forward. The Provost, Aquarium Director, and FOWA Chairperson sit on this task force. The terms of the MOU and any budgetary CIP and other commitments for the upcoming year can be addressed at these meetings. Discussions regarding fundraising to pay for renovation of the Aquarium’s public galleries and improvements to the wastewater discharge system are ongoing.

The relationship between the Aquarium and FOWA is important, not just for the financial support to the Aquarium, but also because of the community stakeholders represented by the FOWA Board and donors. The Aquarium and campus leadership continue to work with FOWA to maximize benefit to the Aquarium and to the community.

Discussions are underway with General Accounting to determine the appropriate account coding for vendor payments related to FOWA and UHF payments.

Responsible Persons: Director

Compliance

Executive Policies and Administrative Procedures

From Internal Audit Report:

Preparation of accurate and complete financial reports (financial results and budget to actual) on a monthly and annual basis is critical for financial planning, assessing operations and determining future strategies. These reports should be distributed to appropriate university personnel for review and comment. In addition, transactions and accounts recorded to Aquarium sub-systems must be reconciled to KFS on a monthly and annual basis. Reconciliations will assist in the detection of errors in Aquarium financial reports or transactions posted to KFS.

WAIKIKI AQUARIUM • UNIVERSITY OF HAWAI’I AT MĀNOA
2777 Kalākaua Avenue, Honolulu, Hawai‘i 96815-4027 • Phone: (808)923-9741 • Fax: (808)923-1771 • www.waquarium.org

The University of Hawai‘i is an Equal Opportunity/Affirmative Action Institution
The Aquarium must become more knowledgeable with respect to University policies and procedures and ensure compliance with all applicable policies and procedures impacting the Aquarium’s operations. Immediate consultation with OGC, ORM, and OPM personnel should occur as issues arise.

Response:

The Aquarium projects revenue and expenditure budgets annually in accordance with instructions from the Manoa Budget Office. Due to the cyclical nature of our business, its dependence on tourism seasons and the unexpected failures of aquatic systems, it is challenging to forecast these factors in our budget. However, we provide comments on any variances to Manoa Budget Office and adjustments are made.

Additionally, monthly financial condition reports will be provided to Department Heads for review and in formulating revenue and cost savings strategies. Prior approval on any purchases over $500 is required from the Aquarium Director, with the exception of purchases relating to animal welfare, safety and sanitation. These actual figures will be reviewed by the Administrative Officer/Fiscal Administrative Assistant quarterly to assess if adjustments are needed to projections provided at the start of the fiscal year.

As discussed above in the “Altru” section, an additional balancing process will be implemented to reconcile Altru sales to the KFS transactions daily. The daily cash/credit card receipt report and sales report derived from Altru will be attached for verification and accuracy. In addition to disseminating the monthly financial condition reports to Department Heads, a monthly sales reconciliation including gift shop sales will be performed to ensure the sub systems are balancing to KFS. Implementation of this verification and reconciliation process will begin at reopening.

With respect to compliance with University policies and procedures, the Aquarium concurs with the recommendation, and staff has already identified corrective measures, including the following:

**EP 8.200:** We will begin using the Office of General Counsel (OGC)-approved facility use agreement templates when facility rentals resume.

**EP 11.202:** With the use of the OGC approved facility use agreement templates the user must comply with UH rules, policies and provide evidence of compliance with applicable laws with respect to serving alcohol. The user must obtain prior written approval from the events coordinator and OVCAFO to serve or make available alcoholic beverages as part of the authorized activity. A Request for Service or Sale of Alcoholic Beverages form will be included in the rental packet. With regards to the use of other food service vendors who are not under contract with UH and who are supplying food and beverage for the event, the Events Coordinator will seek prior approval from Office of Risk Management (ORM) with respect to insurance requirements, and OVCAFO with respect to service of alcohol.

**AP 1.200:** Facility rentals are currently a benefit for FOWA members, and only FOWA members or sponsors can rent our facilities. We will seek review and comment on this practice. Regarding our anticipated Call for Offers with respect to a luau concession on our property, the current draft of the Call for Offers document is currently being reviewed by representatives of the Office of Procurement Management Office of Risk Management, and the Office of the Vice President for Budget and Finance.
AP 8.230: The luau concession contract has expired and will not be renewed. The photography concession agreement is being routed for review and approval by OGC.

AP 8.400: Use of the OGC facility use agreement template includes Exhibit E which specifies provisions for insurance and indemnification, and we will work with ORM regarding satisfying insurance requirements.

AP 8.710: In consultation with Treasury Office, card holder data for facility rental agreements will be shredded no more than seven days after the event.

In addition, the Office of the Vice Chancellor for Administration, Finance and Operations will provide training to Aquarium fiscal staff regarding application of policies and procedures.

Responsible Persons: Vice Chancellor for Administration, Finance and Operations, Director, Administrative Officer

Wastewater Discharge

From Internal Audit Report:

The Aquarium must determine its total financial obligation and identify a source of funding. Ongoing and continued consultation with University leadership and OGC is essential to ensure that all regulatory compliance and financial obligations will be addressed timely and appropriately.

Response:

Regulatory issues regarding wastewater discharge at the Aquarium has been the subject of numerous meetings with the City and County Department of Environmental Services (ENV) and the State Department of Health (DOH), involving the Aquarium, UH Environmental Health and Safety Office (EHSO), the UH Office of Project Delivery, and OGC. These meetings have taken place over the last two years with the aim of negotiating a mutually acceptable resolution to these issues. The expectation is that agreements will be reached with ENV and DOH. In the interim, ENV has (February 2021) renewed the Aquarium’s industrial wastewater discharge permit, allowing current discharges and operations to continue.

Planning already underway includes the design and planning components of wastewater system modifications to better measure water flow. An appropriation for modifications to the existing water discharge system is included in the State Legislature’s capital improvement plan for FY 2022.

Responsible Persons: Director, Administrative Officer, Curator; with the assistance of the System Director of Project Delivery regarding design and construction

Conclusion:

We thank the Internal Audit Office for their thorough review of our operations, and their helpful recommendations to improve financial management and compliance in our operations.
comprehensive addressing of these matters will be made easier by the return of laid off staff in advance of the Aquarium’s proposed early July reopening date. The absence of these staff, with their specialist knowledge, hampered our ability to respond to some of the topic-specific questions raised by the Internal Auditors. In summary, we have already begun implementing several of these recommendations, and will address all of them over the coming months.
Update on Reviews of University Housing Program

Independent Audit Committee

May 6, 2021
Part 1: Overview
University Housing has three housing complexes with 237 rental units:
13 Studios | 23 1BR | 160 2 BR | 41 3BR

- **Kau‘iokahaloa Iki (K. Iki) Condos**
  - 29 units constructed for sale in 1995; units have been rented since 1997
- **Kau‘iokahaloa Nui (K. Nui) Apts**
  - 142 units constructed for rent in 1995
- **Wa‘ahila Apts**
  - 66 units constructed in 1960 for rent by short-term, visiting faculty
• **1990: Faculty Housing Study**
  - Lack of housing assistance was found to be the greatest barrier to recruitment and retention of faculty
  - Majority of mainland peer institutions had housing assistance programs

• **1994: UH faculty housing program established**
  - Purpose: To “compete in a tightening national and international market for highly qualified teaching, research, and service personnel” by “mitigating housing affordability problems” similar to other peer institutions located in high-cost housing locations
  - Mission: Offer temporary transitional housing to assist new faculty members during their period of adjustment to Hawai‘i’s economic conditions.
  - Prioritize assistance and support of higher-priority (i.e., tenure-track) faculty

• **1995: Construction**
  - 142 K. Nui “rental” apartments
  - 30 K. Iki “for sale” condominiums
To be eligible for University Housing applicants must:

- Be a full-time board appointee (RP 9.209 III.C.1)
- Be appointed to an O‘ahu campus (RP 9.209 III.D.1)
- Have their workplace on O‘ahu (RP 9.209 III.D.1)
- Not own real property on O‘ahu (RP 9.209 III.D.1)
- Not have lived in University Housing in the last three years (EP 9.230 III.E.1)
<table>
<thead>
<tr>
<th>PRIORITY</th>
<th>RANK</th>
<th>STATUS</th>
<th>MAXIMUM TERMS OF STAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>Tenure-Track</td>
<td>3 Years*</td>
</tr>
<tr>
<td>2</td>
<td>2, 4, 5</td>
<td>Tenure-Track</td>
<td>3 Years*</td>
</tr>
<tr>
<td>3</td>
<td>2, 3, 4, 5</td>
<td>Tenured</td>
<td>3 Years</td>
</tr>
<tr>
<td>4</td>
<td>APT</td>
<td>APT</td>
<td>1 Year</td>
</tr>
<tr>
<td>5</td>
<td>All Others</td>
<td>All Others</td>
<td>1 Year</td>
</tr>
</tbody>
</table>

* Priority 1 or 2 tenants who have not yet achieved tenure by the end of the maximum term of stay of three years may apply for a lease extension. The President has the authority to approve these lease extension requests on a case-by-case basis.
## Monthly Rental Rates

(Effective July 1, 2019)

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Wa’ahila Apts (Includes phone &amp; utility)</th>
<th>Kau’iokahaloa Nui Apts</th>
<th>Kau’iokahaloa Iki Condos (Includes parking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basement Studio (Standard/Refurbished)</td>
<td>$726 / $834</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Studio (Standard/Refurbished)</td>
<td>$787 / $900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-Bedroom (Standard/Refurbished)</td>
<td>$989 / $1,133</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-Bedroom (Standard/Refurbished)</td>
<td>$1,220 / $1,382</td>
<td>$1,321 / $1,528</td>
<td></td>
</tr>
<tr>
<td>3-Bedroom (Standard/Refurbished)</td>
<td>$1,540 / $1,713</td>
<td>$1,743 / $1,965</td>
<td>$2,011 / $2,242 +$137 with yard</td>
</tr>
</tbody>
</table>
Audits were conducted in 2010, 2013 (follow-up), 2019 and 2021 (status of corrective action)

Audits have generally focused on three main areas of concern:
1. Waitlist and total duration of tenant occupancy
2. Tax considerations due to rents less than 5% of appraised value
3. Mortgage Assistance Guaranty Program
Part 2: Waitlist/Occupancy
Audit:

• Did not define “waitlist”
• Used the Program’s excel worksheet that tracked all housing applications
• Includes:
  • Applicants offered housing and pending lease execution
  • Applicants declined 1st offer
  • Current tenants who request transfer to different unit
  • All other applicants
• Name is only removed from the worksheet when:
  • Applicant occupies unit
  • Application not renewed upon expiration (1 year term)
  • Application withdrawn
Term Limit Enforcement/Waitlist

**Waitlist (As used in Audit)**

<table>
<thead>
<tr>
<th>Year/Phase</th>
<th># Affected Tenants</th>
<th># Vacated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 – Phase 1</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2015 – Phase 2</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2016 – Phase 3</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2017 – Phase 4</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>2018 – Phase 5</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>2019 – Phase 6</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133</strong></td>
<td><strong>129</strong></td>
</tr>
</tbody>
</table>

Follow-up audit presented to IA in Oct. 2013
Historical Waitlist
(as of September 30th of each year)

Waitlist (As used in Audit) vs. Waitlist (Not Offered Unit)

Examples of Why No Offer was Made

2021:
• 8 applicants who are expected to receive an offer within 45 days of requested occupancy date
• 1 person only wants studio unit (13 in inventory)
• 1 person withdrew prior to requested occupancy date

2020:
• 1 person with extended start date due to COVID-19
• 1 person withdrew as temporary appointment ended

*As of March 25, 2021
8 tenants with lease terms between 7-10 years (as of 3/25/21)

<table>
<thead>
<tr>
<th>Tenant Count</th>
<th>Reason for Lease Term &gt; 7 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Tenured 2019 or 2020; Scheduled to move out in 2021 or 2022*</td>
</tr>
<tr>
<td>3</td>
<td>Tenured; Received lease extension exception to maintain occupancy levels due to COVID-19</td>
</tr>
<tr>
<td>1</td>
<td>Tenured; Received lease extension exception due to COVID-19 medical hardship</td>
</tr>
<tr>
<td>8</td>
<td>Total</td>
</tr>
</tbody>
</table>

*Future extension requests may be approved to maintain occupancy levels due to COVID-19
Part 3: Tax considerations due to rents less than 5% of appraised value
Pursuant to IRC section 119(d), if a tenant’s annual rent is less than 5% of the appraised value of the property, the difference should be reported as gross income to the tenant on their W-2 form as a taxable benefit.

UH has been in compliance since 2013.

<table>
<thead>
<tr>
<th>Property/Unit Type</th>
<th>No. of Units</th>
<th>Taxable Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>K. Nui</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>110</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>26</td>
<td>N/A</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td>K. Iki</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard</td>
<td>17</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>0</td>
<td>N/A</td>
</tr>
<tr>
<td>Standard w/ Yard</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>2</td>
<td>N/A</td>
</tr>
<tr>
<td>Wa’ahila</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basement Studio</td>
<td>0</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td>Studio</td>
<td>11</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>18</td>
<td>$ 604</td>
</tr>
<tr>
<td>Refurbished</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>8</td>
<td>$ 1,375</td>
</tr>
<tr>
<td>Refurbished</td>
<td>4</td>
<td>N/A</td>
</tr>
<tr>
<td>2 Bedroom (E Bldg)</td>
<td>12</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>0</td>
<td>N/A</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Refurbished</td>
<td>1</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Wa‘ahila

Standard (last updated 2002)

Refurbished
Part 4: Mortgage Assistance Guaranty Program
Mortgage Assistance Guaranty Program Overview

• 2009 – 2014 (currently cancelled)

• Partnered with Bank of Hawai‘i (BOH) to improve retention of tenured faculty by reducing down-payment requirement for purchase of “first” home
  • Primary Mortgage with BOH: Provides 80% of purchase price up to $625K of the appraised value; and
  • Secondary Mortgage with BOH backed by UH: Provides 17% of purchase price up to $125K of the appraised value
  • Borrower provides remaining purchase price as down payment

Example: Tenured faculty desires to purchase initial home with purchase price of $750,000

By participating in the program, the home is financed as follows:

$600,000 First Mortgage with BOH (80% of purchase price up to $625K)
$125,000 Second Mortgage with BOH backed by UH (17% of purchase price up to $125K)
+$ 25,000 Down Payment (provided by faculty; approx. 3% in this example)

$750,000

• UH only pays if faculty defaults on 2nd mortgage

• 7 faculty received program loans; 2 loans still outstanding and expected to be paid in full by 2037. No loans have entered default to date.
Mahalo!
# Office of Internal Audit

## Audit Project Status

As of April 29, 2021

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Audit Assistance</strong></td>
<td></td>
</tr>
<tr>
<td>1. Financial stmts, compliance, NCAA AUP</td>
<td>Internal Audit completed all Accuity requested procedures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Audit Committee Assistance</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Audit Committee Report - MW Fraud</td>
<td>Approved at 12/3/20 AC mtg.</td>
</tr>
<tr>
<td>4. Audit Committee Report - AC Annual rpt</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Audits</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carryover</strong></td>
<td></td>
</tr>
<tr>
<td>5. GASB St 87</td>
<td>Approved at 8/6/20 AC mtg.</td>
</tr>
<tr>
<td>6. Revenue Bond Compliance</td>
<td>Approved at 10/1/20 AC mtg.</td>
</tr>
<tr>
<td>8. University Bookstore</td>
<td>Revised draft distributed 4/20/21</td>
</tr>
<tr>
<td>9. Vietnam Executive MBA program</td>
<td>Information pending from Shidler.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>New</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Conflict of Interest</td>
<td>All info requested to date rec’d. IA to complete audit procedures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Corrective Action Status</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14. Sodexo Food Service Contracts</td>
<td></td>
</tr>
<tr>
<td>15. UHM Student Housing</td>
<td></td>
</tr>
<tr>
<td>16. UHH Student Housing</td>
<td></td>
</tr>
<tr>
<td>17. ASUH</td>
<td></td>
</tr>
<tr>
<td>18. University Housing</td>
<td></td>
</tr>
<tr>
<td>22. Student Accts Receivable</td>
<td></td>
</tr>
<tr>
<td>23. Evaluation of corrective action - C/D’s less than $2,500</td>
<td></td>
</tr>
<tr>
<td>24. Maunakea</td>
<td></td>
</tr>
<tr>
<td>25. GASB St 87</td>
<td></td>
</tr>
</tbody>
</table>
University of Hawai‘i

COMMITTEE ON INDEPENDENT AUDIT PROFESSIONAL EDUCATION SERIES

May 2021
Agenda

• Recap Topics Covered at March 2021 Meeting
• Evaluating the Internal Audit Function
• Conducting an Audit Committee Self-Evaluation
• Enterprise Risk Management
Recap
Recap of Topics from March 2021

1. Evaluating the Independent Auditor
2. Single Audits
Evaluating the Internal Audit Function
What is the Audit Committee Responsible For?

The Audit Committee should:

• Oversee and evaluate the internal audit function

• Be able to answer the following questions:
  ◦ Is the internal auditor independent and objective?
  ◦ Is the internal audit function’s size, budget, and structure adequate to meet its established objectives?
  ◦ Is the internal audit function’s work planned to address the risks of the University and is it focused on the right areas, topics of high risk, judgment and sensitivity?
  ◦ Is the internal auditor identifying and evaluating risk exposures?
Conducting an Audit Committee Self-Evaluation
What is the Audit Committee Responsible For?

The Audit Committee should:

• Conduct an annual self-evaluation to determine its performance and effectiveness

• Answer a series of questions independently to complete their self evaluation

• Discuss as a committee their self-assessment and plan for further action
Enterprise Risk Management
What is the Audit Committee Responsible For?

The Audit Committee should:

• Ensure objectives are met, determine that resources are utilized effectively, and ascertain that risks are managed appropriately

• Influence and agree with the University’s risk philosophy and risk appetite

• Determine the overall strategy and strategic decisions are in alignment with the University’s risk appetite and philosophy

• Ascertain the extent to which management has established effective ERM in the University

• Review the University’s portfolio of risk and consider it in relation to the University’s risk appetite

• Be apprised of the most significant risks and ascertain whether management is responding appropriately
Item IV.G.
Designation of Committee Member Financial Expertise

NO MATERIALS ORAL REPORT