MINUTES OF THE REGENTS' COMMITTEE ON UNIVERSITY AUDITS

Date: Friday, April 30, 2004

Place & Time: Bachman Hall Conference Room 113
University of Hawai‘i at Mānoa
2:30 p.m.

Committee Members Present: Regents
Yamasato (presiding)
Kakuda
Kawakami
Lee (ex-officio)

Committee Member Excused: Regent
Haynes

Other Regents Present: Regents
Bender
Hong
Lagareta
Nunokawa
Tanaka
Tatibouet

Others Present: James R. W. Sloane, Vice President for Administration and Chief Financial Officer
Sam Callejo, Chief of Staff
Michael T. Unebasami, Associate Vice President for Administration
Russell W. Miyake, Director, Financial Management Office
Alex Uyeda, Director, Office of Internal Audit
James Hasselman, Partner, PricewaterhouseCoopers LLP
Cory Kubota, Senior Audit Manager, PricewaterhouseCoopers LLP
Kim Sato, Audit Manager, PricewaterhouseCoopers LLP
David Iha, Executive Administrator and Secretary of the Board
Carl H. Makino, Executive Assistant to the Board
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Review of Selected University Non-General Funds and Accounts

Mr. Hasselman presented a draft of the PricewaterhouseCoopers (PWC) audit of the
Non-General Funds and Accounts Report on Agreed Upon Procedures for the University
of Hawai‘i. Upon acceptance by the Audit Committee PWC will proceed with finalization
and issuance of the final report. He explained that the procedures which were determined
by the management of the University were performed solely to assist the University in
evaluating: 1) the corrective measures taken in response to the findings contained in the
State Auditor’s Report dated March 2003 and, 2) the activity in the Graduate Application
Revolving Fund and Commercial Enterprise Revolving Fund. The sufficiency of the
procedures is solely the responsibility of University management. The report contained
findings with risk indicators ranging from low to high risk. He said that currently there is
very little guidance in the use of RTRF funds and PWC recommended that the University
enhance its policies and procedures to provide a more definitive guidance as to the type
of expenditures that can be made utilizing the RTRF funds. While the University has front
end controls surrounding RTRF expenditures, controls over this fund could be enhanced
by implementing one or more after the fact review procedures. In addition, the auditors
found that funds are being parked at RCUH. Further policies along this line are needed.
The University needs better policies on how to spend Endowment Fund payouts as well as
tuition monies. There is no guidelines on transferring of certain funds.

The University also lacks documented policies and procedures for the use and
allocation of its Research and Training Revolving Fund and its Tuition and Fees Special
Fund. Without allocation guidelines for the research fund, the campuses, departments, and
schools that might receive allocations are unable to plan for future research initiatives. In
addition, university administrators were unable to tell us how $8.5 million of the total $21.7
million research and training allocation for FY2002-03 would be used. The lack of policies
and procedures for the Tuition and Fees Special Fund is especially concerning because
the fund collected over $439 million and expended over $400 million since FY 1997-98.
This concern is exacerbated by the fact that the university has not assigned responsibility
for this significant source of revenue to anyone.

PWC also found that outdated procedures may contribute to the University’s inability
to provide adequate loans to qualified students from its State Higher Education Loan Fund.
This loan program has about $8.99 million in loans outstanding to students with 31 percent
($2.85 million) of that considered past due or delinquent. Other universities contacted
reported such delinquency rates as low as 2 and 15 percent.

The University has also disregarded sound contracting practices by allowing
contractors to render services before contracts were fully and properly executed. PWC
found several agreements funded by the Tuition and Fees Special Fund that were either
incomplete or executed in any untimely manner. PWC found lease agreements relating to
the Real Property and Facilities Use Revolving fund were not updated or modified in a timely manner.

From 1997 through October 2002, the University contracted with the Foundation to provide fund-raising and stewardship services at an annual cost of $1 million. In October 2002, the University entered into a new contract with the Foundation for $2.35 million annually. As allowed by law, these contracts have been paid with monies in the University’s Tuition and Fees Special Fund. However, the University, according to Mr. Hasselman, failed to adequately monitor these contracts. In fact, the current tuition-funded contract does not allow the University to adequately monitor the Foundation's services. Furthermore, although the State Auditor is statutorily authorized to conduct post-audits of state or public fund expenditures, the foundation prevented access to information needed to thoroughly assess the university’s state-funded contract with the foundation.

Despite the limitations imposed by the foundation, we were still able to identify a number of questionable foundation expenditures made under the guise of fund-raising. For example, a number of social events and functions attended by foundation employees such as football games, holiday luncheons, and community fund-raises, were not justified as fund-raises for the university and do not appear to benefit the institution. PWC found that student tuition-funded contract funds were used to entertain Foundation employees. Tickets for a rock concert were paid with state contract funds. State contract funds were also used to pay for at least two Foundation employees’ farewell parties at a local restaurant and museum. Finally, PWC found that the University President used public contract funds to purchase a personal gift. Although the amount of the questionable expenditures may not be significant to the total operation of the Foundation, PWC believes the prevalence of improper usage of student tuition and fees warrants further attention.

Regent Yamasato asked if the transfers were proper. Mr. Hasselman said that it was unclear because of the policies. Consequently, the policies need to be clearer and in some cases where there is no policy some need to be put in place. Mr Hasselman indicated that high risk was assigned to the RTRF:

- improving policies and procedures over the use of endowment fund payouts
- policies and procedures for use of tuition and fees special funds
- improving policies and procedures over monitoring Foundation activities and structured reporting protocol to University administration
- improving policies and procedures over monitoring Foundation activities and structured reporting protocol to the Board of Regents
- clarification of applicability of University Procurement policies to CERF activities

Regent Yamasato inquired about the University’s response to the State Auditor’s
report and implementation of corrective measures. Mr. Hasselman responded that it would be difficult to say how the administration has responded to the entire audit report because PWC was not engaged to make that determination. It was engaged to do very specific reviews which were included in their report.

Director Miyake responded that with regard to recommendations on the endowment fund that discussions are being held with the Internal Auditor to see if periodic audits can be made of transactions made from the endowment fund payouts. With respect to the RTRF fund, Kevin Hanaoka responded that the Internal Auditor can monitor the expenditures, but he acknowledged that there is no University policy on the use of RTRF funds and have been relying to a greater extent on Federal guidelines and grant stipulations. Regent Nunokawa followed as to how much monitoring occurs at the Deans’, Chancellors’ and President’s level to insure that these funds are being used properly. Vice President Sloane stated that whether certain uses were proper is unclear because the law is very broad as to how RTRF money can be used as long as it supports research. Regent Yamasato stated that it is therefore incumbent upon the University to develop stricter guidelines and tightened up its policies.

Regent Kawakami moved to receive the PricewaterhouseCoopers (PWC) audit of the Non-General Funds and accounts report on agreed upon procedures for the University of Hawai‘i. The motion was seconded by Regent Kakuda and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 3:25 p. m.

Respectfully submitted,

David Iha, Secretary

Dated: May 14, 2004

Chairperson Patricia Y. Lee
Members, Committee on University Audits
President Evan S. Dobelle
Vice President James R. W. Sloane
Chief of Staff Sam Callejo