

Notice of Meeting

UNIVERSITY OF HAWAI'I

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Members: Michael McEnerney (Chair), Randy Moore (Vice-Chair), and
Regents Doctor Sparks, Higaki, Portnoy

Date: Wednesday, February 7, 2018

Time: 12:00 p.m.

Place: University of Hawai'i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai'i 96822

AGENDA

- I. **Call Meeting to Order**
- II. **Approval of Minutes of the December 7, 2017 Meeting**
- III. **Public Comment Period:** 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 US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting written testimony are not automatically signed up for oral testimony. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Oral testimony is limited to three (3) minutes. All written testimony submitted are public documents. Therefore, any testimony that is submitted verbally or in writing, electronically or in person, for use in the public meeting process is public information.
- IV. **Agenda Items**
 - A. For Action:
 1. Review & Acceptance of the Associated Students of the University of Hawai'i at Mānoa Financial Statements & Management Letter for the Year Ended June 30, 2017
 2. Review & Acceptance of the University of Hawai'i Review of Employee Cell Phone Charges
 3. Review & Acceptance of the University of Hawai'i at Mānoa Outreach College Financial & Operational Review
 4. Review & Acceptance of the University of Hawai'i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2017 Football Season
 5. Review & Acceptance of Review of Check Disbursements Less Than \$2,500

B. For Information:

1. Whistleblower Report
2. Enterprise Risk Management Update - Overview of Cybersecurity at University of Hawai'i
3. Board Education Session – Walk Through of University of Hawai'i Consolidated Financial Statements

V. Adjournment

**ASSOCIATED STUDENTS
OF THE
UNIVERSITY OF HAWAI‘I AT MĀNOA**

Financial Statements

Year Ended June 30, 2017

DRAFT



University of Hawai'i
Office of Internal Audit

Associated Students of the University of Hawai‘i at Mānoa

Table of Contents

	<u>Page</u>
Independent Accountant’s Review Report	1
Management’s Discussion and Analysis	2
Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10



Independent Accountant's Review Report

To the President and Senate of the Associated
Students of the University of Hawai'i at Mānoa

We have reviewed the accompanying financial statements of the business-type activities of the Associated Students of the University of Hawai'i at Mānoa (ASUH), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise ASUH's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us, and, accordingly, we do not express an opinion or provide any assurance on the supplementary information.

November 15, 2017

Glenn Shizumura
Director

Associated Students of the University of Hawai‘i at Mānoa
Management’s Discussion & Analysis
June 30, 2017

Introduction

The Associated Students of the University of Hawai‘i at Mānoa (ASUH) is the elected undergraduate student government representing full-time, classified, undergraduate students at the Mānoa campus. ASUH was chartered by the University of Hawai‘i (University) Board of Regents in 1912, as a representative body. It is a part of the co-curricular educational opportunities provided by Chapter 7 of the Board of Regents policy (RP 7.201-7.202). Students serving in ASUH are elected by academic year. There are currently 38 positions on the undergraduate senate. This includes four executive officers (President, Vice President, Secretary and Treasurer), four Senators-at-Large and thirty school/college Senators.

ASUH utilizes student fee and investment revenue toward advocacy and funding efforts. ASUH advocates on students’ behalf with various entities, including the University administration, faculty, staff, community groups, and government officials. ASUH also serves students through funding diversified student programs and events. In recent years, the annual budget has included providing scholarships, research awards, graduate school test preparation awards, study abroad scholarships, Registered Independent Organization funding, funding for events, activities, programs and other areas that directly benefit students. Budgetary decisions and specific appropriations are determined each year by the elected senate. Appropriations are made in response to expressed student needs and requests. Annual projections are based on anticipated revenues for the upcoming year and historical expenditures, but remain flexible in order to ensure responsiveness to actual student needs and requests on a year by year basis. This approach is structurally embedded in the ASUH constitution and is philosophically grounded in the student empowerment/student governance model used in American public higher education. Consequently, year to year variances especially in operating expenses are a normal result.

The most noteworthy item of the year ended June 30, 2007 is that ASUH finalized the agreement with Graystone Consulting (a Morgan Stanley Company), in consultation with appropriate University officials. ASUH was informed by Graystone Consulting representatives that the agreed upon rate (.25%) was lower than the rate offered to peers with a comparable portfolio (average is more in the .4-.5% range for the size of the portfolio). Additionally, Graystone Consulting agreed to provide quarterly financial educational development for the students. As referenced in Senate Resolution 03-18, ASUH representatives had been working on the agreement from Fall 2015 through Spring 2017.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to ASUH’s basic financial statements. Under the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, as amended, ASUH is considered to be a special purpose government entity. As a special purpose government entity engaged only in business-type activities, the only financial statements required to be presented are those for proprietary funds. Accordingly, ASUH’s basic financial statements consist of Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and notes to the financial statements.

Associated Students of the University of Hawai‘i at Mānoa
Management’s Discussion & Analysis
June 30, 2017

The Statement of Net Position presents the assets, liabilities, and net position of ASUH at June 30, 2017. The purpose of the Statement of Net Position is to present to readers of the financial statements a fiscal snapshot of ASUH at a specific point in time. Changes in total net position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and non-operating revenues, the operating and non-operating expenses, and any other revenues, expenses, gains and losses earned or incurred. The Statement of Cash Flows provides additional information about ASUH’s financial results by reporting the major sources and uses of cash. This statement presents cash flows in two major categories: operating activities and investing activities.

Financial Position Summary

ASUH’s assets are measured in current value. Liabilities are generally considered to be financial obligations of ASUH and may also consist of payments received for service not yet provided (student fees received in advance). Both assets and liabilities are classified as either current or noncurrent. The classification of current assets is based on whether the asset is reasonably expected to be realized in cash or sold or consumed within a year. Current liabilities are obligations whose liquidation is reasonably expected to require the use of existing current assets or the creation of other current liabilities.

The Statement of Net Position presents the financial position of ASUH at June 30, 2017. The difference between assets and liabilities is net position, representing a measure of the current financial condition of ASUH.

ASUH’s assets, liabilities and net position at June 30, 2017 and 2016 are summarized in the following table.

	2017	2016	FY 17 vs 16 Change
Assets			
Current assets	\$ 61,522	\$ 95,550	\$ (34,028)
Noncurrent assets	8,768,063	8,350,123	417,940
Total assets	<u>\$8,829,585</u>	<u>\$8,445,673</u>	<u>\$ 383,912</u>
Liabilities			
Current liabilities	\$ 46,444	\$ 33,780	\$ 12,664
Noncurrent liabilities	-	365	(365)
Total liabilities	<u>\$ 46,444</u>	<u>\$ 34,145</u>	<u>\$ 12,299</u>
Net Position:			
Unrestricted	<u>\$8,783,141</u>	<u>\$8,411,528</u>	<u>\$ 371,613</u>
Total net position	<u>\$8,783,141</u>	<u>\$8,411,528</u>	<u>\$ 371,613</u>
Total liabilities and net position	<u>\$8,829,585</u>	<u>\$8,445,673</u>	<u>\$ 383,912</u>

Associated Students of the University of Hawai‘i at Mānoa
Management’s Discussion & Analysis
June 30, 2017

Current Assets and Liabilities

Current assets consist of cash and receivables. The \$34,028 decrease in current assets at June 30, 2017 as compared to June 30, 2016 is primarily attributable to a \$34,526 decrease in cash. The decrease in cash was primarily due to ASUH transferring a lower amount of cash during the year ended June 30, 2017 from the endowment investment cash account to the operational cash account to cover current cash requirements.

Current liabilities consist of accounts payable, accrued expenses, and student fees received in advance. Total current liabilities increased by \$12,664 at June 30, 2017 as compared to June 30, 2016, primarily due to a \$14,145 increase in accounts payable at year end. The increase in accounts payable was primarily due to a greater amount of reimbursement requests from student organizations to ASUH late in the year ended June 30, 2017.

Endowment Investments

The June 30, 2017 carrying value of ASUH’s investments of \$8,768,063 reflects an increase of approximately \$417,940 (less the payouts) over the prior fiscal year. The increase was generally due to the increase in the fair value of endowment investments.

ASUH formally hired its Investment Consultant/Financial Advisor near the end of the year ended June 30, 2017. From May 2015 through 2017, Bank of Hawai‘i served as the custodian of the endowment investments and investment activity was the result of passive management. There were no active managers during this time. During fiscal year 2017, proceeds from sales and maturities of investments resulted primarily from maturity of fixed income securities or sales of shares in money market funds. The purchase of investments was primarily from the purchase of shares in money market funds to reinvest proceeds from maturity of fixed income securities, as well as interest and dividend income.

Net Position

Net position represents the residual interest in ASUH’s assets after liabilities are deducted. Total net position increased \$371,613 between fiscal year 2017 and fiscal year 2016. This increase was attributed primarily to the increase in the value of ASUH endowment investments as discussed above.

Financial Operations Summary

Operating revenues are derived from student activity fees and will be used to pay for goods and services provided to ASUH’s constituency. Operating expenses are incurred in the normal operation of ASUH. Nonoperating revenues are revenues received for which no goods and services have been provided. For example, investment income is nonoperating because it is provided to ASUH without an exchange of goods and services from ASUH. It is anticipated that ASUH will consistently report an operating loss since investment income, a significant revenue source relied upon for operational expenses, is considered nonoperating revenue.

Associated Students of the University of Hawai‘i at Mānoa
Management’s Discussion & Analysis
June 30, 2017

ASUH’s results of operations for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016	FY 17 vs 16 Change
Operating revenues	\$ 102,263	\$ 106,706	\$ (4,443)
Operating expenses	<u>397,883</u>	<u>392,368</u>	<u>5,515</u>
Net operating loss	(295,620)	(285,662)	(9,958)
Nonoperating revenues	<u>667,233</u>	<u>576,486</u>	<u>90,747</u>
Increase in net position	371,613	290,824	80,789
Net position			
Beginning of year	<u>8,411,528</u>	<u>8,120,704</u>	<u>290,824</u>
End of year	<u>\$8,783,141</u>	<u>\$8,411,528</u>	<u>\$ 371,613</u>

Revenues

ASUH has two primary revenue streams that support its operations – student activity fees and investment income. The variability of total operating revenues is associated with changes in student enrollment. Total fiscal year 2017 non-operating revenues increased \$90,747 when compared to 2016 primarily due to an increase in the change in fair value of endowment investments (\$442,200 in 2017 and \$273,595 in 2016), partially offset by a decrease in realized gains from sales of investments (\$2,664 in 2017 and \$74,654 in 2016).

Expenses

ASUH operating expenses consist of student services, compensation and benefits, awards for service, scholarships, supplies, utilities and other expenses. Total operating expenses increased \$5,515 in fiscal year 2017 when compared to 2016, primarily resulting from a \$17,647 increase in compensation and benefits expense due primarily to additional work hours performed by student employees. The increase in compensation and benefits expense was offset by decreases in student services expenses and awards for service paid to ASUH Senators. Student services expense includes the funding of Registered Independent Organizations and University programs initiated by students and/or departments to benefit students. The funding support provided to various organizations and programs are determined by the ASUH Senate, which consist of annually elected officials. The majority of the decrease in student services expense was due to a decrease in requests and/or what the senate decided to fund. The decrease in awards for service was primarily due to a reduction in the amount awarded by the body, based on applied criteria.

Associated Students of the University of Hawai‘i at Mānoa
Management’s Discussion & Analysis
June 30, 2017

Description of Currently Known Facts, Decisions or Conditions that are Expected to have a Significant Effect on Financial Position

There are no known facts, decisions, or conditions that are expected to have a significant effect on financial position.

Looking Forward

In the coming fiscal year, ASUH will continue to serve as the undergraduate student government at the Mānoa campus. ASUH’s assets and revenues will be used to fulfill its responsibilities as outlined by its constitution.

ASUH’s revenues generated through student fees and investment income will be used for student programs and services that are requested by the constituency base and/or departments serving its constituency base. Increases or decreases in undergraduate student enrollment are expected to impact revenues from student fees. The fluctuating market is anticipated to impact investment revenue generated by the endowment investments. However, the current returns suggest a cautious yet optimistic outlook. As noted previously, in fiscal year 2017, ASUH secured an Investment Consultant/Financial Advisor, Graystone Consulting. ASUH will continue to depend on its Investment Consultant/Financial Advisor to provide vigilant oversight on a quarterly basis, including monitoring investment policy compliance, as agreed with Graystone Consulting. In the event ASUH does not have an agreement with an Investment Consultant, ASUH will seek a temporary consultant to assist with management of endowment investments and monitoring of investment policy compliance.

In November 2017, ASUH received Board of Regents approval to hire Investment Managers and invest in index funds. ASUH expects the change in its Investment Consultant/Financial Advisor as well as in investment strategy with new managers and investing in index funds to have some transitional, though not significant, impact on the investment portfolio.

Continued ASUH commitments include office operations to serve the student constituency and funding of programs to provide student services. To encourage and ensure continued student empowerment, as in past years, each elected senate will develop its goals, partially through the creation of the annual budget. The senate will guide its annual financial course based on the initiatives and needs of the current student populace, without limiting itself by budgetary and program directives from previous senates.

Associated Students of the University of Hawai‘i at Mānoa
Statement of Net Position
June 30, 2017

Assets

Current assets

Cash held by the University	\$ 37,022
Accounts receivable, less allowance for doubtful accounts of \$3,283	1,385
Interest receivable	<u>23,115</u>

Total current assets 61,522

Endowment investments 8,768,063

Total assets \$8,829,585

Liabilities and Net Position

Current liabilities

Accounts payable	\$ 32,246
Accrued expenses	10,813
Student fees received in advance	<u>3,385</u>

Total current liabilities 46,444

Total liabilities 46,444

Net position

Unrestricted 8,783,141

Total net position 8,783,141

Total liabilities and net position \$8,829,585

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues	
Student activity fees	\$ 102,263
Total operating revenues	102,263
Operating expenses	
Student services	129,496
Compensation and benefits	126,377
Awards for service	37,849
Scholarships	93,396
Supplies, printing and subscriptions	7,562
Utilities	2,340
Bad debt recovery	(300)
Other	1,163
Total operating expenses	397,883
Operating loss	(295,620)
Nonoperating revenues	
Net investment income	667,233
Increase in net position	371,613
Net position	
Beginning of year	8,411,528
End of year	\$8,783,141

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities

Student activity fees	\$ 102,330
Payments to employees	(128,757)
Payments to suppliers	(135,026)
Payments for student activities	(122,335)
	(283,788)
Net cash used in operating activities	(283,788)

Cash flows from investing activities

Proceeds from sales and maturities of investments	1,359,790
Interest and dividends received on investments	222,338
Purchase of investments	(1,332,866)
	249,262
Net cash provided by investing activities	249,262
Decrease in cash	(34,526)

Cash

Beginning of year	71,548
End of year	\$ 37,022

Reconciliation of operating loss to net cash used in operating activities

Operating loss	\$ (295,620)
Adjustments to reconcile operating loss to net cash used in operating activities	
Changes in operating assets and liabilities	
Accounts receivable	(467)
Accounts payable	14,145
Accrued expenses	(2,380)
Student fees received in advance	534
	(283,788)
Net cash used in operating activities	\$ (283,788)

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa

Notes to Financial Statements

June 30, 2017

(1) Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The Associated Students of the University of Hawai‘i at Mānoa (ASUH) is a student organization chartered by the Board of Regents of the University of Hawai‘i (the “University”) to which all full-time, classified undergraduate students on the Mānoa campus are members. The legislative body of this organization is the ASUH Senate, which is composed of four executive officers, a maximum of four at-large senators, and a maximum of thirty college senators, with at least one representative from each college.

ASUH serves as the undergraduate student government which focuses on improving the quality of undergraduate student life, representing the needs, interests and concerns of its constituents, and developing a responsible as well as critical awareness of prevalent attitudes and actions through participation in co-curricular activities.

Basis of Presentation

ASUH follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in Governmental Accounting Standards Board (“GASB”) Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, as amended. The financial statements of ASUH are presented using the economic resources measurement focus and the accrual basis of accounting.

The financial statements do not reflect buildings and certain other physical facilities used by ASUH in its operations or certain benefit obligations of the University which are not allocated to individual schools and departments.

Cash held by the University

All ASUH cash is pooled with other University cash balances and is invested by the University Treasury Office in time certificates of deposit or other legally authorized investments. Interest accrues based on the average daily cash balance. Hawai‘i Revised Statutes require that the depository banks pledge collateral based on the daily available bank balances. The University met insurance and collateral requirements at June 30, 2017.

ASUH considers all cash and investments with original maturities of three months or less to be cash equivalents except for the money market funds reflected as Endowment Investments. The carrying amounts reported in the Statement of Net Position for cash equivalents approximate fair value due to the short maturity of these investments.

Quasi-Endowment Funds

ASUH has a quasi-endowment fund which consists of donations that have been transferred to the endowment investments by the Board of Regents. The quasi-endowment is generally managed by an investment brokerage firm. ASUH’s investment funds were established from the proceeds of the sale of 1,481 shares of Honolulu Stadium, Ltd. stock in the amount of \$839,000. The investments are administered in accordance with the Resolution on the Use of Net Income, Principal, and Investment of ASUH-Mānoa Stadium Stock Fund established by

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

ASUH as approved and adopted by the Board of Regents on January 18, 1979 as well as Board of Regents Policy, Section 8.207(III)E).

The Hawaii Uniform Prudent Management of Institutional Funds Act (HUPMIFA), established under Hawaii Revised Statute Chapter 517E, was enacted by the State of Hawaii on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The quasi-endowment fund did not have any donor restrictions as of June 30, 2017.

The Board of Regents has ultimate authority over the investments and can authorize the expenditure of any portion of the principal upon the recommendation of the ASUH Senate.

ASUH is legally authorized to invest in investments that include money market funds, mutual funds, equity securities, U.S. Government securities, and publicly traded foreign securities (debt and equity). All investments must have a readily ascertainable market value and must be readily marketable. Investments are stated at fair value, which is defined by ASUH as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants.

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, ASUH measures fair value using assumptions developed based on market data obtained from independent external sources and ASUH’s own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or inputs (other than quoted prices) that are observable for the asset or liability.
- Level 3 – Unobservable inputs for an asset or liability reflecting management’s assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Equity investments will primarily consist of common stocks, convertible preferred stocks, and convertible bonds, with an emphasis on total return. Fixed income investments are to consist primarily of investment grade securities with the objective of total return. The annual payout from the investment portfolio has been established by Board policy at not more than 5% of the portfolio’s market value at the beginning of the fiscal year. In addition, a minimum of \$50,000 should be retained in cash equivalents at all times to meet the operational needs of ASUH.

Realized and unrealized gains and losses on investments are included in the Statement of Revenues, Expenses and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the original cost of investments sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

investments reported in the prior year and the current year. Gains or losses on sales of investments are retained or absorbed by the quasi-endowment.

Student Fees Received in Advance

Student activity fees received for future periods are presented as student fees received in advance.

Net Position

ASUH’s net position is classified as unrestricted, meaning that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the ASUH Senate or may be otherwise limited by contractual agreements with outside parties. These resources are derived primarily from student activity fees and income from investments.

At June 30, 2017, ASUH had no restricted components of net position.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available to pay the expenses, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

Operating and Nonoperating Activities

ASUH’s policy for determining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services, and payments made for goods and services received.

Operating revenues are derived primarily from a mandatory \$5 student activity fee paid by all full-time, classified undergraduate students at the Mānoa campus and are recognized when they become due for the current school semester.

Nonoperating activities of ASUH are generated through investment transactions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates, among others, include allowances for uncollectible receivables, the valuation of investments, and the current versus noncurrent classification of assets and liabilities.

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

(2) Endowment Investments

Endowment investments reported at fair value have been categorized based on the fair value hierarchy in Note 1 as of June 30, 2017:

	Cost	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Fixed income securities	\$ 2,422,767	\$ 2,414,930	\$ 1,834,114	\$580,816
Mutual funds	20,894	25,631	25,631	-
Equity securities	<u>5,122,457</u>	<u>6,327,502</u>	<u>6,327,502</u>	-
	<u>\$ 7,566,118</u>	<u>\$ 8,768,063</u>	<u>\$ 8,187,247</u>	<u>\$580,816</u>

As of June 30, 2017, ASUH held no investments categorized as Level 3 based on the fair value hierarchy.

Changes in endowment investments for the year ended June 30, 2017 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain	Net Realized Gain
End of year	\$8,768,063	\$7,566,118	\$1,201,945	
Beginning of year	<u>8,350,123</u>	<u>7,590,378</u>	<u>759,745</u>	
Net change	<u>\$ 417,940</u>	<u>\$ (24,260)</u>	<u>\$ 442,200</u>	<u>\$ 2,664</u>

The components of net investment income for the year ended June 30, 2017 were as follows:

Summary of net investment income	
Change in net unrealized gain	\$ 442,200
Net realized gain	<u>2,664</u>
	444,864
Interest and dividend income	237,913
Investment fees and foreign taxes	<u>(15,544)</u>
Net investment income	<u>\$ 667,233</u>

ASUH’s investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. ASUH’s risk of loss in the event of counterparty default is typically limited to the amounts recognized in the Statement of Net Position and is not represented by the contract or notional amounts of the instruments.

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

Investment Risk Factors

To manage its investment risks, the Board of Regents’ investment policy for the ASUH at Mānoa Stadium Stock outlines desired risk management guidelines in an effort to limit risk. Included in the asset allocation guidelines is a maximum of 70% in equities. As of June 30, 2017, the ASUH-Mānoa Stadium Stock Fund was comprised of approximately 72% equities. Additionally, the asset allocation guidelines include a minimum of 20% in fixed income securities. As of June 30, 2017, the ASUH-Mānoa Stadium Stock Fund was comprised of approximately 16% fixed income securities.

Credit Risk

Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody’s and Standard and Poor’s, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. Fixed income securities will primarily consist of investment grade securities with the objective of total return.

The composition of ASUH’s fixed income securities at June 30, 2017, along with credit quality ratings, is summarized below:

	Fair Value	Credit Quality Rating				
		U.S. Govt-Exempt	AAA	AA	A	BBB
U.S. Treasury	\$ 837,321	\$837,321	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	96,510	-	-	96,510	-	-
Money market funds	996,793	-	996,793	-	-	-
Corporate bonds	484,306	-	27,810	61,298	233,648	161,550
	<u>\$2,414,930</u>	<u>\$837,321</u>	<u>\$1,024,603</u>	<u>\$157,808</u>	<u>\$233,648</u>	<u>\$161,550</u>

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State of Hawaii’s investment policy generally limits maturities on investments to not more than five years from the date of investment.

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

The composition of ASUH’s fixed income investments at June 30, 2017 along with maturities is summarized below:

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 837,321	\$ 173,677	\$520,610	\$125,859	\$17,175
U.S. government agencies	96,510	37,902	-	3,039	55,569
Money market funds	996,793	996,793	-	-	-
Corporate bonds	484,306	184,785	129,029	170,492	-
	<u>\$2,414,930</u>	<u>\$1,393,157</u>	<u>\$649,639</u>	<u>\$299,390</u>	<u>\$72,744</u>

Concentration Risk

Concentration risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. ASUH limits its concentration risk by limiting individual equities to not more than 10% of the total cost of the equity portfolio. In addition, funds should not be invested in any one industry in excess of 15% of the total cost of the equity portfolio. ASUH limits its risk of concentration of assets in fixed income securities by limiting individual bond positions other than obligations of the US government to not more than 5% of the total fixed income security portfolio. In addition, no more than 15% of fixed income securities may be lower than investment grade.

Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. ASUH’s investment policy permits investments in publicly traded foreign securities.

ASUH’s exposures to foreign currency risk expressed in U.S. dollars as of June 30, 2017 were as follows:

Equity securities	
Australian dollar	\$ 33,076
British pound	180,072
Euro	274,650
Israeli shekel	5,348
Norwegian krone	27,880
South African rand	7,714
Swedish krona	14,093
Swiss franc	88,544
Total exposure to foreign currency risk	<u>\$ 631,377</u>

See independent accountant’s review report and notes to financial statements

Associated Students of the University of Hawai‘i at Mānoa
Notes to Financial Statements (Continued)

(3) Employee Benefits

ASUH employees consist of one full-time employee and several part-time student workers. In addition, ASUH utilizes administrative personnel provided by the University at no expense as these positions are funded by other University programs.

Information regarding the Employees' Retirement System, vacation leave, accumulated sick leave, deferred compensation arrangements, and post-retirement health care and life insurance benefits can be found in the University's consolidated financial statements for the year ended June 30, 2017.

(4) Commitments and Contingencies

Leases

ASUH entered into a noncancelable lease agreement for a copier, effective July 2, 2014. The lease agreement calls for annual payments of \$1,845 and expires on July 1, 2019.

Litigation

Hawai‘i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action, or suit brought against the University shall be payable solely from the funds and property of the University and shall not constitute a general obligation of the State. The Board of Regents is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University. Management of ASUH is not aware of any asserted or unasserted litigation, claims or assessments.

Insurance

ASUH participates in the University's insurance risk management program. In general, the University obtains third party insurance coverage directly from third party insurers or is covered under the umbrella of the State's insurance program. However, the University is partially or entirely self-insured for certain risks such as unemployment and worker's compensation claims. ASUH is assessed a premium for covered employees. The University assumes the risk of loss and administers unpaid claims on behalf of the entire University. Accordingly, no liability for unpaid claims has been recorded in the accompanying financial statements.

See independent accountant's review report and notes to financial statements



UNIVERSITY
of HAWAII®
SYSTEM

November 15, 2017

To the President and Senate of the Associated
Students of the University of Hawai'i at Mānoa

The Constitution of the Associated Students of the University of Hawai'i at Mānoa (ASUH) requires an annual audit. The Office of Internal Audit (Internal Audit) performs annual financial statement reviews or operational audits to eliminate the need for ASUH to engage an external audit firm. Internal Audit reviewed the financial statements of ASUH, as of and for the year ended June 30, 2017, and the related notes to the financial statements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management.

In connection with this financial statement review, Internal Audit identified an improvement area for ASUH's consideration. This improvement area and Internal Audit's evaluation of corrective actions implemented by ASUH to address prior findings from the fiscal year 2016 operational audit are presented in this letter.

Investment Policy Compliance

Observations:

Internal Audit noted per ASUH Senate Resolution 01-16 (June 24, 2015) that Merrill Lynch resigned as the ASUH investment consultant in May 2015. Prior to Merrill Lynch's resignation, the University of Hawai'i (University) Board of Regents approved a change in investment consultant to Graystone Consulting (Graystone) on March 19, 2015. The contract with Graystone was not signed until June 29, 2017, with Graystone taking custody of ASUH's investment portfolio in September 2017. Bank of Hawai'i was the custodian of the investment portfolio from May 2015 through August 2017. According to ASUH representatives, the delay in hiring Graystone between May 2015 and June 29, 2017 was due to ongoing inquiries and modifications to the contract, along with turnover amongst ASUH Senators (i.e. students graduating, new elections, etc.), who were involved in contractual discussions and inquiries. As a result of the delay in hiring Graystone, the ASUH investment portfolio was not actively managed or monitored for compliance with Board of Regents Policy (RP) 8.207 during the period May 2015 through August 2017.

Investment policy review:

Internal Audit noted that RP 8.207 establishes the investment policies for both the University and ASUH. While the policies are similar, ASUH's investment policy provides greater flexibility in terms of asset allocation and types of permitted investments. For the year ended June 30, 2017, Internal Audit analyzed ASUH's compliance with RP 8.207 noting the following:

RP 8.207 requirement and section	Pass/ Fail	Reason for Fail (if applicable)
Fixed income securities should be actively managed. 1.c.(3)	Fail	No investment consultant between May 2015 and June 2017.
Monitoring and evaluating performance results via the investment manager to ensure policy guidelines are adhered to and objectives are met. 2.1.(5)	Fail	No investment consultant between May 2015 and June 2017.

Minimum \$50,000 cash and cash equivalents. 8.b.(1)	Pass	
Maximum annual payout of 5% of the total portfolio. 8.c.(1)(c)	Pass	
Only invested in approved asset types (and no prohibited asset types) 8.d.(1)	Pass	
Maximum limit of 15% total equities in any one industry. 8.g.(1)(a)	A	A- Unable to determine based on custodian statements provided by ASUH.
Maximum limit of 10% total equities in any one company. 8.g.(1)(a)	Pass	
Individual bond positions (other than U.S. government) should comprise no more than 5% fixed income securities. 8.g.(2)(a)	Pass	
No more than 15% of fixed income securities may be lower than investment grade. 8.g.(2)(a)	Pass	
Asset mix guidelines shall be rigidly observed: Equities (20%-70%); Bonds (20%-70%); Cash or cash equivalents (5%-60%). 9.a.	Fail	For nine of twelve months in 2017, including at June 30, equities were allocated greater than 70%, ranging from 70.2% to 72.6%. For all twelve months, bonds were allocated less than 20%, ranging from 16.2% to 18.1%.
Portfolio management will be measured on a year-to-year basis and will be evaluated over a three-year moving average. 10.a.	Fail	No investment consultant between May 2015 and June 2017.
ASUH shall meet with the investment manager at least quarterly. 11.a.	NA	No investment consultant between May 2015 and June 2017.

Impact and Recommendations:

Internal Audit noted that not complying with one or more of ASUH's mandated investment policies may change the risk profile of the portfolio, as well as result in portfolio underperformance. Per discussion with ASUH representatives, Internal Audit noted that ASUH typically depends on their investment consultant in regards to monitoring compliance with RP 8.207. However, Internal Audit does not believe this relinquishes the duty to monitor compliance in the absence of an investment consultant. In the future, ASUH should consider implementing investment compliance monitoring activities during periods where no investment consultant is contracted to perform such activities.

Status of Prior Year Corrective Actions

In regards to the follow-up review, Internal Audit performed inquiries with ASUH representatives and reviewed supporting documentation regarding corrective actions identified during the fiscal year 2016 operational audit, and noted the following:

<u>Comments</u>	<u>Corrective Actions</u>	<u>Status</u>
1. ASUH did not monitor the Post Activity Report submissions by certain Registered Independent Organizations (RIOs).	ASUH will manage and track all RIO submitted documents in an electronic database. ASUH will utilize reports generated from this system to monitor and verify the completion of all required documents.	Completed.
2. Documents supporting the completion of mandatory community service by RIOs were not available.		Completed.
3. Two study abroad students did not deliver and presentation or submit a written report describing their study abroad experience.	Both students are expected to complete their presentation and report in early 2017.	One student did not submit a report nor deliver a presentation, and efforts to contact the student have been unsuccessful. However, ASUH management believes such a result is an isolated exception and have updated their policy to require a report and presentation OR video presentation.
4. The spreadsheet used to rank applicants contained a mathematical error (but did not affect the awarding of the scholarship).	The Committee on Undergraduate Academic Affairs (UAA) members will manually recalculate scores.	Completed.
5. Study abroad applicant was not a resident of Hawai'i (as required by policy), and was awarded the scholarship prior to residency verification.	ASUH Operations Coordinator will verify residency prior to submitting applications to the Committee on UAA.	Completed.

Internal Audit noted that all corrective actions have been implemented or other actions have been taken to remediate each finding.

Sincerely,

Glenn Shizumura
Director

UNIVERSITY OF HAWAII
BOARD OF REGENTS

18 JAN 31 12:37



ASUH

Associated Students of the University of Hawaii
YOUR STUDENT GOVERNMENT

RECEIVED

'18 JAN 31 12:28
January 24, 2017

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

MEMORANDUM

TO: Michael McEnerney
Chair, UH Board of Regents Committee on Independent Audit

VIA: David Lassner *David Lassner*
UH President and UHM Interim Chancellor

FROM: Jannah Lyn Dela Cruz *Jannah Lyn Dela Cruz*
ASUH President

Maggie Hinshaw *Maggie Hinshaw*
ASUH Treasurer

Clinton Ng *Clinton Ng*
ASUH Chairperson, Committee on Investments and Long Range Planning

Bonnyjean Manini *Bonnyjean Manini*
ASUH Faculty Advisor

Lori Ideta *Lori Ideta*
Interim Vice Chancellor for Students

SUBJECT: **Response to Office of Internal Audit Review of the Associated Students of the University of Hawai'i at Mānoa**

This serves in response to the document of December 2017 produced by the Office of Internal Audit in summation of its third year financial statement review of the Associated Students of the University of Hawai'i at Mānoa.

2465 Campus Rd, Campus Center Room 211A
Honolulu, Hawai'i 96822
Phone: (808) 956-4822

RECEIVED

Below, please find the Internal Audit observations and our responses:

Internal Audit Observation

ASUH Stadium Stock Fund was not actively managed, as is required by RP 8.207, during the period of May 2015 through August 2017, after the previous Investment Consultant/Financial Advisor resigned and while ASUH representatives were involved with contractual discussions and inquiries.

Response/Corrective Action

The ASUH Stadium Stock Fund was monitored and managed by qualified financial experts at Bank of Hawai'i (BOH) who served as the custodian during the period of May 2015 through August 2017. This arrangement was negotiated and overseen by representatives from the University of Hawai'i Financial Management Office due to unexpected resignation of the previous Investment Consultant/Financial Advisor and the termination of agreements they had with the managers.

During the period from May 2015 through August 2017, the representatives at Bank of Hawai'i exceeded their role as custodian by regularly informing University representatives and securing ASUH support in order for them to perform needed fund management tasks including the sale of securities. ASUH representatives authorized 33 actions, at the guidance of BOH and request of FMO, between Summer 2015 through Fall 2017.

Summer 2015- Spring 2016: ASUH sent 13 action memos

- **S A EUR 2.5 ADR AND NATIONAL GRID TRANSCO PLC 10P ADR (06/16/15)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (08/13/15)**
- **DOW CHEM CO USD 2.5 OPTION AND GENERAL ELEC CAP CORP 5.625 OPTION (09/30/15)**
- **TOTAL S A EUR 2.5 ADR (10/06/15)**
- **GENERAL ELEC CO USD 0.06 (11/06/15)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (11/18/15)**
- **NATIONAL GRID PLC 10P ADR (12/06/15)**
- **DIVIDEND FOR TOTAL S A EUR 2.5 ADR (12/29/15)**
- **BROADCOM C CL A COM USD 0.0001 (01/21/16)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (02/22/16)**
- **KLA-TENCOR CORP USD 0.001 (02/22/16)**
- **VERIZON COMMUNICATIONS 5.15 (03/15/16)**
- **TOTAL S A EUR 2.5 ADR (03/28/16)**

Summer-Fall 2016, ASUH sent 12 action memos

- **BAXTER INTL INC USD 1.0 (05/16/2016)**
- **BAXALTA INC USD 0.01 (05/19/2016)**
- **CVS HEALTH CORP 5.75 01JUN17 (05/23/2016)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (05/24/2016)**
- **TOTAL S A EUR 2.5 ADR (06/08/2016)**
- **STATOILHYDRO ASA ADR (06/08/2016)**
- **NATIONAL GRID PLC 10P ADR (06/10/2016)**
- **LOCKHEED MARTIN CORP USD 1.0 (08/12/2016)**
- **STATOILHYDRO ASA ADR (09/07/2016)**
- **STATOILHYDRO ASA ADR (09/30/2016)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (11/17/2016)**
- **STATOILHYDRO ASA ADR (11/30/2016)**

Summer-Fall 2017 ASUH sent 8 action memos

- **ROYAL DUTCH SHELL PLC EUR 0.07 ADR (05/20/2017)**
- **STATOILHYDRO ASA ADR (05/27/2017)**
- **TOTAL S A EUR 2.5 ADR (06/06/2017)**
- **NATIONAL GRID PLC NPV ADR (06/08/2017)**
- **MARATHON OIL CORP USD 1.0 (06/25/2017)**
- **VERIZON COMMUNICATIONS 5.15 15SEP23 (08/10/2017)**
- **ROYAL DUTCH SHELL PLC EUR 0.07 (08/16/2017)**
- **STATOILHYDRO ASA ADR (08/16/2017)**

Responsible Persons: ASUH President, ASUH Treasurer, Chair-Committee on Investments and Long Range Planning

Status: Since September 1, 2017, the ASUH Stadium Stock Fund has been actively managed by qualified Investment Consultants/Financial Advisors, Graystone Consulting. Said Investment Consultants/Financial Advisors have hired managers following the appropriate RP [Regent's Policies].

If the ASUH Stadium Stock Fund is left without an Investment Consultant/Financial Advisor in the future due to similar resignation, ASUH will need to arrange for active management.

The ASUH Committee on Investments and Long Range Planning will be working to revise the applicable RP to allow for temporary hire of active managers during any transition period. The realistic date of completion for reviewing the current policies, soliciting input, developing the draft revisions, securing support from the full ASUH senate via resolution, securing

administrative support at the campus and system level, and attaining BOR committee as well as full board approval approximately June 2019.

Internal Audit Observation

The ASUH Stadium Stock Fund was not monitored for BOR policy compliance during the contractual discussions.

Response/Corrective Action

The ASUH is a student organization. Due to the importance and complexity of the Stadium Stock Fund and respective RPs, ASUH includes as part of its contractual agreement with Investment Consultants/Financial Advisors (custodians), the requirement of monitoring the ASUH Stadium Stock Fund for BOR Compliance.

If the ASUH Stadium Stock Fund is left without Investment Consultants/Financial Advisors in the future due to similar resignation that occurred in 2015, ASUH will need to arrange for appropriate temporary assistance of parties with investing and investment policy expertise, who can provide advising that would normally come from the Investment Consultants/Financial Advisors.

Responsible Persons: ASUH President, ASUH Treasurer, Chair-Committee on Investments and Long Range Planning

Status: ASUH completed the agreement with Graystone Consulting by August 2017. ASUH hired Graystone Consulting by September 1, 2017. ASUH attained BOR approval to hire managers on November 16, 2017. Managers were hired thereafter. ASUH began discussing the need to draft revisions to the investment policies following the BOR Committee on Budget and Finance meeting on November 1, 2017.

The ASUH Committee on Investments and Long Range Planning sought input on investment policy revisions from VP Kalbert Young on November 18, 2017 and from Graystone Consulting beginning on December 21, 2017. As of January 24, 2018, the committee members are in ongoing dialogue with the advisors from Graystone Consulting on this item. The committee members will also be doing its own review before drafting up revisions. The realistic date of completion for reviewing the current policies, soliciting input, developing the draft revisions, securing support from the full ASUH senate via resolution, securing administrative support at the campus and system level, and attaining BOR committee as well as full board approval approximately June 2019.

Internal Audit Observation

RP 8.207 Fails

- Fixed income securities should be actively managed. 1.c.(3)
- Monitoring and evaluating performance results via the investment manager to ensure policy guidelines are adhered to and objectives are met. 2.1.(5)
- Asset mix guidelines shall be rigidly observed: Equities (20%-70%); Bonds (20%-70%); Cash or cash equivalents (5%-60%). 9.a.
- Portfolio management will be measured on a year-to- year basis and will be evaluated over a three-year moving average. 10.a.

Response/Corrective Action

The ASUH Committee on Investments and Long Range Planning will be working with the Investment Consultants/Financial Advisors to address the areas of failure with the appropriate Investment Managers. All applicable RP items will be monitored quarterly by the Investment Consultants/Financial Advisors as is agreed upon formally in the finalized contractual agreement.

Responsible Persons: ASUH President, ASUH Treasurer, Chair-Committee on Investments and Long Range Planning

Status: As of January 24, 2018, all areas listed above are in compliance. Please see attachments 1, 2, and 3 for more information.

Internal Audit Observation

ASUH shall meet with the investment manager at least quarterly. 11.a.

Response/Corrective Action

When ASUH has Investment Consultants/Financial Advisors formally employed, representatives of the ASUH Committee on Investments and Long Range Planning meet with the Consultant/Advisor quarterly.

ASUH will also be meeting with the Investment Consultants/Financial Advisors whenever educational services are needed by the students in ASUH, as agreed upon in the finalized contractual agreement.

Responsible Persons: ASUH President, ASUH Treasurer, Chair-Committee on Investments and Long Range Planning

Status: ASUH began meeting with Graystone Consulting advisors on September 19, 2017, after the agreement was finalized. After introductions, one of the first items of business for the ASUH Committee on Investments and Long Range Planning was to establish a set schedule for quarterly meetings. At this meeting, the committee members and the Investment Consultants/Financial Advisors established the months of October, January, April, and July for said meetings. This allows the Investment Consultants/Financial Advisors to close out each quarter in the months of September, December, March, and June, prepare a report, and provide the quarterly report to the ASUH Committee. In line with this schedule and the RP, the ASUH Committee on Investments and Long Range Planning met with the Investment Consultants/Financial Advisors on October 17, 2017 and January 22, 2018. Meetings are yet to be scheduled for April and July 2018.

Attachments

- 1) Quarterly RP Compliance Sheet, January 2018
- 2) Quarterly RP Compliance Sheet, October 2017
- 3) Corrective Action Table

Investment Policy Compliance

Investment Manager Review of ASUH Investment Policy
(Board of Regents Policy 8.207) Compliance
December 31, 2017

IP Section		Total Fund	Golden Capital (US Small-Mid Equity)	Cambiar Investors (International Equity)	Boyd Watterson (US Core Fixed Income)
	Investment Manager				
E.5 b	<i>Investment Management Compliance with UPMIFA</i>	N/A	Pass	Pass	Pass
	Investment Guidelines-Liquidity				
E.7 b (1)	A minimum \$50,000 should be retained in cash equivalents at all times.	Pass	N/A	N/A	N/A
	Investment Guidelines-Types of Assets				
E.7 b (1)	All assets selected for the portfolio must have a readily ascertainable market value and must be readily marketable.	Pass	Pass	Pass	Pass
	Any known prohibited investments/transactions	None	None	None	None
	Investment Guidelines -Diversification Section				
E.7.g (1) (a)	<i>Up to a maximum limit of 15% of total equities in any one industry at cost.</i>	Pass	N/A	N/A	N/A
	<i>Individual stock positions limit of 10% in any one company.</i>	Pass	Pass	Pass	N/A
E.7.g (2) (a)	<i>Individual Bond positions other than US Government should not comprise more than 5% of the total fixed income portion of the portfolio</i>	Pass	N/A	N/A	Pass
	<i>No more than 15% of the fixed income investment may be lower than investment grade.</i>	Pass	N/A	N/A	Pass
	Asset Distribution Guidelines				
E.9 a	Equities: Minimum 20% - Maximum 70%	Pass			
	Bonds: Minimum 20% - Maximum 70%	Pass			
	Cash: Minimum 5% - Maximum 40%	Pass			
	Evaluation and Review				
E.10 a (2)	Relative performance of equities vs. S&P 500 (trailing 3 years)	N/A	N/A	N/A	N/A
E.10 a (3)	Relative performance of fixed income vs. Barclays Aggregate Bond (trailing 3 years)	N/A	N/A	N/A	N/A

Investment Policy Compliance

Investment Manager Review of ASUH Investment Policy
(Board of Regents Policy 8.207) Compliance
September 30, 2017

IP Section		Total Fund	Manager A	Manager B	Manager C
	Investment Manager				
E.5 b	<i>Investment Management Compliance with UPMIFA</i>	N/A	N/A	N/A	N/A
	Investment Guidelines-Liquidity				
E.7 b.(1)	A minimum \$50,000 should be retained in cash equivalents at all times.	Pass	N/A	N/A	N/A
	Investment Guidelines-Types of Assets				
E.7 b.(1)	All assets selected for the portfolio must have a readily ascertainable market value and must be readily marketable.	Pass	N/A	N/A	N/A
	Any known prohibited investments/transactions	None	N/A	N/A	N/A
	Investment Guidelines -Diversification Section				
E.7 g.(1).(a)	<i>Up to a maximum limit of 15% of total equities in any one industry at cost.</i>	Pass	N/A	N/A	N/A
	<i>Individual stock positions limit of 10% in any one company.</i>	Pass	N/A	N/A	N/A
E.7 g.(2) (a)	<i>Individual Bond positions other than US Government should not comprise more than 5% of the total fixed income portion of the portfolio</i>	Pass	N/A	N/A	N/A
	<i>No more than 15% of the fixed income investment may be lower than investment grade.</i>	Pass	N/A	N/A	N/A
	Asset Distribution Guidelines				
E.9 a	Equities: Minimum 20% - Maximum 70%	Pass	N/A	N/A	N/A
	Bonds: Minimum 20% - Maximum 70%	Pass	N/A	N/A	N/A
	Cash: Minimum 5% - Maximum 40%	Fail	N/A	N/A	N/A
	Evaluation and Review				
E.10 a.(2)	Relative performance of equities vs. S&P 500 (trailing 3 years)	N/A	N/A	N/A	N/A
E.10 a.(3)	Relative performance of fixed income vs. Barclays Aggregate Bond (trailing 3 years)	N/A	N/A	N/A	N/A

Corrective Action Plan for Current Year Findings and Observations

In regards to the observations identified by the Office of Internal Audit, Corrective Action Plans are included in the table below:

Comments	Corrective Action	Status
<p>ASUH Stadium Stock Fund was not actively managed, as is required by RP 8.207, during the period of May 2015 through August 2017, after the previous Investment Consultant/Financial Advisor resigned and while ASUH representatives were involved with contractual discussions and inquiries.</p>	<p>The ASUH Stadium Stock Fund was monitored and managed by qualified financial experts at Bank of Hawai'i who served as the custodian during the period of May 2015 through August 2017. This arrangement was negotiated and overseen by representatives from the University of Hawai'i Financial Management Office due to unexpected resignation of the previous Investment Consultant/Financial Advisor and the termination of agreements they had with the managers.</p> <p>During the period from May 2015 through August 2017, the representatives at Bank of Hawai'i exceeded their role as custodian by informing University representatives and securing ASUH support to perform needed management tasks.</p>	<p>Since September 1, 2017, the ASUH Stadium Stock Fund has been actively managed by qualified Investment Consultants/Financial Advisors. Said Investment Consultants/Financial Advisors have hired managers following the appropriate RP.</p> <p>If the ASUH Stadium Stock Fund is left without an Investment Consultant/Financial Advisor in the future due to similar resignation, ASUH will need to arrange for active management instead of passive management.</p> <p>The ASUH Committee on Investments and Long Range Planning will be working to revise the applicable RP to allow for temporary hire of active managers during any transition period.</p>
<p>ASUH Stadium Stock Fund was not monitored for BOR policy compliance during the contractual discussions.</p>	<p>The ASUH is a student organization. Due to the importance and complexity of the Stadium Stock Fund and respective RPs, ASUH includes as part of its contractual agreement with Investment Consultants/Financial Advisers (custodians), the requirement of monitoring the ASUH Stadium Stock Fund for BOR Compliance.</p> <p>If the ASUH Stadium Stock Fund is left without Investment Consultants/Financial Advisors in the future due to similar</p>	<p>ASUH completed the agreement with Graystone Consulting by August 2017. ASUH hired Graystone Consulting by September 1, 2017. ASUH attained BOR approve to hire managers on November 16, 2017. Managers were hired thereafter. ASUH began discussing the need to draft revisions to the investment policies following the BOR Committee on Budget and Finance meeting on November 1, 2017.</p>

	<p>resignation that occurred in 2015, ASUH will need to arrange for appropriate temporary assistance of parties with investing and investment policy expertise, who can provide advising that would normally come from the Investment Consultants/Financial Advisors.</p>	<p>The ASUH Committee on Investments and Long Range Planning sought input on investment policy revisions from VP Kalbert Young on November 18, 2017 and from Graystone Consulting beginning on December 21, 2017. As of January 24, 2018, the committee members are in ongoing dialogue with the advisors from Graystone Consulting on this item. The committee members will also be doing its own review before drafting up revisions. The realistic date of completion for reviewing the current policies, soliciting input, developing the draft revisions, securing support from the full ASUH senate via resolution, securing administrative support at the campus and system level, and attaining BOR committee as well as full board approval approximately June 2019.</p>
<p>RP 8.207 Fails</p> <ul style="list-style-type: none"> • Fixed income securities should be actively managed. 1.c.(3) • Monitoring and evaluating performance results via the investment manager to ensure policy guidelines are adhered to and objectives are met. 2.1.(5) • Asset mix guidelines shall be rigidly observed: Equities (20%-70%); Bonds (20%-70%); Cash or cash equivalents (5%-60%). 9.a. 	<p>The ASUH Committee on Investments and Long Range Planning will be working with the Investment Consultants/Financial Advisors to address the areas of failure with the appropriate Investment Managers.</p> <p>All applicable RP items will be monitored quarterly by the Investment Consultants/Financial Advisors as is agreed upon formally in the finalized contractual agreement.</p>	<p>As of 12/31/17, the fixed income assets are actively managed by Boyd Watterson.</p> <p>Graystone Consulting is providing monitoring and evaluation of the ASUH Fund and will do so going forward. A formal quarterly performance review will be provided after the end of each calendar quarter, more frequently if needed.</p> <p>As of 12.31.2017, portfolio is in compliance with the asset allocation guidelines.</p>

<ul style="list-style-type: none"> • Portfolio management will be measured on a year-to-year basis and will be evaluated over a three-year moving average. 10.a. 		<p>Portfolio management measurement will be included in the Graystone Consulting performance reports. Note that performance will not have historical data prior to 09.30.17.</p>
<p>ASUH shall meet with the investment manager at least quarterly. 11.a.</p>	<p>When ASUH has Investment Consultants/Financial Advisors formally employed, representatives of the ASUH Committee on Investments and Long Range Planning meet with the Consultant/Advisor quarterly.</p> <p>ASUH will also be meeting with Investment Consultant/Financial Advisor whenever educational services are needed by the students in ASUH, as agreed upon in the finalized contractual agreement.</p>	<p>ASUH began meeting with Graystone Consulting advisors on September 19, 2017, after the agreement was finalized. After introductions, one of the first items of business for the ASUH Committee on Investments and Long Range Planning was to establish a set schedule for quarterly meetings. At this meeting, the committee members and the Investment Consultants/Financial Advisors established the months of October, January, April, and July for said meetings. This allows the Investment Consultants/Financial Advisors to close out each quarter in the months of September, December, March, and June, prepare a report, and provide the quarterly report to the ASUH Committee. In line with this schedule and the RP, the ASUH Committee on Investments and Long Range Planning met with the Investment Consultants/Financial Advisors on October 17, 2017 and January 22, 2018. Meetings are yet to be scheduled for April and July 2018.</p>

UNIVERSITY OF HAWAI‘I
REVIEW OF EMPLOYEE CELL PHONE CHARGES

December 2017

DRAFT



University of Hawai'i
Office of Internal Audit



UNIVERSITY
of HAWAII®
SYSTEM

December 15, 2017

To the University of Hawai'i Board of Regents
and
University of Hawai'i Director of Finance and Chief Financial Officer (CFO)

The University of Hawai'i (University) currently has no cell phone policy. For the year ended June 30, 2017, payments recorded in the University's general ledger associated with employee cell phone use approximated \$200,000. Approximately \$174,000 was paid directly to wireless providers as the charges were related to cell phones purchased and issued by the University to employees. The other \$24,000 was reimbursed to employees for their cell phone plan as well as the acquisition of cell phones. Cell phone payments were divided between the four major wireless service providers: Verizon, AT&T, T Mobile and Sprint.

Due to the absence of a University cell phone policy, Internal Audit distributed surveys to Fiscal Administrators at select University campuses, schools and departments (Units) to determine the processes and procedures, if any, that the Unit developed and implemented with respect to managing cell phone use and payments. Internal Audit noted that each Unit utilized their own internal procedures to justify, support and approve such payments. Accordingly, there are inconsistencies in the processes and procedures used across the University in regards to employee cell phone payments. This increases the risk of improper cell phone payments, as well as the potential for inadequate support for income tax purposes (i.e. to support that such payments should not be reported as taxable income to the employees). Testing performed by Internal Audit noted a wide range of wireless plans (both in terms of cost and features) that are paid for by the University. Additionally, Internal Audit believes that the majority of the payments tested lacked adequate support from an income tax perspective. Finally, in a number of cases, the level of monthly cell phone usage was only a fraction of that permitted by the wireless plan, indicating that the most cost efficient wireless plan for the employee's needs may not have been utilized.

Internal Audit recommends the preparation and implementation of a written cell phone policy that includes qualitative and quantitative attributes such as, employee eligibility, required documentation/support, types of payments (employee reimbursements, payments direct to wireless providers or both), and cost limitations (in terms of wireless plan costs, features and cell phone cost). When preparing this policy, consultation with the University's Tax Manager is recommended to ensure relevant tax considerations are incorporated. Finally, in order to drive cost efficiencies, management should consider partnering with a "preferred" wireless provider for all employee cell phone needs.

Sincerely,

Glenn Shizumura
Director

**University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017**

Background / Objectives

In October 2017, the Vice President of Budget and Finance / Chief Financial Officer (CFO) expressed interest in the Office of Internal Audit (Internal Audit) reviewing reimbursed cell phone charges for University of Hawai‘i (University) employees in addition to cell phone payments to wireless providers on behalf of University employees (collectively hereafter referred to as “employee cell phone payments”). An Audit Plan – Supplement to the June 30, 2018 approved Audit Plan describing the nature, timing and extent of this cell phone audit project was approved by the Board of Regents Committee on Independent Audit on December 7, 2017. Discussions with the CFO and Internal Audit’s review of University policies determined that the University does not have any policies specific to employee cell phone payments. Accordingly, there is a risk for inconsistencies in the procedures performed by various University campuses, colleges, schools and departments (Units) resulting in improper University charges and payments.

Administrative Procedures (AP) 8.806, *Roles and Responsibilities for Payment Transaction Processing*, states that Approving Authorities are responsible for reviewing and approving University employee requests for reimbursement/payment prior to disbursement. The review should include evaluating that all transactions are proper, legal, supportable and in compliance with laws, rules, regulations, and University policies and procedures. The Disbursing and Payroll Office (Disbursing) is responsible for conducting the final review. However, AP 8.806 does not include policies specific to employee cell phone payments.

The objective of this review is to evaluate the adequacy and consistency of University procedures and practices in regards to employee cell phone payments, and identify risks with respect to such procedures and practices in connection with federal and State of Hawai‘i income tax matters.

Work Performed

Internal Audit circulated surveys to select University Fiscal Administrators, read University purchasing policies and analyzed documents supporting employee cell phone payments. To determine leading practices in regards to employee cell phone payments, Internal Audit researched higher education institutions within the Pac-12, Mountain West and Big West conferences, as well as other universities located in the State of Hawai‘i (collectively called ‘comparable universities’ heretofore) and State of Hawai‘i governmental entities. Finally, Internal Audit researched the income tax considerations with respect to employee cell phone payments.

Summary of Employee Cell Phone Payments

The Disbursing Office is the University’s Systemwide office responsible for processing all University payments, including employee cell phone payments. Employee cell phone payments by campus as recorded in the Kualii Financial System (KFS) for the year ended June 30, 2017 were as follows:

<u>University Campus</u>	<u>Employee cell phone payments FY 2017 (unaudited)</u>		
	<u>Reimbursements</u>	<u>Direct to wireless provider</u>	<u>Total</u>
Mānoa	\$23,285	\$ 97,367	\$120,652
Honolulu Community College	-	32,127	32,127
Hawai‘i Community College	60	15,612	15,672
Hilo	-	8,937	8,937
Kapi‘olani Community College	-	8,177	8,177
Maui	-	7,808	7,808

University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017

<u>University Campus</u>	Employee cell phone payments, cont.		
	FY 2017 (unaudited)		
	<u>Reimbursements</u>	<u>Direct to wireless provider</u>	<u>Total</u>
West O‘ahu System	-	4,204	4,204
Leeward Community College	1,015	81	1,096
Windward Community College	-	-	-
Kaua‘i Community College	-	-	-
Total	\$24,360	\$174,313	\$198,673

The ten most significant cell phone reimbursements to University employees during the year ended June 30, 2017 were as follows:

<u>Position</u>	<u>Campus</u>	<u>Faculty/ Staff</u>	<u>Amount</u>
Interim Vice Chancellor	Mānoa	Staff	\$ 2,045
Athletics Coach	Mānoa	Staff	1,908
Athletics Coach	Mānoa	Staff	1,680
Department Director	Mānoa	Staff	1,630
Associate Dean	Mānoa	Staff	1,607
Assistant Athletics Coach	Mānoa	Staff	1,446
Unit Leader & Professor	Mānoa	Staff	1,269
Assistant Athletics Coach	Mānoa	Staff	1,211
Director of Student Housing Services*	Mānoa	Staff	1,068
Associate Athletics Director*	Mānoa	Staff	1,014

*No longer employed by the University

Observations and analysis

A. Surveys

Given the absence of a University cell phone policy, Internal Audit surveyed a sample of 16 Fiscal Administrators and Vice Chancellors of Administration (including at least one from each campus) to determine the current practices and procedures used to review and approve employee cell phone payments across the University. A summary of the questions and the aggregated responses follows:

<u>Question 1</u>	<u>Yes, reimbursed only (A)</u>	<u>Yes, paid to wireless provider (B)</u>	<u>Yes, a mix of both (C)</u>	<u>No (D)</u>
Within your Unit, are any employee cell phone charges reimbursed or paid directly to the wireless provider?	0%	50%	17%	33%

University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017

Question 2	Yes	No
If you answered yes (A or C) to question 1, do employees provide written documentation supporting the percentage or amount of their cell phone bill that relates to business vs. personal use?	0%	100%

The responses to Question 1 indicate most Units that review and approve employee cell phone payments do so directly to the wireless provider, which is consistent with observations noted in the “Cell phone payments” section of this report. The responses to Question 2 illustrate that Units across the University do not require documentation supporting the business versus personal portion of each cell phone bill.

Additionally, as all respondents answered “No” to Question 2, Internal Audit requested the respondents to describe the alternative procedures, if any, to determine the portion of the cell phone bill eligible for payment by the University due to business purposes. The following relevant additional information was provided:

- a) In one Unit, employees sign a statement verifying that all cell phone calls are for business purposes.
- b) In one Unit, most employees receive a University-purchased cell phone, which includes a standard plan (ranging from \$20 to \$30). Alternatively, an employee may opt out and use their personal phone. If an employee chooses to use their personal phone, they receive a standard monthly reimbursement maximum equivalent with the cell phone plans on the University-purchased phones for the Unit.
- c) In one Unit, employees receiving a University-purchased cell phone are informed that all charges should be for business purposes. However, no monitoring is performed to validate compliance.
- d) In one Unit, in order to obtain a University-purchased cell phone, employees must submit a signed request that includes a section for the employee to justify the need for a cell phone based on their job responsibilities. The request must be approved by both a Fiscal Administrator and the Unit Vice Chancellor for Administration.

Analysis

From the survey responses, Internal Audit noted a number of inconsistencies in the practices and procedures used across the University. These inconsistencies are likely attributable to the lack of University policies specific to employee cell phone payments. Specifically in regards to items a) through d) above:

- a) While requiring employees to verify that all calls are for business purposes is a useful practice, Internal Audit noted that a significant portion of employee cell phone payments arise from activities other than phone calls (texting, data, etc.). Expanding the verification to include all cell phone activities/charges would increase the employee’s ownership and responsibility with respect to employee cell phone payments.
- b) Internal Audit believes establishing a standard monthly cell phone payment maximum for all employees requiring use of a cell phone is a reasonable practice that protects the University from excessive cell phone payments.
- c) Internal Audit noted the practice of informing employees that receive a University-purchased cell phone that all charges should be for business purposes. While this practice is well intended, it provides minimal benefit without monitoring for compliance.

**University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017**

- d) Finally, Internal Audit believes requiring employees to complete a cell phone request form (including justification as to why the employee requires a cell phone for business purposes) provides appropriate documentation to support that an employee should receive a University-purchased cell phone.

B. Cell phone payments

Internal Audit reviewed a sample of 33 employee cell phone payments across 11 Units recorded in KFS to assess the documentation supporting such cell phone payments. None of the samples tested contradicted the information provided via the surveys in the section above. Internal Audit noted that all 33 payments included, at a minimum, a scanned copy of all or a portion of the wireless bill from the respective wireless service provider to support the amount of the payment. Three payments also included a written statement from the employee stating that all cell phone calls were for business purposes.

Internal Audit noted that the majority (87%) of employee cell phone payments recorded in KFS are to wireless service providers rather than employees (13%). The division of payments to each wireless service provider for the year ended June 30, 2017 was as follows:

Wireless service provider	FY 2017 (unaudited)	
	Amount	% of total employee cell phone payments
Verizon	\$ 59,936	30
AT&T	54,454	27
T Mobile	38,319	19
Sprint	21,604	11
Total	\$174,313	87

As the above table illustrates, the payments are divided between the four major wireless service providers as the University does not have a “preferred” provider for cell phone services. This may result in lost opportunities for cost savings were a contract to be established with a preferred wireless service provider. Internal Audit’s research noted that a substantial number of comparable universities have established a preferred wireless service provider or providers (representation was noted across all four of the major wireless service providers), most of which include discounts to students and/or employees.

Internal Audit also noted a wide variety of plans used by the University with each of the four major wireless service providers. There was an even mix of plans that included monthly caps on minutes (ranging from 300 to 2,400 minutes) and data (ranging from five to 15 gigabytes) versus others that were unlimited. Several plans reviewed included additional features, such as mobile hotspots, roaming, and international phone, texting and data services, while others were limited to basic features (i.e. voice and texting). Internal Audit also noted a wide range of monthly charges for the various plans, ranging from \$10 to \$193 (including monthly charge for phone purchase), excluding surcharges and taxes.

Additionally, Internal Audit noted that for 11 of the 33 payments, the wireless bill included charges that exceeded the fixed monthly cell phone plan amount (excess charges) ranging from \$2 to \$478. The cause of these excess charges included data overages, data and voice roaming charges, and international data and voice charges. Internal Audit noted that all excess charges were approved for payment.

**University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017**

Finally, Internal Audit noted the following other relevant information:

- a) In one instance, the wireless bill paid by the University included a monthly subscription radio charge of \$5.
- b) In four instances for University-purchased cell phones, the bills included the purchase of new cell phone models, including iPhones and Samsung Galaxies.
- c) In one instance for employee cell phone charges reimbursed to the employee, the bill included the monthly pro-rata cost of the cell phone (approximately \$600 paid over two years, or \$25 per month)
- d) In nine instances, the total minutes and/or data for certain months was a small fraction (less than 10%) of the amount provided by the plan. In two of these instances, zero minutes were utilized.

Analysis

Internal Audit noted that the lack of University policies regarding employee cell phone payments has resulted in inconsistencies with respect to documentation supporting these payments as well as the goods and services associated with these payments. Accordingly, there is a heightened risk of inappropriate use of University-purchased cell phones in addition to improper employee cell phone payments throughout the University.

C. Research on governmental entities and comparable universities

Internal Audit researched the cell phone policies of comparable universities and various governmental entities (Department of Accounting and General Services (DAGS), City and Counties of Honolulu, Maui, Kauai and Hawai‘i (State of Hawai‘i Counties)) to identify leading practices in regards to employee cell phone payments. Internal Audit was informed that DAGS does not have a cell phone policy and does not generally process employee cell phone payments. In regards to the State of Hawai‘i Counties, Internal Audit noted no written cell phone policy available for review. Additionally, for all comparable universities researched, Internal Audit noted the following:

Policies	Count (out of 33)	Percentage
Have a written cell phone policy	31	94%
Types of cell phone payments:		
A. Employee reimbursement	5	15%
B. Payments direct to wireless providers	1	3%
C. Both A. and B. above	25	76%
D. Do not make cell phone payments	2	6%
Provide an allowance for employee cell phone payments depending on level of business need (between \$1 and \$150 per month)	25	76%
Require employees to submit their cell phone bill to their respective fiscal office to receive payment	17	52%
Provide cell phones to employees deemed to have a business need	23	70%
In regards to excess charges:		
A. Pay for excess charges if the employee provides written documentation with supervisory approval supporting the business purpose associated with the excess charges	22	67%
B. Do not pay for excess charges	7	21%
Specify a fixed percentage or amount of a personal wireless bill (as determined by the employee’s supervisor) that is not reimbursed as this portion is assumed to be for personal purposes	16	48%
Require employees to allocate each wireless bill between business and personal purposes, and only the portion with a business purpose is paid	13	39%

University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017

Analysis

Internal Audit noted that the majority of comparable universities have established a formal cell phone policy. Furthermore, it is essential that the procedures for handling excess charges be included in such a policy, as it holds employees' accountable for monitoring their own cell phone charges and ensuring they are within the limits of their wireless plan. Additionally, the policy must be clear as to the required level of supporting documentation for cell phone charges, as well as how the amount of the employee cell phone payment is determined.

Income tax matters

The Internal Revenue Code (IRC) 162, *Trade and Business Expenses*, allows an entity (such as the University) or an individual (a University employee) to deduct business expenses (such as cell phone expenses incurred as a result of employment or received as reimbursements) for income tax purposes. The Code of Federal Regulations (CFR or Treasury Regulations) provides administrative interpretations of the IRC. CFR 1.162-17 notes that an employee business expense is considered taxable income (reportable to the employee on Form W-2, *Wage and Tax Statement*, in box 1- Wages, tips and other compensation) and subject to income tax withholding if not supported with proper written documentation (i.e. documentation that identifies the business nature and amount of the expense).

Furthermore, IRC 132, *Certain Fringe Benefits*, provides that an employee's taxable income should not include any fringe benefits that qualify as a working condition fringe (i.e. a business expense under IRC 162) or a de minimis fringe (i.e. so small that accounting for it is unreasonable or administratively impractical).

Internal Revenue Service (IRS) Notice 2011-72 (issued in the Internal Revenue Bulletin (IRB) in 2011) references both IRC 162 and 132 and provides guidance on the federal income tax treatment of employer-provided cell phones and their related wireless service charges (collectively referred to as cell phone charges). Note: The Internal Revenue Manual states that all notices issued by the IRS and published in the IRB are considered primary authoritative sources. According to Notice 2011-72, cell phone charges are considered noncompensatory (i.e. the primary purpose is not to provide additional compensation to the employee) to the employee if substantiated by citing specific reasons related to the employer's business (IRS substantiation requirements). These reasons may include but are not limited to:

1. The employer needs to contact the employee at all times for work-related emergencies.
2. The employer requires that the employee be available to speak with clients at times when the employee is away from the office.
3. The employee needs to speak with clients located in other time zones at times outside of the employee's normal work day.

If the IRS substantiation requirements are met, IRS Notice 2011-72 states that the value of the business cell phone charges is excludable from an employee's taxable income as a working condition fringe benefit under IRC §132(d). The value of the personal cell phone charges is excluded from the employee's taxable income as a de minimis fringe benefit under §132(e) of the IRC. If the employer-provided cell phone is not used for business purposes or is used for business purposes but cannot be substantiated (citing one of the above reasons or another valid reason), the full value of the employee's cell phone charges is treated as taxable income to the employee. Additionally, the IRS has determined in a 2011 *Memo for all Field Examinations* that the IRS substantiation requirements related to reimbursements for employees' personal cell phones used for business purposes are the same as those employer-provided cell phones under Notice 2011-72.

University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017

Under Hawai‘i Revised Statutes (HRS) §235-2.4(4)(g)- Income Tax Law, Internal Audit noted that State of Hawaii tax law conforms to Sections §63 to §530 of the IRC which includes both §132 (with respect to fringe benefits) and §162 (with respect to business expenses).

Per discussion with the Director of Disbursing and Payroll, Internal Audit noted that to his knowledge the University does not report any employee cell phone payments as taxable income to the employees.

Internal Audit noted that of the 33 payments selected in the “Cell phone payments” section previously in this report, four payments included documentation that would likely meet the IRS substantiation requirements. Internal Audit noted that the other 29 payments did not include such substantiation, and would be open to challenge by the IRS unless the IRS substantiation requirements were met via alternative means.

Conclusions and recommendations

The lack of a University policy in regards to employee cell phone payments is unusual amongst comparable universities. The inconsistencies in the University’s practices and procedures for reviewing and approving employee cell phone payments in addition to the varying nature and amounts associated with such payments amongst Units may be attributable to the lack of a University policy. Internal Audit’s review of documentation supporting certain employee cell phone payments indicates potential income tax matters with respect to complying with the criteria of classifying the University’s employee cell phone payments as noncompensatory business expenses. Accordingly, taxing authorities could determine such charges to be taxable income to the employees. In addition, Internal Audit believes the cell phone plans with the various wireless service providers were not always the most cost efficient for the employees’ required business purposes.

To improve consistency of employee cell phone payment procedures and improve efficiency of University resource utilization, management should consider preparing and implementing a cell phone policy that encompasses, at a minimum, the following:

- Eligibility- description of employee job function or position that are eligible for employee cell phone payments by the University
- Documentation- the nature and extent of documentation required to support the employee cell phone payments by the University
- Types of payments- whether employee reimbursements are permitted or only direct payments to wireless providers by the University
- Limitations- the monthly maximum and/or standard amounts to be paid for employees’ cell phone charges, as well as the treatment of excess charges
- Phones- the types of phones that will be provided to eligible University employees, as well as any limitations on the costs of such devices

In connection with preparing this policy, consultation with the University’s Tax Manager is recommended to mitigate potential income tax exposures, including consideration of the impacts, if any, of the Tax Cuts and Jobs Act signed into law on December 22, 2017. Internal Audit performed a cursory review of current literature regarding the Tax Cuts and Jobs Act impact on employee benefits, and did not note any provisions that would affect cell phone payments.

Appendices A through C include examples of the cell phone policies of comparable universities that Internal Audit believes address the above considerations, among others. Finally, in consultation with the Office of Procurement and Real Property Management (OPRPM), management should consider implementing a

**University of Hawai‘i
Review of Employee Cell Phone Charges
December 2017**

University-wide program so that all eligible employees receive cell phone service with the same “preferred” provider to increase cost efficiencies.

DRAFT

Appendix A

Stanford

Published in the Administrative Guide

8.1.3 PROVISION OF MOBILE EQUIPMENT AND RELATED SERVICES

Last updated on: 08/30/2012

Formerly Known As Policy Number: 81.3

This guide memo outlines policy on the provision of Equipment/Services. The policy requires that the employee's supervisor approve the Stanford business need for Equipment/Services. The policy establishes the responsibilities of the employee and the department regarding any personal use of Equipment/Services. Schools and departments may adopt stricter provisions. The policy sets further requirements regarding the use and maintenance of Equipment/Services.

Authority:

Approved by the Vice President for Business Affairs and Chief Financial Officer.

Applicability:

This policy applies to all individuals who are provided with or are reimbursed for expenses relating to mobile phones, tablets (iPad), and like equipment ("Equipment"), and communications services (e.g., cellular and data services and Internet services) in support of such equipment ("Services") by Stanford. The policy also applies to supervisors and managers who approve these arrangements.

Group or shared Equipment/Services such as those used for rotating on-call contact are exempt from this policy.

Mobile equipment expenses are not normally chargeable to federally-funded sponsored projects or to state-funded projects subject to OMB Circular A-21 ([Research Policy Handbook 15.4 \[1\]](#), Section A2, A3). The Office of Sponsored Research must approve exceptions when a proposal is submitted.

1. Background

The use of mobile phones, tablets, and similar devices, and related communication services by Stanford employees in the course of their work is common. Stanford often provides these devices to employees to improve communication, productivity and work efficiency, to facilitate telework, working between multiple campus locations and to otherwise enhance the contributions of employees. Stanford policies generally require University property to be used only for Stanford business use. However, this policy recognizes that a portion of the use of Equipment/Services may be for non-business use, such as personal phone calls or emails.

As Internet service is a nearly ubiquitous household utility, similar to basic telephone service and electricity, the University does not provide reimbursement for home Internet connectivity. Employees who are required to have home Internet service to fulfill job requirements and for whom purchasing the service is a significant financial hardship may request an exception to this policy. Exceptions must be approved by the responsible Vice Provost, Vice President, Dean, or his/her designee based on business necessity and demonstrated financial hardship.

2. Stanford Business Use

a. Stanford Business Use Required

Stanford's resources are constrained by donor, sponsor and budgetary restrictions. Expenditures for Equipment/Services must follow a strict approval process, tied to demonstrated business need, rather than as

compensation in the form of the latest technological gadget. Frequent turnover of such Equipment is discouraged. The employee's supervisor will determine and approve the Stanford business necessity for providing Equipment/ Services to the employee, based upon the employee's job duties, budget availability and local policy, custom and practice. Simple convenience is not a criterion for a cell phone allowance. The approval process will include a review of all aspects of the Equipment/Services insuring that they are provided at a minimum cost to Stanford consistent with the Stanford business requirements of the employee. The supervisor will determine the minimum cost Stanford IT plan available, and the appropriate level of Equipment to be provided, considering the features needed for the business use. When a Stanford IT plan is not appropriate, the department may provide a tax-free stipend in the employee's paycheck to support the business use of employee-provided Equipment/Services. The "other recurring pay" should be no higher than the approximate cost of the anticipated Stanford business use of Equipment/Services with the maximum stipend being \$25 per month.

b. Supervisory Approval

The supervisor (or school designee) must approve the provision of the Equipment/ Services, following their normal School or Department practice for documentation of pre-approval of a business expense. A template that may be used for documentation is available at Stanford's [Gateway to Financial Activities](#) [2]. Annual review of the necessity of Equipment/Services provided to a supervisor's staff is strongly encouraged.

c. Business Necessity

Stanford business necessity occurs when one of these factors is present:

- It is vital for the mobile employee to be in constant touch with the office, lab or medical facility.
- The employee is responsible for emergency preparedness and must be available and on-call around-the-clock for a specific business period.
- A group of employees has the need for group or shared Equipment/Services such as rotating on-call contact.
- The employee does not have access to a landline or other communication device when doing a substantial portion of his or her job and communication with the supervisor or other Stanford business parties is required.
- The employee's job effectiveness will show a significant increase through the use of Equipment/Services.
- The Equipment/Services eliminate or reduce the need for the employee to go back and forth to the office, consistent with University goals to reduce traffic, benefit the environment and increase employee productivity.
- Provision of Equipment/Services is the most cost-effective way to meet the business communication requirements of the mobile employee.
- The Equipment/Services are necessary to support an off-site office, which is the employee's principal office for their Stanford work.

d. Personal Use of Equipment and Services

Provided that the Stanford business need for the service is significant and consistent over a substantial period of time, the personal use of Equipment/Services is not otherwise limited. However, the department and the employee's supervisor reserve the right to suspend provision of Equipment/Services in the case of excessive personal use.

3. Proper Use and Selection

a. Mobile Equipment and Service Selection

The supervisor will determine the minimum cost Stanford IT plan available, and the appropriate level of Equipment to be provided, considering the features needed for business use. When a Stanford IT mobile program plan is not appropriate, the department may provide a stipend in the employee's paycheck to support the business use of the employee-provided Equipment/Services.

b. Use and Protection of University Provided Equipment and Services

Equipment paid for by Stanford is the property of the Stanford department that paid for it. When an employee leaves Stanford or transfers from one department to another, Equipment furnished to the employee must be returned to the issuing department. It is expected that Equipment paid for by Stanford, where appropriate and feasible, will be in the possession of the employee at all times and be functional during the employee's business day. Employees must take all necessary measures to protect the Equipment from theft or damage.

c. Laws and Policies Regulating Use of Equipment

The employee will be solely responsible for understanding and complying with all applicable laws and University policies relating to the use of Equipment/Services, including highway safety laws relating to cell phone and PDA usage, copyright laws, ergonomic use guidelines, privacy and security protocols and University export control and data security policies. See [Guide Memo 6.3.1 \[3\]](#): Information Security.

d. Preference for Stanford IT-provided Equipment/Services

It is the responsibility of employees and their supervisors to make sure that Equipment purchased is appropriate for the technical support capabilities of the School or Department. Stanford IT-provided Equipment/Services should be used in nearly every case. The accumulation of campus-wide purchases enhances the buying power of Stanford IT and generally provides the lowest prices possible. A large common pool of Equipment is also easier for the University to maintain and account for.

e. Further Requirements of Particular Schools and Departments

Schools and Departments may establish local policies and procedures to further regulate or restrict the provision of Equipment/Services in their own units, if the University-wide policy is also followed.

4. Implementation and Exceptions

a. Mobile Equipment and Services

If the supervisor has determined that the Stanford IT mobile program plan is not appropriate for the Equipment/Services required by an employee based on business necessity, the department may provide a stipend in the employee's paycheck to support the business use of employee-provided mobile Equipment/Services.

b. Administration of the Mobile Equipment/Services Paycheck Stipend

To receive a paycheck stipend, the Department HR Administrator may enter an employee cell phone supplement using the Supplemental Pay Webform with the Earnings Code of 'CEL'. The supplement may be entered to continue indefinitely, however, the business need for mobile Equipment/Services should be reviewed periodically by each employee's manager, or other financial staff in the business unit. Employees may be approved to receive a stipend of up to \$25 monthly.

c. Internet Services

If the supervisor has determined that the employee is required to have home internet service to fulfill job requirements, and it has been determined that it is a financial hardship for the employee to do so, the department may provide a stipend in the employee's paycheck to support the business use of home internet services.

d. Administration of the Home Internet Equipment/Services Paycheck Stipend

With approval from the responsible Vice Provost, Vice President, Dean, or his/her designee, an employee who is required to have home Internet service to fulfill job requirements and who has demonstrated financial hardship may receive a paycheck supplement. A template that may be used for documentation is available [here \[4\]](#).

Upon approval, the paycheck supplement may be requested by contacting HR Transaction Services at hractions@stanford.edu [5]. The request should include the employees name, employee ID number and evidence of approval. Supplements must be reauthorized each fiscal year, following the same request process. Employees may be approved to receive a supplement of up to \$35 monthly.

Source URL (modified on 09/06/2013 - 15:28): <https://adminguide.stanford.edu/chapter-8/subchapter-1/policy-8-1-3>

Links

[1] <http://doresearch.stanford.edu/policies/research-policy-handbook/financial-aspects-sponsored-projects-administration/charging#anchor-1329>

[2] <http://www.stanford.edu/group/fms/fingate/staff/taxcompliance/forms.html>

[3] <https://adminguide.stanford.edu/6-3-1>

[4] http://fingate.stanford.edu/docs/home_internet_svcs_tmpl.doc

[5] <mailto:hractions@stanford.edu>



Mobile Communication Resources

Policies and Procedures

These Mobile Communication Resources Policies and Procedures provide guidelines to ensure that cell phones, PDA's, and other mobile communication resources supported by the University are appropriately approved and documented with a business purpose that benefits the University.

Disbursement Control and Accounts Payable

General Information: (213) 740-2281

TABLE OF CONTENTS

SECTION 1

DEFINITIONS / POLICY PURPOSE / DEPARTMENTAL CONTROLS

1.1 Definition of Mobile Communication Devices and Services	1
1.2 Policy Purpose	1
1.3 Departmental Controls	1

SECTION 2

BUSINESS PURPOSE / REIMBURSEMENT FOR OCCASIONAL USE / AUDITS

2.1 Business Purposes	3
2.2 Reimbursement for Occasional Business Use	3
2.3 Lack of Business Purpose During Audit	3

SECTION 3

SERVICES PLANS / SERVICE PLAN ASSESSMENTS / STATEMENT REVIEWS / DEVICE AND ACCESSORY PURCHASES / DEVICE OWNERSHIP

3.1 Service Plans	5
3.2 Service Plan Assessments	5
3.3 Statement Reviews	5
3.4 Device and Accessory Purchases	5
3.5 Device Ownership	6

SECTION 4

PAYMENT METHODS, SUPPORT DOCUMENTATION, AND APPROVALS / SPONSORED PROJECT PARAMETERS / FAMILY PLANS

4.1 Payment Methods, Support Documentation, and Approvals	7
4.2 Sponsored Project Parameters	7
4.4 Family Plans	7
Figure A	8

SECTION 5

PERSONAL USE OF RESOURCE

5.1 Personal use of Resource	9
5.2 Personal use During Audit	9

SECTION 6

PAYROLL ALLOWANCE DETAILS

6.1 Overview of Payroll Allowance Option	10
6.2 Maximum Payroll Allowance Rate	10
6.3 Processing Payroll Allowances	10
6.4 Allowance Payroll Cycle	11
6.5 Cost for Devices	11
6.6 Costs Incurred Beyond Payroll Allowance	11

SECTION 7

DRIVER SAFETY / SAFEGARDS / INSURANCE

7.1 Driver Safety	12
7.2 Safeguarding Resources and Data	12
7.3 Insurance Coverage	12

APPENDICES

APPENDIX A References	13
-----------------------	----

SECTION 1 DEFINITIONS / POLICY PURPOSE / DEPARTMENTAL CONTROLS

1.1 DEFINITIONS OF MOBILE COMMUNICATION DEVICES AND SERVICES

This policy applies to mobile communication devices and services, collectively 'mobile communication resources.' The terms mobile communication 'devices' and 'services' are defined below.

- **MOBILE COMMUNICATION DEVICES** – Mobile communication 'devices' are defined herein as cellular or satellite phones, personal digital assistants (PDA), and other mobile instruments that facilitate voice and data communications. Pagers and two-way radios are not considered mobile communication devices.
- **MOBILE COMMUNICATION SERVICES** – A mobile communication 'service' is defined herein as the device's respective service provider, such as, but not limited to, AT&T, T-Mobile, and Verizon.

Not covered by these policies are laptops, personal computers, telephones, facsimile machines, and communication services (DSL, cable, etc.) purchased for use in non-University premises, such as in home offices. Reference the University's [Expenditure Policies and Procedures](http://www.usc.edu/policies) for applicable guidelines (www.usc.edu/policies).

1.2 POLICY PURPOSE

These policies and procedures provide University departments with guidelines to ensure that University funds used to support mobile communication resources are appropriately approved and documented with a business purpose that benefits the University. These policies and procedures also explain when use of a mobile communication resource may result in taxable income to the employee due to personal calls.

Unauthorized payments for mobile communications resources or excessive personal use of resources paid for by the University is considered a misappropriation of University funds and is subject to disciplinary processes of the University.

1.3 DEPARTMENTAL CONTROLS

Compliance with this policy will require Senior Business Officers and Authorized Signers to adhere to the [Expenditure Policies and Procedures](#), in particular Section 1, which explains how Senior Business Officers and authorized signers are responsible for approving the use of departmental funds.

To facilitate the administration of this policy, Senior Business Officers are further required to i) maintain within the department's business office a list of employees whose mobile communication resources are supported by the University, ii) conduct periodic departmental reviews to ensure approvals, business purpose, and support documentation are obtained in compliance with this policy, and iii) assist with document production during University or outside audits.

Compliance with this policy will require Home Department Coordinators to follow procedures articulated in the [Payroll User's Guide](#).

As with all purchasing and expenditure policies, additional constraints may be imposed by a Senior Vice President, Vice President, Dean or Director within his/her organizational unit. These constraints should be monitored by internal controls within the organizational unit.

SECTION 2 BUSINESS PURPOSE / REIMBURSEMENT FOR OCCASIONAL USE / AUDITS

2.1 BUSINESS PURPOSE

When an employee's job duties require use of a mobile communication resource to facilitate University business, a University department may allocate funds to support such a resource. The department head, director-level or equivalent may authorize use of University funds for mobile communication resources, provided the authorization is obtained in writing and funding is based on a documented business need that benefits the University. The different procedures (based on method of payment) for documenting a business need and obtaining written authorization are addressed in Section 4, Figure A.

In general, mobile communication resources may be assigned to employees when the nature of their work requires wide mobility and simultaneous access to the telephone and/or Internet as illustrated by, but not limited to, the following examples:

- Frequently out of the office on University business or travel;
- Typically works in the field or at job sites where alternative communication devices (land line phones and desk top computers) are not readily available;
- Job duties require being "on call" to frequently respond to work calls outside of regular business hours; and
- Job duties require being "on call" for University-related emergency/disaster response.

2.2 REIMBURSEMENT FOR OCCASIONAL BUSINESS USE

When having a mobile communication resource is of minimal benefit to the University, University funds may not be used to support a payroll allowance, full direct payment (ITS direct bill, purchase order, or check request) or full reimbursement (personal funds or Travel^{Plus} Card). In cases where an employee only occasionally uses a mobile communication resource for University business, the employee may request reimbursement for business calls made using their personal resource at a rate of \$.10 per minute. When requesting a \$.10 per minute reimbursement request, a business purpose for each call must be provided in the University's WEBBAQ.Quick Expense Report process (QE Report). Statements confirming length of call must be submitted with the QE Report.

2.3 LACK OF BUSINESS PURPOSE DURING AUDIT

The Department of Disbursement Control and Accounts Payable may conduct periodic and random audits of mobile communication resources, regardless of the form of payment used, to confirm the business purpose and authorization. Note below the consequences of an audit that reveals that a mobile communication resource was supported by the University without being substantiated by a business purpose and/or supported by an allowable authorization.

- **SUPPORTED BY A PAYROLL ALLOWANCE** – If the mobile communication resource was supported in the form of a payroll allowance and an audit reveals the lack of a business purpose and/or an authorization (Section 4, Figure A), the payroll allowance will be revoked for subsequent months until proper justification is provided. If the payroll allowance for the audited period was already paid to the employee, the department must report it to University Payroll Services as a payroll overpayment. When the net overpayment reimbursement amount has been calculated, the employee should reimburse the University the overpayment amount.

- **PAID OR REIMBURSED BY USC** – If the mobile communication resource is supported in full by the University through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel^{Plus} Card) and an audit reveals the lack of a business purpose and/or an authorization (Section 4, Figure A), the University will report and withhold taxes for income and employment purposes on the employee’s W-2 “Wage and Tax Statement” the entire amount paid by the University for the mobile communication resource for the period called into question.

Issued by: Chrysostomos L. Nikias, Provost and Senior Vice President for Academic Affairs
Dennis F. Dougherty, Senior Vice President for Finance and CFO
Todd R. Dickey, Senior Vice President for Administration

Issue Date: June 30, 2008

SECTION 3 SERVICES PLANS / SERVICE PLAN ASSESSMENTS / STATEMENT REVIEWS / DEVICE AND ACCESSORY PURCHASES / DEVICE OWNERSHIP

3.1 SERVICE PLANS

Departments should select cost-effective mobile communication service plans that reflect the anticipated business use.

First, the department should determine a reasonable number of plan minutes per month needed to conduct business. Second, the department should select the lowest-cost plan to accommodate the business need. For example, if reasonable business usage is 700 minutes per month and plan choices are 500, 800, or 1200 minutes per month, the department should select the 800-minute plan.

USC's Information Technology Services (ITS) can be consulted for guidance in identifying a reasonable plan ([Appendix A](#)).

Use of 'retail' plans (e.g. plans available to the general public) is discouraged as they are typically more expensive than the plans negotiated by ITS.

3.2 SERVICE PLAN ASSESSMENTS

Prior to the renewal of any mobile communication service plan, the employee and supervisor should adjust service contracts so that they continue to accurately reflect the business-related use. This review should also be conducted to make certain that departments are not overpaying for underutilized service plans or paying penalties for exceeding limits. The need to adjust service plans to reflect business-related use extends to employees receiving a mobile communication resource payroll allowance.

ITS is available to assist departments whose service plans are negotiated by ITS to "true" their plans (e.g., adjust either up or down), according to historical cycles ([Appendix A](#)).

3.3 STATEMENT REVIEWS

Section 3.3 does not apply to mobile communication resources paid via a payroll allowance.

If the mobile communication service is supported in full by the University through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel^{Plus} Card), it is the responsibility of the mobile communication resource holder to review cell phone and/or PDA service statements on a monthly basis to ensure charges are accurate and to determine if any quantifiable incremental costs due to personal use were incurred by the University (Section 5).

3.4 DEVICE AND ACCESSORY PURCHASES

If the University supports a mobile communication resource via a payroll allowance, costs for mobile communication devices and accessories are considered part of the payroll allowance rate and can not be reimbursed or paid at actual cost.

If the mobile communication resource is supported in full by the University through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel^{Plus} Card), actual costs for mobile communication devices and accessories can be paid via any of the payment methods listed in Section 4.1. Mobile communication resource holders should be cost conscious when

selecting devices and accessories, and should select devices and accessories with features needed for business.

3.5 DEVICE OWNERSHIP

When a mobile communication device is paid for by the University, regardless of payment method used, it is University property and should be checked on the Employee Inventory Form (<http://policies.usc.edu/forms/forms.html>). Upon termination, University-owned devices need to be returned to the University and services disconnected and/or transferred. The department has responsibility for ensuring that service payments to mobile communication resource providers are discontinued upon termination.

Because employees who have mobile communication resources supported by an allowance do not have their actual device costs paid for by the University (Section 3.4), the device is not considered University property.

**SECTION 4
PAYMENT METHODS, SUPPORT DOCUMENTATION, AND APPROVALS / SPONSORED
PROJECT PARAMETERS / FAMILY PLANS**

4.1 PAYMENT METHODS, SUPPORT DOCUMENTATION AND APPROVALS

When a department decides to allocate funds to support the business use of a mobile communication resource for an employee, the department must submit or retain support documentation and approvals as charted in Section 4 Figure A (next page). Reference the University's Expenditure Policies and Procedures for the University's receipt definition and receipt retention requirements.

The University prefers to support mobile communication resources via a payroll allowance, for reasons specified in Section 6.

1. Payroll Allowance (preferred)
2. Procurement Card
3. Travel ^{Plus} Card
4. Reimbursement
5. Check request to vendor
6. Information Technology Services (ITS) direct bill
7. Purchase order to vendor

As is the case with all University expenditures, mobile communication resource holders may not submit a duplicate claim to the University using more than payment sources.

Support by the university, regardless of the payment method used, can be discontinued at any time.

4.2 SPONSORED PROJECT PARAMETERS

If the mobile communication resource cost is allocated in full to a sponsored project account (an account number that begins with the number '5'), the device and service must exclusively benefit the project and may not be used to benefit the University or other projects.

Therefore, if the mobile communication resource is allocated in full to a '5' account through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel ^{Plus} Card), advanced approval is required from Financial Analysis (Appendix A). Furthermore, a mobile communication payroll allowance cannot be funded by a sponsored project account without advance approval.

A copy of the email approval from Financial Analysis must be submitted with the payment request (if processed as a reimbursement, check request, or purchase order) or must be on file in the department (if paid as a payroll allowance or on a P-Card). The resource must be on the Exception List, if paid via ITS direct bill (Appendix A).

Personal use of a mobile communications resource that is funded by a Sponsored Project is subject to the University's limitations, which are addressed in Section 5.

4.3 FAMILY PLANS

Under no circumstances will the University pay for or reimburse a family member's mobile communication resources.

Figure A: Payment Methods, Support Documentation, Approvals, and Retention

Payment Methods	Support Documentation	Approvals	Frequency of Approvals	Retention
Monthly Payroll Allowance (for Service only)	<p><u>Employee Data Form</u> with amount of allowance identified</p> <p>Attach <u>Mobile Communication Resource Authorization Form</u> to <u>Employee Data Form</u></p>	<p><u>Employee Data Form</u> signed by Home Department Coordinator</p> <p><u>Mobile Communication Resource Authorization Form</u> signed by director or equivalent</p>	<p><u>Employee Data Form</u> submitted each fiscal year</p> <p><u>Mobile Communication Resource Authorization Form</u> attached each fiscal year</p>	<ul style="list-style-type: none"> • <u>Employee Data Form</u> obtained from University Payroll Services • <u>Mobile Communication Resource Authorization Form</u> obtained from Disbursement Control • Submit both <u>Forms</u> to Payroll Services • Retain copies for four (4) years in department (okay to retain original <u>Mobile Communication Resource Authorization</u> in Department) • No other documentation needs to be submitted or retained
P-Card	Attach mobile resource statements and a written business purpose to P-Card statement	P-Card statement signed by cardholder and director or equivalent	Monthly	Retain support documentation and approvals within the department for four (4) years (unrestricted accounts) or four (4) years after final project payment or completion of final audit (sponsored project accounts).
Travel^{Plus} Card or Reimbursement	Attach mobile resource statements and a written business purpose to QE Report	QE Report signed by reimbursee and director or equivalent and imprinted with Expenditure Card;	Monthly	<ul style="list-style-type: none"> • Mail approved hardcopy QE Report with support documentation to Disbursement Control • Retained centrally in WEBBA
Check Request to Vendor	Attach mobile resource statements to and a written business purpose in a Form Check Request	Form Check Request imprinted with Expenditure Card	Monthly	<ul style="list-style-type: none"> • Mail or deliver hardcopy Form Check Requests with support documentation to Disbursement Control • Retained centrally in WEBBA
ITS Direct Billing	Attach mobile resource statements to <u>Mobile Communication Resource Authorization Form</u>	Sign <u>Form</u> by director or equivalent	Sign <u>Form</u> each fiscal year	<ul style="list-style-type: none"> • <u>Form</u> obtained from Disbursement Control • Attach support documentation to <u>Form</u> • Retain within department for four (4) years
Purchase Order to Vendor	<u>Mobile Communication Resource Authorization Form</u>	Sign <u>Form</u> by director or equivalent	Sign <u>Form</u> each fiscal year	<ul style="list-style-type: none"> • <u>Mobile Communication Resource Form</u> obtained from Disbursement Control • Retain <u>Form</u> in department for four (4) years. • Submit Requisition to Purchasing Services • Submit statements referencing Purchase Order Number to Accounts Payable for payment

SECTION 5 PERSONAL USE OF RESOURCE

5.1 PERSONAL USE OF RESOURCE

Use of University supported mobile resources for personal calls is permitted only as described below.

- **SUPPORTED BY A PAYROLL ALLOWANCE** – Because the University has based the payroll allowance rate on the portion of the mobile communication resource needed for business, personal use of the mobile resource is permitted. However, employees are responsible for personally paying the entire mobile resource bill, including costs incurred i) for both personal and business calls, ii) above the received payroll allowance amount, and iii) for devices and accessories.
- **PAID OR REIMBURSED BY USC** – If the mobile communication service is supported in full by the University through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel^{Plus} Card), the mobile communication service may be used for personal use provided that such use is incidental and does not burden the University with quantifiable incremental costs. Supervisors who anticipate that their employees will use their mobile communication resources for personal calls beyond an incidental level must discontinue paying for the mobile communication services in full and, instead, either reimburse the employee for actual business use (Section 2.2) or have their mobile communication services supported via a payroll allowance (Section 6).

5.2 PERSONAL USE DURING AUDIT

Section 5.2 does not apply to mobile communication resources paid via a payroll allowance.

If the mobile communication service is supported in full by the University through a direct payment (ITS direct bill, purchase order, or check request) or reimbursement (personal funds or Travel^{Plus} Card) and if an employee uses a mobile communication service for incidental personal use and such use results in quantifiable incremental costs to the University, the employee must reimburse the University for expenses associated with personal use. For example, if personal use results in exceeding the service plan limit, the employee should reimburse the University the difference between the service plan limit and the overage. The service plan limit is established to meet only the business purpose of the device; not personal usage.

Checks for payment of expenses associated with personal use that has resulted in quantifiable incremental costs owed to the University should be made out to the University of Southern California and submitted to the employee's business office for deposit. Checks must be submitted to the department within three (3) months of the applicable billing statement.

If an audit identifies quantifiable incremental costs associated with incidental personal use, the University will report and withhold taxes for income and employment purposes on employee's W-2 "Wage and Tax Statement" the entire amount of the mobile resource for the period called into question.

SECTION 6 PAYROLL ALLOWANCE DETAILS

6.1 OVERVIEW OF PAYROLL ALLOWANCE OPTION

The University prefers to support a mobile communication resource via a payroll allowance. The payroll allowance supports the portion of the mobile communication resource needed for business without the administrative burden of retaining monthly statements and distinguishing business from personal use. The allowance also assures appropriate tax treatment of the resource.

A payroll allowance for mobile communication resource will increase the employee's gross income, and the amount will be subject to income and employment taxes. Therefore, the actual net amount received by the employee for the payroll allowance will depend on the individual employee's tax status (e.g. income tax bracket, number of reductions).

No benefits are taken from the allowance amount, including retirement contributions.

The allowance is subject to the University's fringe overhead. Therefore, an allowance to an employee of \$100 per month will create an expense to the department's budget \$100 + the current fringe overhead rate.

6.2 MAXIMUM PAYROLL ALLOWANCE RATE

The payroll allowance rate should be established based on the portion of the mobile communication resource needed for business (Section 3). However, the maximum payroll allowance rate may not exceed \$200 / month / person. Amounts exceeding the maximum require approval from a Vice President / Dean.

6.3 PROCESSING PAYROLL ALLOWANCES

To establish a payroll allowance, the Home Department Coordinator must indicate the amount of the payroll allowance and provide an original signature on the University Payroll Services' Employee Data Form (Appendix A). Additionally, a copy of the Mobile Communication Resource Authorization Form (Appendix A) signed by a director or equivalent and including the business purpose must be attached. University Payroll Services does not return forms to the Department. The Department must retain copies of the two forms within the department for four (4) years. No other support documentation (e.g. statements) needs to be retained or submitted under the payroll allowance option.

When processing a payroll allowance, use the following Object Code and Earn Type:

- **OBJECT CODE** – The object code for mobile communication services: 14242.
- **EARN TYPE** – The earn type for mobile communication services: MOBERN.

Because University Payroll Services needs to verify approvals and business purpose, the payroll allowance amount can neither be entered directly into the Budget Development System (BDS) nor into the employee funding screen in the Payroll system.

Departments may stop or change the allowance at any time. To discontinue or change the amount of a payroll allowance for an employee continuing on active payroll status, the Home Department Coordinator must notify University Payroll Services of the discontinuation or change with an Employee Data Form. At least one month notice is required to make the adjustment.

6.4 ALLOWANCE PAYROLL CYCLE

For employees paid on the biweekly pay frequency, half of the payroll allowance will be paid on the employee's first paycheck of the month and the second half will be paid on the employee's second paycheck of the month, for a total of 24 payments each year. There are 26 pay cycles each year. Two (2) pay cycles each year will not have allowance portions.

For employees paid on the monthly pay frequency, the payroll allowance will be paid on the employee's monthly payroll.

6.5 COST FOR DEVICES

See Section 3.4

6.6 COSTS INCURRED BEYOND PAYROLL ALLOWANCE

Any costs incurred by the employee for the mobile communication resource beyond the payroll allowance amount are the employee's personal responsibility. Costs incurred above the payroll allowance amount will not be paid or reimbursed by the University.

If an employee's payroll allowance rate needs to be adjusted because the current payroll allowance rate does not accurately reflect the portion of the mobile communication resource needed for business, an Employee Data Form needs to be submitted to University Payroll Services, as charted in Section 4 Figure 1.

SECTION 7 DRIVER SAFETY / SAFEGARDS / INSURANCE

7.1 DRIVER SAFETY

Effective July 1, 2008, the State of California requires drivers to use hands-free accessories when using a mobile communications device while operating a motor vehicle. This California law applies to the operation of all motor vehicles, including, but not limited to, cars, vans, trucks, buses, electric carts, and chariots.

Use of mobile devices while operating a motor vehicle is strongly discouraged, even when a hand-free accessory is available. If it is absolutely necessary to use the device, University employees driving a motorized vehicle should (i) be familiar with the mobile device and its features, (ii) position the mobile device so that it is within easy reach, (iii) let the person with whom the driver is speaking know that a vehicle is being driven, (iv) suspend the call in heavy traffic or hazardous conditions, (v) not take notes or look up information while driving, (vi) drive sensibly and periodically assess the traffic, and (vii) place calls only when not moving or before pulling into traffic.

University employees driving during the course of duty, regardless of vehicle ownership, are required to comply with all local and state driving regulations, in any jurisdiction in which they are driving. Any resulting citations are the sole responsibility of the employee; citations will not be reimbursed by the University.

Failure to operate a motor vehicle in accordance with the law while in the course of conducting University business is cause for disciplinary action including termination. For faculty, disciplinary action will follow the procedures set out in the [Faculty Handbook](#).

7.2 SAFEGUARDING RESOURCES AND DATA

The employee is responsible for safeguarding the mobile device, controlling its use, and protecting its data. No data that requires enhanced protection, as defined in the University's [Information Security Policy](#), may be stored on any mobile communication resource in an unencrypted state (www.usc.edu/policies).

7.3 INSURANCE COVERAGE

At the department's discretion and expense, an insurance policy that covers any lost, stolen, or damaged mobile device owned by the University may be purchased by the department. However, before purchasing such insurance, departments should determine the cost effectiveness of such coverage.

Note that the University's self-insurance policy through Risk Management ([Appendix A](#)) only covers claims resulting from theft if over \$25,000 (per occurrence), and from loss if over \$5,000 (per occurrence). Because of these high deductibles, replacing a lost, stolen, or damaged mobile communication resource through the University's self-insurance coverage is unlikely. Lost or stolen mobile communications resources should be reported to the USC Department of Public Safety.

Appendix C



FSO POLICIES & PROCEDURES

9.17 Communication Service Plans

Last updated on September 27, 2017 - 9:48am

Purpose: These procedures have been developed to provide guidelines to departments for the purchase and charges for supplemental communication plans with service providers external to the University. These plans include mobile phones, pagers, data lines, and internet service providers.

Policy Owner: Financial Management

- 1. Approval and Authorization:** It is the responsibility of the dean, director, or department head to establish that a compelling University purpose exists for supplemental communication service plans (e.g., it enhances work performance, increases efficiency, etc.) and that the contract is established with a reputable vendor. A list of [State Contract vendors](#) is available on the [Procurement and Contracting Services](#) website.
NOTE: The use of calling cards or prepaid phone service should not be authorized because their use for university business purposes cannot be substantiated, and therefore, reimbursement of calling cards or prepaid phone service cannot be allowed.
- 2. Responsibility and Accountability:**
 1. When communication service plans are established, departments are encouraged to require that individuals using the service sign an agreement clarifying an understanding regarding responsible use of the plan and the departmental policy regarding reimbursement. [A sample form is available.](#) These agreements should be maintained in department personnel files.
 2. If equipment is lost or damaged, the department, at its discretion, may require the employee to pay for the replacement equipment.
 3. If any equipment is purchased with University funds (e.g., mobile phones, high-speed modems, peripheral equipment), it is the property of the University and must be turned in to the department when the employee terminates or is transferred.
 4. The department should ensure that its checklist for terminating employees includes closing any active service plans, or transferring such plans to another eligible employee.
- 3. Personal Use of Communication Services:** Personal use of any University property, including mobile phones, pagers and equipment provided for internet access, is not allowed unless the administrator responsible for the property specifically permits such use. See [Human Resources Policy 414.0](#). The administrator may allow occasional and incidental

use if the personal use does not create additional costs for the University.

Departmental administrators are responsible for monitoring the use of the communication services. If an employee misuses the privilege, the department head may revoke their use immediately.

4. **Selection of a Service Plan:** [Procurement and Contracting Services](#) will assist the department in the selection of appropriate communication service plans with one of the [State Contract vendors](#). Department administrators are encouraged to select the most economical service plan given the anticipated business usage, and to limit agreements to one year.
NOTE: High speed internet service plans often require the use of a special modem that can either be leased from the service provider or purchased separately. Generally, the one-time purchase of the modem is less expensive, and this option should be chosen if it results in a lower cost to the University.
5. **Funding:** Departments must ensure that they have available budget balance to fund anticipated charges for the term of the agreement (monthly charges as well as cost to purchase and activate the equipment).
Restrictions apply on sponsored project funds. Charges to grants and contracts for mobile phones are allowable only in unusual circumstances, where supplemental communications equipment and agreements are required for the technical scope of work, is used for no other purpose, and are not otherwise prohibited by the terms of the sponsored agreement.
6. **Billing:** The account must be established in the name of the University of Arizona. The preferred payment method is the [University Purchasing Card](#). Departments that do not have a Purchasing Card to use for billing may contact Procurement and Contracting Services to set up an account. If Purchasing Card billing is not used, invoices must be reviewed and approved by the department business office and sent to [Accounts Payable](#) for payment. If the service provider will not bill the University of Arizona directly, but combines the billing with a personal telephone or cable bill, the employee must pay the provider and seek reimbursement through Accounts Payable in accordance with Policy 9.10, Requisitions/Reimbursements.
NOTE: All rebates are property of the University and must be made payable to the University of Arizona.
7. **Review of Service Plans:** Departments should review service agreements at least once a year to ensure that the plan chosen continues to provide the most economical service.
8. **Review of Business Use:** Departments should review requirements at least once a year to ensure that a compelling University purpose continues to exist for each mobile phone.
9. **Audits and Reviews of Communication Service Plans and Charges:** The University has the right to audit or review communication service plans and charges at any time.
See [Section 6.10, Account Management](#).
10. **Communication Service Plan (CSP) Allowance:** CSP Allowances are *not permitted on Sponsored Project Accounts* as they are considered unallowable under Circular A-21. Departments are permitted to provide a cash allowance in lieu of purchasing and maintaining a communication service plan in the name of the University. The amount of the cash allowance may or may not be taxable income to the recipient and is intended to offset the cost of maintaining a personal communication service plan for the benefit of the University. To be nontaxable, the department must have a process or procedure in place that determines and documents the business utilization of the personal cell phone, then makes the CSP allowance match the allocated business use cost of the plan. The amount of the CSP allowance is at the discretion of the departments; however it should not exceed the cost of providing a CSP in the name of the University.

Supporting documentation and review of allowances: Departments are not required to

review the employee's cell phone expenses, but should review their decision to provide the allowance and the amount of the allowance at least annually based on their fiduciary responsibility to manage University resources in an efficient and effective manner. When granting the CSP Allowance, the department should document the business purpose and need for the allowance. This can be accomplished by completing the [Communication Service Plan Allowance Form](#).

Payment of CSP Allowance: To start payment of a CSP Allowance, the department must process a Payment Request in UAccess Employee. The department will need to determine whether the payment is nontaxable or taxable based on the business use of the employee's personal cell phone. The payment is considered to be additional compensation and is subject to Employee Related Expense (ERE) matching, however the allowance is not part of the employee's base salary.

Mobile Phones - Additional Requirements

- 11. Business Use of Personal Phones:** If the employee wishes to use a mobile phone primarily for personal use, the employee should purchase a phone in their name. If the employee is using the phone primarily for their convenience, rather than a compelling business purpose, then business use is not reimbursable. However, if circumstances require the individual to occasionally use a personal phone for a compelling business purpose, then the business portion may be reimbursed if the business portion causes the bill to exceed the monthly airtime charges.

EXAMPLE 1: If the monthly agreement provides 200 minutes for a fixed price, and the employee uses 100 minutes for personal use, and 50 minutes for a compelling business purpose, no reimbursement is allowed, because the employee would have paid the full monthly charge whether or not there was business use on the phone.

EXAMPLE 2: If the monthly agreement provides 200 minutes for a fixed price, and the employee uses 150 minutes for personal use, and 100 minutes for a compelling business purpose, reimbursement for the 50 minutes that exceed the base plan minutes is allowed, because the business use resulted in higher airtime charges on the phone.

For employee reimbursement instructions, see [Section 9.10, Requisitions/Reimbursements](#).

[< Payments Allowed, Documentation Required Under Various Visa Classifications](#)

[9.18 Small Dollar/Direct Purchase Procedures >](#)



UNIVERSITY
of HAWAII®
SYSTEM

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

January 22, 2018

Mr. Glenn Y. Shizumura
Mr. David Estes
Office of Internal Audit
University of Hawai'i System
1465 Lower Campus Road, Makai Campus 15
Honolulu, Hawai'i 96822

**RE: RESPONSE TO AUDIT CONCLUSIONS AND RECOMMENDATIONS,
REVIEW OF EMPLOYEE CELL PHONE CHARGES**

Dear Mr. Shizumura and Mr. Estes:

In review of your audit report entitled "University of Hawai'i Review of Employee Cell Phone Charges" dated December 2017, I offer the following responses on behalf of the Administration of the University of Hawai'i (University).

Your audit report concluded that the University lack of a policy regarding employee cell phone payments is unusual amongst universities. The lack of such a policy has bred inconsistency in how cell phone expenses are treated, evaluated and authorized within the University. Your report recommends that the University should develop and implement a cell phone policy in order to improve consistency and efficiencies in managing University resources. Your recommendations also include suggestions as to those aspects and components necessary to validate allowable cell phone expenses and the value of procurement efficiencies. You have also provided sample cell phone policies from other notable universities.

The Administration agrees with your conclusions and recommendations. Anecdotal review of University operations regarding cell phone expenses and reimbursements by my office are consistent with your findings. My office will develop an executive policy regarding cell phone expenditures. Considering the nature of the expense type, I will also be considering whether an administrative procedure and applicable forms would be a better option to more appropriately manage this process and expense. In either case, I would anticipate having a draft completed for adoption before December 31, 2018.

Thank you for your efforts on this matter.

Sincerely,


KALBERT K. YOUNG
VP for B&F/CFO

2444 Dole Street, Bachman Hall, Room 201
Honolulu, Hawai'i 96822
Telephone: (808) 956-8903 • Fax: (808) 956-5286
An Equal Opportunity/Affirmative Action Institution

UNIVERSITY OF HAWAI‘I AT MĀNOA

OUTREACH COLLEGE

December 2017

DRAFT



University of Hawai'i
Office of Internal Audit



December 21, 2017

To the University of Hawai'i Board of Regents
and
University of Hawai'i at Mānoa Dean of Outreach College

Outreach College at the University of Hawai'i at Mānoa (UHM) provides year-round learning opportunities during the day, evenings and weekends. The courses offered by Outreach College are categorized by Credit Programs, Summer Session, International Programs, Professional Programs or Community Programs (collectively "Programs"). Credit Program, Summer Session and the majority of Professional Program courses are developed and instructed with faculty from a UHM College, School or Department (UHM Unit). The terms and conditions of the services provided by Outreach College to these UHM Units are documented in Memorandum of Agreements (MOAs). Approximately 80 Credit Program MOAs and 20 Professional Program MOAs were effective as of June 30, 2017.

The University of Hawai'i general ledger reflects total annual revenues for Outreach College ranging from \$34.5 - \$39.7 million during the four years ended June 30, 2017. Tuition and fees represented the largest source of annual revenues ranging from \$27.0 - \$30.6 million with Outreach College's service fee the next largest source with annual revenues ranging from \$6.1 - \$8.0 million. Total revenues in excess of expenses during this period ranged from \$15.8 - \$18.2 million. Outreach College transfers cash to UHM Units or UHM Vice Chancellor offices pursuant to the terms of MOAs or at the discretion of the UHM Vice Chancellor for Academic Affairs and/or Outreach College Dean. Annual cash transfers during the four years ended June 30, 2017 ranged from \$16.6 - \$17.9 million. Internal Audit believes Outreach College management should consult with UHM and University System management to develop written policies and procedures related to handling and disposition of future discretionary cash transfers.

The service fee is earned by Outreach College in connection with services provided to coordinate and administer (e.g., course registration, marketing and payment processing, etc.) all Program courses. The service fee earned generally ranges from 20% - 30% of tuition and fees earned by the respective course. The services provided by Outreach College are generally similar for all courses and are documented specifically in the MOAs for Credit and Professional Programs. Internal Audit believes that Outreach College should consider limiting or eliminating the preparation of separate MOAs for each course given the substantial time incurred in preparing, negotiating, monitoring and managing each separate MOA. Alternatively, Outreach College could develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses.

Outreach College prepares an annual budget of revenues and expenses for each Program. Budgeted revenues and expenses are estimated based on prior year financial results and will be adjusted for known events, such as bargaining unit pay rate increases. Based on discussion with the Program Directors, no budget to actual financial results analysis is performed. Accordingly, Internal Audit believes that Outreach College should consider preparing a budget to actual analysis periodically (e.g., monthly, quarterly, etc.) by Program to identify significant (amounts exceeding a dollar and/or percentage threshold established by management) and/or unexpected variances. The identified variances should be evaluated and investigated to determine if operational strategies should be modified.



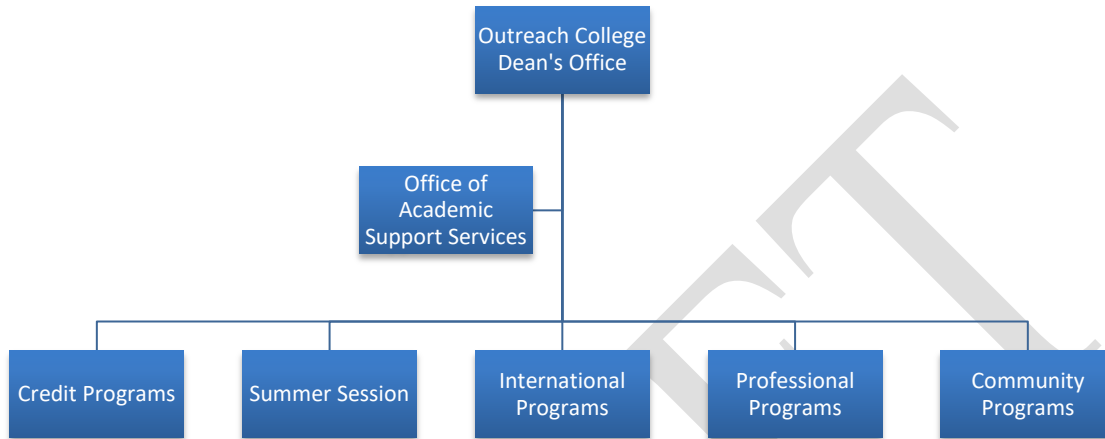
UNIVERSITY
of HAWAII®
SYSTEM

From a financial perspective, Outreach College has generated substantial tuition and fee revenues and has contributed significant cash to UHM. In addition, Outreach College is providing learning opportunities for students that are unable to attend UHM classes during the day. However, as briefly summarized above and discussed in more detail in the accompanying report, Internal Audit believes opportunities exist for Outreach College to improve from both financial and operational perspectives.

DRAFT

I. OVERVIEW/BACKGROUND

Outreach College at the University of Hawai‘i at Mānoa (UHM) was established on June 1, 1998 as a result of UHM combining the operations of the College of Continuing Education and Community Service (CCECS) and Summer Session. The following represents Outreach College’s operational structure:



As of June 30, 2017, Outreach College employed approximately 60 full-time employees. The Dean of Outreach College reports to the UHM Vice Chancellor for Academic Affairs. The Office of Academic Support Services (Academic Support) consists of the following three units: 1) Student Services, 2) Administrative Services, and 3) Communication Services. Student Services provides advising, admission and records services. Administrative Services provides support in budget, fiscal operations, accounting and financial reporting, and personnel administration. Communication Services provides information technology support and markets Credit Program, Summer Session, International Program, Professional Program and Community Program (collectively referred to as Programs) courses through various forms of media, including print, radio, television and other electronic telecommunications.

A summarized description and select financial information of Outreach College’s Programs are as follows.

Credit programs

Credit Program courses are offered throughout the year and are intended to primarily serve students that are unable to attend UHM’s regular day program. According to Outreach College management, approximately 75% of Credit Program courses are associated with a cohort-based program (program consisting of a group of students working together through a curriculum to achieve the same academic degree). All Credit Program summer courses are offered as part of a cohort-based program. The University of Hawai‘i’s student information system (Banner) maintains curriculum, registration and select financial information for Credit Programs.

The President or the President’s designee is delegated the authority to determine tuition for Credit Program and Summer Session students pursuant to Board of Regents (BOR) Policy 6.202. Tuition for students enrolled in Credit Program summer courses and Summer Session courses are generally equivalent to the resident UHM tuition for courses offered during the preceding spring semester pursuant to Executive Policy (EP) 6.201. EP 6.201 also states that nonresident tuition for Credit Program summer courses and Summer Session courses may not be lower than resident tuition.

**University of Hawai‘i at Mānoa
Outreach College
December 2017**

	2016-2017			2015-2016			2014-2015			2013-2014		
	Fall	Spring	Summer	Fall	Spring	Summer	Fall	Spring	Summer	Fall	Spring	Summer
Enrollment	2,028	2,151	1,374	2,080	2,060	1,290	2,120	2,194	1,453	2,034	2,059	1,321
# of courses	581	591	289	633	600	299	610	618	324	589	556	300
Rate/credit hour	Resident: \$453-\$1,860 Non-res.: \$600-\$1,909			Resident: \$441-\$1,737 Non-res.: \$1,279-\$1,770			Resident: \$410-\$1,622 Non-res.: \$1,193-\$1,652			Resident: \$381-\$1,529 Non-res.: \$1,113-\$1,542		
Tuition & fees	\$17,167,512			\$17,464,755			\$15,761,566			\$14,237,050		
Rev. > exp.	\$9,502,212			\$9,652,710			\$8,757,015			\$7,721,098		

See “Schedules of Revenues, Expenses and Transfers” of Custodial Accounts at page 8 for additional information with respect to the condensed financial results presented in the above table.

Summer session

Summer Session courses consist of credit and non-credit courses offered during May – August. Similar to Credit Programs, Banner maintains curriculum, registration and select financial information for Summer Session.

	2016-2017	2015-2016	2014-2015	2013-2014
Enrollment	5,656	5,562	5,889	5,964
# of courses	974	968	960	988
Rate/credit hour	\$453 - \$1,001	\$431 - \$933	\$408-\$868	\$381-\$811
Tuition & fees	\$13,547,135	\$13,379,579	\$13,179,935	\$11,769,604
Rev. > exp.	\$7,203,358	\$7,973,152	\$8,118,268	\$7,528,547

See the “Statements of Revenue and Expenses” at page 7 and “Schedules of Transfers” at page 9 for additional information with respect to the condensed financial results presented in the above table.

International Programs

International programs consist of English language programs (including programs combining English language and academic content) and customized programs for groups of students from foreign educational institutions and companies. English language programs consist of the following:

- New Intensive Courses in English
 - three week program (\$925 - \$1,045/student)
 - 10 week program (\$2,530 - \$2,925/student)
- University Preparation Program (\$10,000 - \$11,500/student) and
- Special academic content programs (\$4,000 - \$17,480/student)

The variability of rates charged to students reflects the variation in program length and program content.

	2016-2017	2015-2016	2014-2015	2013-2014
English Language and Academic Content Programs:				
Enrollment	483	521	604	704
Rate/student	\$1,045 - \$17,480	\$970 - \$16,307	\$925 - \$10,500	\$925 - \$10,000

Customized programs involve custom-designed English language courses and seminars pursuant to agreements with foreign educational institutions. The variability in the group rate is attributable to the instruction period, the number of students in each group and the program content.

University of Hawai‘i at Mānoa
Outreach College
December 2017

	2016-2017	2015-2016	2014-2015	2013-2014
Customized Programs:				
No. of groups	38	40	46	41
Group avg. enroll.	25	33	27	30
Rate charged/group	\$2,365 - \$46,424	\$1,816 - \$57,159	\$1,964 - \$132,784	\$3,200 - \$74,476
Total:				
Tuition & fees	\$1,610,960	\$1,610,458	\$1,894,273	\$1,941,561
Rev. > exp.	\$26,317	\$97,640	\$287,865	\$310,490

Professional Programs

Professional Programs consist of non-credit courses for professional development and personal growth. During the year ended June 30, 2017, Outreach College ceased the offering of personal enrichment courses (e.g. dance, photography, golf, etc.) and began focusing on offering professional development courses, including human resource certifications (\$689/student), building operator certifications (\$1,600/student), and a Dietetic Internship that is required for the national Registration Examination for Dietitians (\$6,000/student). Professional Programs personnel consult with industry and professional associations to determine topics and subject matters that would be of interest to professional development course students.

	2016-2017	2015-2016	2014-2015	2013-2014
Enrollment	935	2,955	3,209	3,518
No. of courses	101	293	319	335
Rate/student	\$33 - \$6,000	\$15 - \$6,000	\$20 - \$6,000	\$20 - \$6,000
Tuition & fees	\$228,790	\$242,462	\$277,577	\$205,298
Rev. > exp.	\$104,857	\$ 23,349	\$ 42,289	\$ 95,530

Community Programs

Community Programs develops arts and cultural programs with local and visiting artists and presents these programs through its Asia Pacific Dance Festival (APDF) (during the summer of odd-numbered years in collaboration with the East-West Center), the University of Hawai‘i Presents series (UHP), and the Statewide Cultural Extension Program (SCEP). In addition, Community Programs assists other groups such as the Honolulu Chamber Music Series with the presentation of their own concert series.

Through APDF, UHP and SCEP, Community Programs is able to bring artists to Hawai‘i from around the world and engage students and the general public with diverse cultural programming. Underserved communities throughout Hawai‘i are the specific target audiences for Community Programs.

University of Hawai‘i Presents

	2016-2017	2015-2016	2014-2015	2013-2014
No. of performances	8	5	7	8
Tickets issued	1,198	1,130	1,183	2,191
Ticket rates	\$5 - \$39	\$5 - \$45	\$5 - \$30	\$10 - \$30

Statewide Cultural Extension Program

	2016-2017	2015-2016	2014-2015	2013-2014
No. of performances	176	185	162	165
Attendance	9,245	9,197	9,645	9,267

Combined financial results

	2016-2017	2015-2016	2014-2015	2013-2014
Ticket sales	\$67,290	\$58,158	\$21,920	\$62,555
Grant/sponsorships	\$183,260	\$174,147	\$259,606	\$191,295
Exp. > rev.	(\$203,470)	(\$279,062)	(\$167,932)	(\$238,299)

Office of Academic Support Services and University of Hawai‘i Foundation

As mentioned previously, the Office of Academic Support Services (Academic Support) consists of 1) Student Services, 2) Administrative Services, and 3) Communication Services. Certain Administrative Services personnel are funded with general fund appropriations from the State of Hawai‘i.

	2016-2017	2015-2016	2014-2015	2013-2014
State Appropriations	\$838,366	\$683,317	\$671,098	\$693,609
Personal services	\$3,136,016	\$2,806,019	\$2,638,653	\$2,500,730
Allocable Credit Program/Professional Program revenues and expenses:				
Service fee	\$4,291,070	\$4,532,658	\$3,837,541	\$3,421,093
Personal services	\$1,156,566	\$1,131,166	\$1,122,937	\$1,042,775
Rev. > (<)exp.	\$445,483	\$746,709	\$(120,166)	\$344,450

The allocable Credit Program and Professional Program revenues and expenses are associated with services performed by Outreach College personnel. The service fee is a percentage (generally 27%) of the respective Credit and Professional Program tuition and fees noted in the preceding tables.

Outreach College also has 16 University of Hawai‘i Foundation (UHF) accounts. The dollar value of transactions impacting these accounts is insignificant.

Project objectives and scope:

A historical point of emphasis with the BOR Committee on Independent Audit was the operations of revenue generating units of the University. Accordingly, the primary objective of this project was to review historical Outreach College financial reports and understand the operational and financial processes that significantly and directly impacts the financial transactions reflected in their financial reports.

Internal Audit reviewed financial reports for the four years ended June 30, 2017, narratives prepared by Program Directors describing significant financial and operational processes and related documents (course establishment forms, registration forms, financial schedules, contracts, memorandum of agreements, memorandums, emails, etc.) supporting these narratives. Internal Audit also held multiple meetings with Outreach College management (Dean, Associate Dean, Program Directors, Fiscal Administrator) and other Outreach College fiscal personnel to discuss significant financial and operational processes.

II. FINANCIAL INFORMATION and FINANCIAL PROCESSES

The revenues (tuition and fees) and expenses (personnel costs, supplies, etc.) related to the aforementioned Programs are recorded in the University’s general ledger (Kuali Financial System or KFS) as Outreach College revenue and expenses. Outreach College assists in the coordination and administration (e.g., course registration, marketing and payment processing, etc.) for all Program courses.

Credit Programs, Summer Sessions, and a majority of Professional Programs courses are developed by and instructed with faculty from a UHM College, School or Department (UHM Unit). The terms and conditions of the coordination and administration assistance provided by Outreach College to UHM Units that develop courses offered through Credit Programs and Professional Programs are documented in Memorandum of Agreements (MOAs). Outreach College’s Dean has stated that Outreach College has full responsibility and ownership for courses and activities in connection with Summer Session, International Programs and Community Programs.

A. Memorandum of Agreements (MOAs)

Based on discussion with Outreach College management, Outreach College currently has approximately 80 Credit Program MOAs and approximately 20 Professional Program MOAs that were effective as of June 30, 2017. MOAs are generally prepared prior to the commencement of each academic term (fall, spring, summer).

Terms and conditions:

Internal Audit noted that MOAs document responsibilities of Outreach College and the respective UHM Unit as well as financial matters (including Outreach College’s service fee and the disposition of any Credit or Professional Program surplus or deficit) associated with those responsibilities. Internal Audit compared and reviewed various MOAs effective for the Fall 2016, Spring 2017 and Summer 2017 semesters noting general similarities in the format and certain terms and conditions. However, Internal Audit also noted significant differences including the following:

- Outreach College’s charged service fee ranged from 20% - 30% of tuition and fee revenue rather than the customary 27%.
- The responsibility of providing academic advising fluctuated between the respective UHM Unit and Outreach College.
- An MOA did not require Outreach College to provide the UHM Unit with a financial statement summarizing the financial results of the course.

In addition, certain course budgets noted an expected course enrollment of one student and another course budget projected a net deficit. Outreach College personnel confirmed Internal Audit’s observations regarding the terms and conditions of MOAs and stated that MOA differences result from negotiations between the Outreach College Dean and the Dean of the respective UHM Unit.

Operational and financial matter responsibilities:

The Credit Program and Professional Program MOAs state that Outreach College is responsible for providing administrative support. Administrative support includes developing a course budget, collecting tuition and processing payments. The respective UHM Unit is responsible for all other duties, including developing the course content, recruiting students and qualified instructors, preparing course evaluations, etc.

Outreach College earns a service fee for providing administrative support. As noted above, the service fee is generally 27% of the respective course tuition and fees. Outreach College informed Internal Audit that the 27% service fee rate has been in place since 2010 (30% service fee rate from 1998 – 2009) and is not aware of any memorandum, policy or other forms of written documentation supporting the service fee rate or its application to earned tuition and fees. Internal Audit was informed that the respective UHM Unit owns all revenues earned and is obligated to pay all expenses incurred in connection with the Credit and Professional Program courses. Accordingly, the MOAs obligate Outreach College to pay UHM Units

the surplus (revenues less expenses inclusive of the service fee) recognized by the Credit and Professional Program course at the end of each academic term (fall, spring, summer). In the event of a net deficit balance, the respective UHM Unit is generally obligated to reimburse Outreach College.

Monitoring financial results:

An Outreach College responsibility is the preparation of financial worksheets calculating financial operating results at the end of each academic term or course pursuant to the terms of each MOA. However, Outreach College does not prepare an analysis comparing the budgeted financial results documented in MOAs to actual financial results. These financial worksheets and course enrollment data are provided to UHM Units. UHM Units are responsible to review the financial worksheets for accuracy and completeness.

MOAs for other Programs:

Internal Audit was informed that Outreach College has the ownership rights to all revenues and is obligated to pay for all expenses in connection with the financial results of Summer Session, International Programs and Community Programs. Accordingly, Outreach College does not prepare MOAs between UHM Units and these Programs (Summer Session, International Programs and Community Programs). However, Internal Audit noted that Outreach College has historically transferred all of the Summer Session net operating results (revenues in excess of expenses) to UHM Units (See Financial Results section, “Transfers”). In return for administrative services, Outreach College charges the benefited UHM Units a service fee (generally 27% of earned tuition and fees). The Outreach College Dean indicated that the transfer is not required pursuant to UHM policy and is performed to supplement the budget of UHM Units.

Analysis and Recommendations

Outreach College prepares and administers a significant number of MOAs. Internal Audit was informed that Outreach College’s intent is that substantially all MOAs should contain similar terms and conditions. Internal Audit believes that similar terms and conditions are included in the majority of MOAs but also noted a sizeable number of MOAs with dissimilar terms and conditions. Internal Audit also believes Outreach College provides similar administrative support for courses of all Programs. Accordingly, Internal Audit recommends that Outreach College consider limiting or eliminating the preparation of separate MOAs for each course given the substantial time incurred in preparing, negotiating, monitoring and managing each separate MOA. As an alternative, Outreach College should develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses. The development and implementation of this policy would minimize the time input incurred by Outreach College personnel in connection with administering the 100 plus MOAs as well as mitigate the risk of financial and operational non-compliance resulting from the various inconsistent terms and conditions noted in various MOAs.

B. Financial Results

1. Outreach College (excluding Custodial Accounts):

Authoritative literature requires that financial statements reflect account balances that an entity has ownership rights to and is obligated to pay. This requirement is described in authoritative literature as the “Rights and Obligations” financial statement assertion. As previously noted, Outreach College’s financial reports include the financial activities and results of all Programs including Credit and Professional Programs. However, Outreach College does not own the revenues earned and are not obligated to pay for expenses incurred in connection with Credit and Professional Programs. Accordingly, the following

**University of Hawai‘i at Mānoa
Outreach College
December 2017**

Statements of Revenues and Expenses of Outreach College exclude the financial results of Credit and Professional Programs for which Outreach College lacks ownership.

**University of Hawai‘i at Mānoa Outreach College
Statements of Revenues and Expenses (Unaudited)
For the Four Years Ended June 30, 2017**

(in 000's)	2017		2016		2015		2014	
	\$	%	\$	%	\$	%	\$	%
Revenues								
Tuition and fees:								
Summer Session	\$13,547	61 %	\$13,380	59 %	\$13,180	59 %	\$11,770	57 %
Other Programs	1,920	9	1,995	9	2,389	11	2,723	13
Less: Scholarship allowance	(2,093)	(9)	(1,832)	(8)	(1,353)	(6)	(1,108)	(5)
Tuition and fees, net of scholarship allowance	13,374	61	13,543	60	14,216	64	13,385	65
Outreach College service fee	7,660	35	7,992	36	7,061	32	6,263	31
Sales and services	69	-	80	-	22	-	62	-
State appropriations	838	4	683	3	671	3	694	3
Community Programs sponsorships & grants	183	1	174	1	260	1	191	1
Other	43	-	17	-	20	-	34	-
Total revenues	22,167	100	22,489	100	22,250	100	20,629	100
Expenses								
Summer Session:								
Personal services	4,006	27	3,510	25	3,443	24	3,060	24
Outreach College service fee	3,305	23	3,335	24	3,203	23	2,842	22
Summer session expenses	7,311	50	6,845	49	6,646	47	5,902	46
Personnel services	5,881	40	5,570	40	5,300	38	5,116	41
Other services	343	2	489	4	473	3	531	4
Rent	365	2	348	2	357	3	367	3
Supplies and materials	201	1	242	2	211	1	266	3
Travel	116	1	110	1	121	1	126	1
Bad debt (recovery)	(83)	-	(48)	-	757	5	8	-
Other	562	4	394	2	267	2	368	2
Total expenses	14,696	100	13,950	100	14,132	100	12,684	100
Revenues in excess of exp.	<u>\$7,471</u>		<u>\$8,539</u>		<u>\$8,118</u>		<u>\$7,945</u>	

The above Statements of Revenues and Expenses include 16 University of Hawai‘i Foundation (UHF) accounts. These UHF accounts collectively earned revenues ranging from \$10,000 - \$15,000 and incurred expenses ranging from \$4,000 - \$16,000 during each of the four years ended June 30, 2017.

Revenues:

Outreach College’s revenue primarily consists of tuition and fees associated with Summer Session courses and the service fees assessed by Outreach College to UHM Units for Credit and Professional Program courses. Other tuition and fees are earned for English language programs and seminars administered by International Programs.

Outreach College provides scholarships to students for Summer Session courses. Based on discussion with Outreach College management, Summer Session need-based scholarships are primarily administered by UHM Financial Aid Services and awarded to students that qualified for financial aid during the respective academic year. Additional merit-based scholarships are administered by the Summer Session Program.

**University of Hawai‘i at Mānoa
Outreach College
December 2017**

Expenses:

As noted previously, Outreach College employs approximately 60 full-time employees. Outreach College also incurs personnel service expenses for Summer Session and International Programs instructors.

Outreach College leases office space located at Fort Street Mall in downtown Honolulu from KF Downtown, LLC and Mo‘owa‘a, LLC (collectively referred to as “Lessor”). The lease term is December 15, 2009 through December 14, 2018. Outreach College pays monthly rent of \$8,485 plus monthly operating costs of \$10,588 (prior to December 15, 2015, operating costs were based on a proportionate share of common area maintenance expenses) and monthly parking fees of \$4,550 for 23 stalls.

2. Custodial Accounts:

As noted previously, Outreach College personnel administer Credit and Professional Programs courses on behalf of UHM Units in return for a service fee. Separate accounts are established in KFS (University’s general ledger) for each UHM Unit to manage and monitor the financial activity (revenues and expenses) of these courses.

**University of Hawai‘i at Mānoa Outreach College – Custodial Accounts
Schedules of Revenues, Expenses and Transfers (Unaudited)
For the Four Years Ended June 30, 2017**

(in 000’s)	2017		2016		2015		2014	
	\$	%	\$	%	\$	%	\$	%
Revenues								
Tuition and fees	\$17,397	102 %	\$17,707	103 %	\$16,039	104 %	\$14,442	104 %
Less: Scholarship allowance	(459)	(3)	(637)	(4)	(816)	(5)	(776)	(6)
Tuition and fees, net	16,938	99	17,070	99	15,223	99	13,666	98
Other	103	1	121	1	125	1	247	2
Total revenues	17,041	100	17,191	100	15,348	100	13,913	100
Expenses								
Personal services	3,035	41	2,961	39	2,555	39	2,337	38
Outreach College service fee	4,158	56	4,466	59	3,858	59	3,421	56
Other	241	3	88	2	136	2	338	6
Total expenses	7,434	100	7,515	100	6,549	100	6,096	100
Revenues in excess of exp.	<u>9,607</u>		<u>9,676</u>		<u>8,799</u>		<u>7,817</u>	
Transfers to UHM Units	<u>(9,123)</u>		<u>(9,382)</u>		<u>(7,868)</u>		<u>(8,281)</u>	
Amount due to UHM Units	<u>\$484</u>		<u>\$296</u>		<u>\$929</u>		<u>(\$464)</u>	

Revenues:

The increase in tuition and fees is primarily due to the increase of tuition rates of approximately 7% per year and increased Credit Program enrollment during the 2014-2015 academic year.

Expenses:

Personal services represent payroll and benefits of Credit and Professional Programs course instructors. Internal Audit was informed that instructors for Credit Programs courses are primarily employees of the respective UHM Unit who receive an overload payment (i.e., payment received in addition to their annual compensation amount) or lecturers (temporary, part-time employees). The Outreach College service fee represents the service fee charged to Programs for administrative services provided by Outreach College.

**University of Hawai‘i at Mānoa
Outreach College
December 2017**

Transfers to UHM Units:

At the end of each term (e.g., end of fall or spring semesters for Credit Programs, etc.), Outreach College transfers cash to UHM Units equivalent to the net surplus (revenues in excess of expenses). During a respective fiscal year, “Transfers to UHM Units” will not equal the net surplus balance due to transfers occurring subsequent to June related to Credit Programs summer session tuition and fees earned during late May – June. The “Amount due to UHM Units” are paid in the subsequent fiscal year.

3. Transfers:

The following table presents and recaps Outreach College’s cash transfers to UHM Units for the four years ended June 30, 2017. Outreach College did not receive any cash transfers during this period. Internal Audit was informed that the transfer of surplus cash (labeled as “Other Transfers” below) commenced during the fiscal year ended June 30, 2012.

**University of Hawai‘i at Mānoa Outreach College
Schedules of Transfers (Unaudited)
For the Four Years Ended June 30, 2017**

(in 000s)		<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash per KFS, beginning of year		\$22,683	\$22,399	\$21,247	\$23,374
Transactions impacting cash:					
Revenues in excess of expenses		7,471	8,539	8,118	7,945
Accrual adjustments		312	(45)	866	(217)
UHM Units (Custodial Accounts)					
Revenues in excess of expenses		9,608	9,676	8,799	7,817
Transfers related to Credit and Professional Programs		(9,123)	(9,382)	(7,868)	(8,281)
Transfers of Summer Session surplus to UHM Units		<u>(5,566)</u>	<u>(5,681)</u>	<u>(5,209)</u>	<u>(4,980)</u>
					(21,436)
Cash balance prior to Other Transfers		25,385	25,506	25,953	25,658
Other Transfers:					
	<u>Recipient (A)</u>				
	<u>Description/Purpose (B)</u>				
Various UHM Units	Supplemental funding to UHM Units that participated in Summer Session 2014	-	(700)	-	-
VC for Academic Affairs	Purchase of UHM classroom equipment, refurbishment and furniture	(427)	-	(700)	(753)
VC for Academic Affairs	Financial support for Sinclair Library	(50)	(535)	-	-
VC for Academic Affairs	3% of Summer Session tuition	(367)	(367)	(346)	(314)
UHM Library	Financial support for the UHM Libraries	(800)	(900)	(900)	(800)
UHM Library	Salary transfer for temporary reassignment of Hamilton Library employee	-	(89)	(44)	-
Office of Planning and Facilities	Payment of UHM utilities	-	-	(1,300)	(2,417)
College of Arts and Humanities	Financial support for the John Young Museum	-	(20)	(40)	(127)
VC for Student Affairs	1.75% of Credit Program tuition for services provided by the Office of Student Affairs for students enrolled in credit programs and courses	(239)	(212)	(224)	-
Total Other Transfers		<u>(1,883)</u>	<u>(2,823)</u>	<u>(3,554)</u>	<u>(4,411)</u>
Cash per KFS, end of year		<u>\$23,502</u>	<u>\$22,683</u>	<u>\$22,399</u>	<u>\$21,247</u>

(A) Information was provided by Outreach College personnel.

(B) Description/Purpose of the cash transfer obtained from supporting correspondence (memorandums, emails) provided by Outreach College personnel.

Internal Audit was informed that the recipients of Other Transfers were determined by Outreach College’s Dean through consultation with the UHM Vice Chancellor for Academic Affairs. Outreach College did not provide Internal Audit with written policies or formalized processes and procedures to support the purpose and rationale for the Other Transfers. Documentation provided to Internal Audit supporting these transfers consisted solely of a memorandum from the UHM Vice Chancellor for Academic Affairs to Outreach College’s Dean. The memorandum did not indicate if other University System Senior Management personnel were consulted regarding the purpose or recipients of these transfers. This memorandum was dated August 18, 2016 with the intent to support all transfers retroactive to 2012.

Analysis and Recommendations

The financial results of Outreach College recorded in KFS combines the separate Statements and Schedules of Revenues and Expenses presented in this section. As noted above, Internal Audit bifurcated Program revenues and expenses based on the rights (ownership) and obligations of the revenues and expenses. In addition to this presentation conforming to authoritative literature, Internal Audit believes this presentation enhances the managing and monitoring of cash owed to UHM Units and excess cash owned by Outreach College that could be used for other University purposes.

As presented in the above Schedules of Transfers, Outreach College has a significant cash balance as of June 30, 2017, 2016, 2015 and 2014. The above Statements and Schedules of Revenues and Expenses also note that Outreach College has generated revenues in excess of expenses during the four years ended June 30, 2017. Accordingly, it appears that the Outreach College cash balance is significantly in excess of their current operational requirements. Internal Audit believes Outreach College should prepare annual cash forecasts to estimate their operational cash requirements. Cash that exceeds Outreach College operational requirements should be made available for other University requirements.

The above Schedules of Transfers also identify significant annual cash transfers as Other Transfers. Although these surplus cash transfers are significant, there are no written policies or any consistent or formalized process to determine and approve the disposition of this cash. Internal Audit recommends that Outreach College management consult with UHM and University System management to develop policies and procedures, including documentation and approval requirements related to the handling and disposition of future Outreach College transfers of surplus cash.

C. Analysis and Monitoring of Financial Results

Operational planning:

At the beginning of each fiscal year, the Outreach College Dean meets with Outreach College personnel to discuss Outreach College’s operational goals (e.g. enrollment goals) for the upcoming fiscal year. For purposes of monitoring these goals, Internal Audit was informed that the Outreach College Dean meets weekly with Program Directors to discuss their respective Program’s operational goals and the Program’s achievement towards their goals. Outreach College has not developed a written strategic or business plan to document Outreach College’s current and future goals and the plan for achieving those goals.

Oversight of financial/operational results:

Outreach College prints quarterly financial schedules generated through eThORITY (KFS’ reporting module) comparing the annual revenue and expense budget to year-to-date and quarterly actual financial results by KFS account (Outreach College had approximately 350 KFS accounts as of June 30, 2017) for each Program. The Program Directors are provided their respective Program’s financial schedules for their review. The Outreach College Dean is also provided a schedule listing total revenues and expenses (separated by personnel services and other expenses) by Program for the respective quarter in addition to

the same financial schedules provided to the Program Directors. Based on discussion with the Program Directors, no budget to actual financial results analysis is performed by Outreach College personnel on these financial schedules. According to the Outreach College Fiscal Administrator, the Outreach College Dean scans the quarterly financial schedules and will contact the respective Program Director with questions regarding unexpected results.

As noted previously, course budgets are included in Credit Programs and Professional Program MOAs. However, Outreach College does not compare MOA budgets to actual financial results by MOA.

Analysis and Recommendations

Operational planning:

Outreach College’s annual operational goals are communicated at Outreach College’s annual meeting held by the Outreach College Dean. However, Internal Audit does not believe that Outreach College personnel have a sufficient and comprehensive understanding of Outreach College’s current and future goals and the plan to accomplish those goals. The successful achievement of meeting Outreach College’s goals by designated deadlines requires the appropriate communication of goals and roles each personnel will be responsible for. Accordingly, Internal Audit believes that Outreach College should consider developing a written strategic or business plan (Plan) to document Outreach College’s financial and operational goals and objectives. This Plan should also include the cash forecast recommendation discussed in the Financial Results section. The Plan should also provide a project plan (including an activity/work schedule, milestones, expected completion dates for specific milestones, identification of Outreach College personnel responsible to attain the milestones, etc.) for achieving those goals and objectives. Additionally, the goals and objectives should be measured and monitored on a periodic basis. As Summer Session, International Programs and Professional Programs have experienced a continued decline in enrollment (see page 2), Outreach College management should consider including in its Plan goals related to increasing enrollment in those Programs.

Oversight of financial/operational results:

Outreach College management should consider preparing a budget to actual analysis periodically (e.g., monthly, quarterly, etc.) by Program. Internal Audit believes Outreach College management should analyze a schedule comparing quarterly budgeted to actual revenues and expenses to identify significant (amounts exceeding a dollar and/or percentage threshold established by management) and/or unexpected variances. The identified variances should be evaluated and investigated to determine if operational strategies should be modified. The Outreach College Dean should also consider providing the results of this analysis to UHM senior management to keep them apprised of Outreach College’s financial results. Periodic monitoring of financial results will also assist in managing the use of surplus cash generated from operations.

III. OUTREACH COLLEGE PROGRAMS

This section augments the description of each Program that was summarized in the Overview/Background section. Revenues and expenses by Program for the four years ended June 30, 2017 are presented in the accompanying Combining Schedules of Revenues and Expenses (See Attachment I).

A. Credit Programs

Credit Programs employs eight full-time employees and offers courses designed to primarily serve individuals who are unable to attend UHM’s regular day program. According to Outreach College

management, approximately 75% of the courses offered by Credit Programs are part of a degree-seeking program (or cohort). In general, cohorts are a group of students that work towards the same academic degree within a designated time frame. For example, the College of Education offers multiple cohorts through Outreach College providing teachers with an opportunity to earn a Master of Education degree in a variety of specialties (e.g., early childhood education, educational technology). As these teachers are currently working full-time, course load for these cohorts occur primarily during the summer with minimal courses during the fall and spring semesters. Additionally, Credit Programs manages a majority of distance learning credit activity for UHM. Distance learning provides students with access to education through a network of technologies including internet, interactive video, and cable television. Instructors and students interact at a distance without having to be physically present in the same location.

Tuition rates for Credit Programs courses are consistent with per credit hour UHM tuition rates and are determined based on the number of credit hours for the respective course. Full-time UHM students attending the regular day program pay a fixed rate for 12 or more credits. However, these students are required to pay an additional amount (based on number of credit hours) for Credit Programs courses taken while enrolled as a full-time student. Students register and make payment for Credit Program courses through Banner.

B. Summer Sessions

Summer Sessions offers approximately 975 UHM credit courses during the summer months (May – August) to current, visiting, entering, and high school students. Resident and non-resident tuition rates are equivalent for Summer Session courses. Internal Audit was informed that the reason there is no differentiation between rates for residents and non-residents is to assist in increasing enrollment. Students register and make payment for Summer Session courses through Banner. Enrollment is monitored by Summer Session personnel and if minimum enrollment is not met by the registration deadline, Summer Session will contact UHM Unit management to determine whether the Summer Session course should be cancelled. UHM Units are generally responsible for any deficits incurred.

The Outreach College Dean annually determines the amount of funding to be provided by Outreach College for Summer Session scholarships based on a determination of Outreach College’s available cash and correspondence with the UHM Vice Chancellor for Academic Affairs. Need-based scholarships are primarily administered by UHM Financial Aid Services and merit-based scholarships are primarily administered by the Summer Session Program.

C. International Programs:

International Programs provides English language programs and custom-designed English language programs and academic content programs for groups of students from foreign educational institutions and companies. English language programs include the “New Intensive Courses in English” (NICE) program and the University Preparation (UP) program. The NICE program provides non-credit English language and culture education to international students through four 10-week session courses and two 3-week session courses. The UP program began in fiscal 2014 and is a two semester program that focuses on preparing international students to enter a University located in the United States and grants conditional admission to UHM. A combination of non-credit and credit course instruction is included in the UP program, including admission into the NICE program. Outreach College also enters into agreements with foreign educational institutions and other UHM Units to create both credit and non-credit programs for international students.

International Programs utilizes three different computer databases/programs outside of Banner to maintain its registration and payment information: 1) Classware, 2) Filemaker and 3) Excel. Registration and payment information for the NICE program is maintained partially in Classware and Filemaker. Registration and payment information for group programs and seminars are maintained in Excel.

Based on review of enrollment data (refer to page 2) provided by the International Programs Director, Internal Audit noted that enrollment in International Programs courses are declining. Additionally, based on discussion with the International Programs Director, Internal Audit noted that the 10-week NICE program overlaps with courses offered by the Hawai‘i English Language Program (HELP) also located at UHM. HELP generally focuses on academic English preparation and admittance of international students into UHM, while International Programs primarily focuses on English preparation for academic, professional and general purposes with an emphasis on oral communication. International Programs employs eleven employees and five student assistants.

D. Professional Programs:

Professional Programs provide non-credit courses that are designed to assist participants pursue professional development and personal growth, such as human resource management, project management, forensic science, and language. Specialized programs for particular groups and contract training for organizations are also arranged. Similar to International Programs, Professional Programs utilizes Classware to maintain its registration and payment information.

During fiscal 2017, the Outreach College Dean modified the course offerings and changed the name of the Program to Professional Programs (formally known as Non-credit Programs). According to Outreach College management, the modification of course offerings and Program name change resulted in removing/dropping unsustainable and unprofitable courses such as flower arranging, pottery, and other self-enrichment classes. The current focus is on professional development including human resource certification, project management, and building operator certification. Professional Programs work with industry and professional associations to deliver some of these open enrollment courses.

Professional Programs employ three full-time staff. Instructors are also employed to teach various Professional Program courses.

E. Community Programs:

Community Programs develops arts and cultural programs with local and visiting artists and provides administrative services (marketing, ticketing, travel coordination, venue set-up, etc.) for cultural artist performances (music, dance, etc.). Revenues primarily consist of ticket sales and sponsorships provided by organizations to offset the cost of various cultural artist performances related to the University of Hawai‘i Presents series and the Statewide Cultural Extension Program. Community Programs employs two full-time employees, one part-time employee and a graduate assistant. Other services expense includes payments to artists and performers. There are four primary programs offered by Community Programs:

Honolulu Chamber Music Series (HCMS)

HCMS is a presentation of several (typically five) professional chamber music ensembles during a season (typically from October – March). Community Programs provides the administrative support (e.g., payments to artist based on their contracts, arrange transportation and accommodations for artists, provide

ticketing service, etc.) for the HCMS in return for a service fee (\$13,000 in fiscal 2017) and reimbursement by HCMS for actual expenses incurred by Outreach College.

University of Hawai‘i Presents

University of Hawai‘i Presents provides cultural artist performances (eight performances during fiscal 2017) to the general public. These performances are primarily held at Orvis Auditorium. A majority of these performances are identified in association with a statewide consortium, “Performing Arts Presenters of Hawai‘i.”

Statewide Cultural Extension Program

The Statewide Cultural Extension Program (SCEP) provides local artist performances (e.g., taiko drumming) to co-sponsoring organizations, such as libraries, nursing homes and community centers. Community Programs is provided an annual grant (ranging from \$50,000 - \$100,000) from the Hawai‘i State Foundation of the Arts to support the SCEP.

Asia Pacific Dance Festival (APDF)

The APDF is a showcase of dance performances from Asia and the Pacific, including complementary activities such as workshops, public lectures and community demonstrations. The APDF is a co-production with the East-West Center and held every other summer (in odd-numbered years).

Analysis and Recommendations

Financial results:

The Combining Schedules of Revenues and Expenses attached below indicate that Outreach College has generated substantial annual tuition and fee revenues (\$27 - \$31 million) during the four years ended June 30, 2017. In addition, annual Revenues in excess of Expenses during this same period ranged from \$16 – \$18 million. Summer Session and Credit Programs generate substantially all of the annual tuition and fees. Based on the attached Combining Schedules of Revenues and Expenses, Outreach College is very successful in generating positive financial results for the University.

Credit Programs tuition policies:

Full-time UHM students may register for Credit Program courses in addition to their full-time credit load. However, these students are required to pay additional tuition (For the academic year 2017: resident tuition per credit hour ranged from \$453 - \$1,860, non-resident tuition per credit hour ranged from \$600 - \$1,909) to Outreach College for each Credit Program course taken. As an example, a full-time student unable to enroll into an introductory mathematics course during the regular day program would be required to pay additional tuition for that same course offered by Outreach College’s Credit Program. As this policy appears to place an additional financial burden on full-time students, Internal Audit recommends that Outreach College perform an evaluation to determine whether this tuition policy related to Credit Programs should be modified.

Collaboration with other international programs:

With the decline in enrollment of International Programs courses, International Programs should consult and collaborate with HELP management (and other international programs located within the University system, as applicable) to ensure that each of their respective programs are sufficiently diversified to eliminate the risk of competing with each other.

Subsidiary systems:

Internal Audit noted that International and Professional Programs utilize three different databases/programs (Classware, Filemaker and Excel) outside of Banner to maintain class registration and

student payment information. Although International and Professional Programs are not experiencing registration or tuition collection issues, the use of multiple databases to maintain course and student information results in possible internal control gaps and operational inefficiencies due to the different processes and personnel involved in updating each database. Accordingly, Internal Audit recommends Outreach College consider utilizing a single database system for its International and Professional Programs. Additionally, Outreach College should compare and reconcile tuition data recorded in the database to KFS to ensure tuition recorded in KFS is complete and accurate.

IV. OVERALL ANALYSIS AND RECOMMENDATIONS

As previously noted, the objective of this project was to review historical Outreach College financial reports and understand the operational and financial processes that significantly and directly impacts the financial transactions reflected in their financial reports. Section II of this report presented the financial results for Outreach College for the years ended June 30, 2017, 2016, 2015 and 2014 as well as Outreach College’s cash transfers to other UHM Units during this same period. Section II also described the services provided by Outreach College to UHM Units as documented in MOAs and analyzed their processes to monitor financial results. Section III provides a description of each Outreach College Program.

The University of Hawai‘i general ledger reflects total annual revenues for Outreach College ranging from \$34.5 - \$39.7 million during the four years ended June 30, 2017. Tuition and fees represented the largest source of annual revenues ranging from \$27.0 – \$30.6 million. Total revenues in excess of expenses during this period ranged from \$15.8 - \$18.2 million. Accordingly, Outreach College has been successful in generating positive financial results. However, Internal Audit believes improvement opportunities exist for Outreach College. The listing below summarizes these opportunities into the following categories: 1) Financial and 2) Operational.

Financial

1. Although surplus cash transfers are significant, there are no written policies or any consistent or formalized process to determine and approve the disposition of Outreach College’s surplus cash. Internal Audit recommends that Outreach College management consult with UHM and University System management to develop policies and procedures, including documentation and approval requirements related to the handling and disposition of future Outreach College transfers of surplus cash.
2. Consider preparing annual cash forecasts to estimate Outreach College’s operational cash requirements. Cash that exceeds Outreach College operational requirements should be available for other University requirements.
3. Outreach College management should analyze a schedule comparing quarterly budgeted to actual revenues and expenses to identify significant (amounts exceeding a dollar and/or percentage threshold established by management) and/or unexpected variances. The identified variances should be evaluated and investigated to determine if operational strategies should be modified.

Operational

1. Consider limiting or eliminating the preparation of separate MOAs for each course given the substantial time incurred in preparing, negotiating, monitoring and managing each separate MOA. As an alternative, Outreach College should develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses. The development and implementation of this policy would minimize the time input incurred by Outreach College personnel in connection with administering

the 100 plus MOAs as well as mitigate the risk of financial and operational non-compliance resulting from the various inconsistent terms and conditions noted in various MOAs.

2. Consider developing a written strategic or business plan (Plan) to document Outreach College’s financial and operational goals and objectives. The Plan should include a project plan (including an activity/work schedule, milestones, expected completion dates for specific milestones, identification of Outreach College personnel responsible to attain the milestones, etc.) for achieving those goals and objectives. Additionally, the goals and objectives should be measured and monitored on a periodic basis.
3. Full-time UHM students attending the regular day program pay a fixed rate for 12 or more credits. However, these students are required to pay an additional amount (based on number of credit hours) for Credit Programs courses taken while enrolled as a full-time student. As this policy appears to place an additional financial burden on full-time students, Internal Audit recommends that Outreach College perform an evaluation to determine whether this tuition policy related to Credit Programs should be modified.
4. Internal Audit noted that the 10-week NICE program overlaps with courses offered by the Hawai‘i English Language Program (HELP) also located at UHM. With the decline in enrollment of International Programs courses, International Programs should consult and collaborate with HELP management (and other international programs located within the University system, as applicable) to ensure that each of their respective programs are sufficiently diversified to eliminate the risk of offering similar courses.
5. International and Professional Programs utilize three different databases/programs (Classware, Filemaker and Excel) outside of Banner to maintain class registration and student payment information. The use of multiple databases to maintain course and student information results in possible internal control gaps and operational inefficiencies due to the different processes and personnel involved in updating each database. Accordingly, Internal Audit recommends Outreach College consider utilizing a single database system for its International and Professional Programs.

University of Hawai'i at Mānoa Outreach College
Combining Schedule of Revenues and Expenses
Year Ended June 30, 2017

Attachment I

(000's)	Outreach College Owned Accounts					Custodial Accounts			Combined Total
	Summer Session	Intern'l Prgms	Community Prgms	Academic Support	Subtotal	Credit Prgms	Prof Prgms	Subtotal	
Revenues									
Tuition and fees	\$13,547	\$1,611	\$ 2	\$307	\$15,467	\$17,168	\$229	\$17,397	\$32,864
Less: Scholarship allowance	2,047	9	-	37	2,093	459	-	459	2,552
Tuition and fees, net of scholarship	11,500	1,602	2	270	13,374	16,709	229	16,938	30,312
Outreach College service fee	3,305	59	5	4,291	7,660	-	-	-	7,660
Sales and services	-	-	67	2	69	-	-	-	69
State appropriations	-	-	-	838	838	-	-	-	838
Community Programs sponsorship & grants	-	-	183	-	183	-	-	-	183
Other	-	4	6	33	43	96	7	103	146
Total revenues	14,805	1,665	263	5,434	22,167	16,805	236	17,041	39,208
Expenses									
Personal services	4,006	1,395	193	4,293	9,887	2,985	50	3,035	12,922
Outreach College service fee	3,305	-	-	-	3,305	4,100	58	4,158	7,463
Other services	17	59	188	79	343	74	11	85	428
Rent	3	43	6	313	365	16	-	16	381
Supplies and materials	7	89	16	89	201	34	8	42	243
Travel	2	36	43	35	116	89	-	89	205
Bad debt (recovery)	(31)	-	17	(69)	(83)	-	-	-	(83)
Other	292	15	4	250	561	4	4	8	569
Total expenses	7,601	1,637	467	4,990	14,695	7,302	131	7,433	22,128
Revenues in excess of expenses	\$7,204	\$ 28	\$(204)	\$444	\$7,472	\$9,503	\$105	\$9,608	\$17,080

University of Hawai'i at Mānoa Outreach College
 Combining Schedule of Revenues and Expenses
 Year Ended June 30, 2016

Attachment I

(000's)	Outreach College Owned Accounts					Custodial Accounts			Combined Total
	Summer Session	Intern'l Prgms	Community Prgms	Academic Support	Subtotal	Credit Prgms	Prof Prgms	Subtotal	
Revenues									
Tuition and fees:	\$13,380	\$1,610	\$ -	\$385	\$15,375	\$17,465	\$242	\$17,707	\$33,082
Less: Scholarship allowance	1,791	29	-	12	1,832	637	-	637	2,469
Tuition and fees, net of scholarship	11,589	1,581	-	373	13,543	16,828	242	17,070	30,613
Outreach College service fee	3,335	125	-	4,532	7,992	-	-	-	7,992
Sales and services	-	-	58	22	80	-	-	-	80
State appropriations	-	-	-	683	683	-	-	-	683
Community Programs sponsorship & grants	-	-	174	-	174	-	-	-	174
Other	-	3	(3)	17	17	121	-	121	138
Total revenues	14,924	1,709	229	5,627	22,489	16,949	242	17,191	39,680
Expenses									
Personal services	3,510	1,367	265	3,938	9,080	2,938	23	2,961	12,041
Outreach College service fee	3,335	-	-	-	3,335	4,357	108	4,466	7,801
Other services	17	59	196	217	489	(124)	39	(85)	404
Rent	3	46	5	294	348	4	-	4	352
Supplies and materials	12	86	14	130	242	19	15	34	276
Travel	10	34	22	44	110	100	11	111	221
Bad debt (recovery)	42	-	-	(90)	(48)	-	-	-	(48)
Other	22	19	6	347	394	1	23	24	418
Total expenses	6,951	1,611	508	4,880	13,950	7,296	219	7,515	21,465
Revenues in excess of expenses	\$7,973	\$ 98	\$(279)	\$747	\$8,539	\$9,653	\$23	\$9,676	\$18,215

University of Hawai'i at Mānoa Outreach College
 Combining Schedule of Revenues and Expenses
 Year Ended June 30, 2015

Attachment I

(000's)	Outreach College Owned Accounts					Custodial Accounts			Combined Total
	Summer Session	Intern'l Prgms	Community Prgms	Academic Support	Subtotal	Credit Prgms	Prof Prgms	Subtotal	
Revenues									
Tuition and fees:	\$13,180	\$1,894	\$ -	\$495	\$15,569	\$15,762	\$277	\$16,039	\$31,608
Less: Scholarship allowance	1,353	-	-	-	1,353	816	-	816	2,169
Tuition and fees, net of scholarship	11,827	1,894	-	495	14,216	14,946	277	15,223	29,439
Outreach College service fee	3,203	20	-	3,838	7,061	-	-	-	7,061
Sales and services	-	-	22	-	22	-	-	-	22
State appropriations	-	-	-	671	671	-	-	-	671
Community Programs sponsorship & grants	-	-	260	-	260	-	-	-	260
Other	8	2	(2)	12	20	120	5	125	145
Total revenues	15,038	1,916	280	5,016	22,250	15,066	282	15,348	37,598
Expenses									
Personal services	3,443	1,324	214	3,762	8,743	2,542	13	2,555	11,298
Outreach College service fee	3,203	-	-	-	3,203	3,751	107	3,858	7,061
Other services	18	84	168	203	473	(43)	59	16	489
Rent	1	56	11	289	357	2	1	3	360
Supplies and materials	5	109	5	92	211	17	27	44	255
Travel	6	31	47	37	121	39	8	47	168
Bad debt	202	-	-	555	757	-	-	-	757
Other	42	24	3	198	267	1	25	26	293
Total expenses	6,920	1,628	448	5,136	14,132	6,309	240	6,549	20,681
Revenues in excess of expenses	\$8,118	\$288	\$(168)	\$(120)	\$8,118	\$8,757	\$42	\$8,799	\$16,917

University of Hawai'i at Mānoa Outreach College
 Combining Schedule of Revenues and Expenses
 Year Ended June 30, 2014

Attachment I

(000's)	Outreach College Owned Accounts					Custodial Accounts			Combined Total
	Summer Session	Intern'l Prgms	Community Prgms	Academic Support	Subtotal	Credit Prgms	Prof Prgms	Subtotal	
Revenues									
Tuition and fees:	\$11,770	\$1,942	\$ -	\$781	\$14,493	\$14,237	\$205	\$14,442	\$28,935
Less: Scholarship allowance	1,108	-	-	-	1,108	776	-	776	1,884
Tuition and fees, net of scholarship	10,662	1,942	-	781	13,385	13,461	205	13,666	27,051
Outreach College service fee	2,842	-	-	3,421	6,263	-	-	-	6,263
Sales and services	-	-	62	-	62	-	-	-	62
State appropriations	-	-	-	694	694	-	-	-	694
Community Programs sponsorship & grants	-	-	191	-	191	-	-	-	191
Other	11	1	(1)	23	34	247	-	247	281
Total revenues	13,515	1,943	252	4,919	20,629	13,708	205	13,913	34,542
Expenses									
Personal services	3,060	1,346	227	3,543	8,176	2,327	10	2,337	10,513
Outreach College service fee	2,842	-	-	-	2,842	3,399	22	3,421	6,263
Other services	24	59	188	260	531	169	48	217	748
Rent	2	53	15	297	367	-	1	1	368
Supplies and materials	8	117	8	133	266	8	18	26	292
Travel	9	35	49	33	126	47	5	52	178
Bad debt	4	-	-	4	8	-	-	-	8
Other	37	23	3	305	368	37	5	42	410
Total expenses	5,986	1,633	490	4,575	12,684	5,987	109	6,096	18,780
Revenues in excess of expenses	\$7,529	\$310	\$(238)	\$344	\$7,945	\$7,721	\$96	\$7,817	\$15,762



UNIVERSITY
of HAWAII®
MĀNOA

UNIVERSITY OF HAWAII
BOARD OF REGENTS

18 FEB -2 NO:38

RECEIVED

'18 FEB -1 P7:00

January 31, 2018

MEMORANDUM

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Mike McEnerney
Chair, Board of Regents Independent Audit Committee

VIA: David Lassner *David Lassner*
Interim Chancellor and President

VIA: Michael Bruno *Michael Bruno*
Interim Vice Chancellor of Academic Affairs and
Vice Chancellor for Research

FROM: William G. Chismar *William G. Chismar*
Interim Dean

SUBJECT: Response to December 2017 Outreach College Audit Report

Outreach College was pleased to work with the internal audit team on its review of Outreach College. The meetings with the audit team have been very productive and a useful exercise for College's management team. The following are our responses to the Internal Auditor's December 2017 University of Hawai'i Outreach College Audit (Attachment 1), divided into two sections: Responses to the Financial Recommendations, and Responses to the Operational Recommendations.

Responses to Financial Recommendations

1. **Although surplus cash transfers are significant, there are no written policies or any consistent or formalized process to determine and approve the disposition of Outreach College's surplus cash. Internal Audit recommends that Outreach College management consult with UHM and University System management to develop policies and procedures, including documentation and approval requirements related to the handling and disposition of future Outreach College transfers of surplus cash.**

The surplus funds generated through Outreach College are UHM funds under the authority of the UHM Chancellor. As such, there is no need for UH System management involvement in the use of the funds.

2545 McCarthy Mall, Bilger 102, Honolulu, Hawai'i 96822
telephone: (808) 956-3400, fax: (808) 956-3752
web: www.outreach.hawaii.edu

An Equal Opportunity/Affirmative Action Institution

Prior to 2012, all surplus funds were held in Outreach College and periodically used by the Chancellor's office for special one-time expenses. In 2012, recognizing the need to make better use of the funds, the Chancellor's Office and Outreach College agreed upon an annual distribution of the surplus funds. The funds are targeted for academic needs on campus as approved by the Chancellor.

Here is a description of the process:

At the beginning of the fiscal year, as part of its budgeting process, Outreach College estimates the surplus for the current fiscal year. The estimates are revised as actual data become available. At the end of the third quarter, a revised estimate is given to the Vice Chancellor of Academic Affairs to include in the campus budgeting for the next fiscal year. At the end of the fiscal year, the actual amount of surplus is determined and a recommendation on how to use the surplus is made by the VCAA and the dean of Outreach College. The recommendation is reviewed by the Chancellor, possibly modified, and approved. The funds are then appropriately allocated for use in the new fiscal year.

The Chancellor's Office and Outreach College believe the process is working well. However, the process can have greater transparency, particularly with respect to the documenting of the final allocations.

Action: Outreach College will work with the VCAA and VCAFO to formalize and document the distribution of the funds. The process will be in place for use in fiscal year 2019.

2. Consider preparing annual cash forecasts to estimate Outreach College's operational cash requirements. Cash that exceeds Outreach College operational requirements should be available for other University requirements.

Outreach College already does annual budgeting that includes estimated revenues and expenses by program and unit within the College. Annual estimates of the funds to be distributed to other UHM colleges are also done on an annual basis, with the estimates distributed to colleges as part of their annual budget allocation distributed by the OVCAFO. Revisions to those estimated allocations are made as the actual numbers become available. UHM colleges use those estimates in formulating their annual budgets.

Additionally, as mentioned in response 1 above, a process is in place for use of the annual surplus generated by Outreach College for UHM academic initiatives. Annual estimates of the surplus for a fiscal year are made at the beginning of the fiscal year. The estimates are revised as actual data become available, and finalized at the end of the fiscal year. The actual amount is then budgeted for use in the new fiscal year.

Action: Outreach College will document the estimates in a summary report beginning in fiscal year 2019.

- 3. Outreach College management should analyze a schedule comparing quarterly budgeted to actual revenues and expenses to identify significant (amounts exceeding a dollar and/or percentage threshold established by management) and/or unexpected variances. The identified variances should be evaluated and investigated to determine if operational strategies should be modified.**

Outreach College does budgeting and financial management at two levels: by organizational unit within the College, and by individual program or course.

At the College level, data are entered into and tracked within KFS for each of the 9 units within the College: Dean's office, 4 revenue-generating units, and 4 support services units. For each unit, an annual budget is entered into KFS. The College's administrative officer generates and distributes quarterly reports to the unit managers that include budget to actual comparisons. The Dean's Office reviews the reports, discusses any variations with the unit managers, and, if necessary, initiates appropriate corrective actions. These quarterly data are consolidated up to the college and, after that, to the campus level.

At the program level, individual budgets are generated for each new program. If the program is being run in partnership with another college, the budget is generated cooperatively. These budgets are managed within various managerial systems, mostly spreadsheets. As programs progress, budgets are revised and, at the end of each program, a final financial statement is generated. Quarterly reports are not generated. Academic programs do not typically run on a quarterly basis. Budgets are generated as programs are being planned. The key factor influencing the financial status of a program is enrollment. Accordingly, once a program is open for enrollment, enrollment figures are closely tracked. Variations from the planned enrollments are analyzed, actions taken as needed to try to increase enrollments or modify the program to accommodate larger than expected enrollments. As the start of a program nears a decision may be made to cancel the program due to low enrollments. Once a program has started, there is very little financial risk as the major expense is instructor pay, which is known with certainty.

Action: Outreach College will produce a summary report of the quarterly variations in budgeted to actual revenues and expenses by unit and consolidated up to the college-level beginning in fiscal year 2019.

Responses to Operational Recommendations

- 1. Consider limiting or eliminating the preparation of separate MOAs for each course given the substantial time incurred in preparing, negotiating, monitoring and managing each separate MOA. As an alternative, Outreach College should develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses. The development and implementation of this policy would minimize the time input incurred by Outreach College personnel in connection with administering the 100 plus MOAs as well as mitigate the risk of financial and**

operational non-compliance resulting from the various inconsistent terms and conditions noted in various MOAs.

Outreach College agrees completely; the existing process of MOAs is overly burdensome. Outreach College will work on an alternative approach as suggested in the report.

Action: By the Fall 2018 semester, Outreach College will develop, document, and distribute a standardized policy that will cover the vast majority of programs. The policy will specify standard terms and conditions, but also specify procedures for handling exceptions to the standard program, such as, programs that are fully funded by external funds.

- 2. Consider developing a written strategic or business plan (Plan) to document Outreach College's financial and operational goals and objectives. The Plan should include a project plan (including an activity/work schedule, milestones, expected completion dates for specific milestones, identification of Outreach College personnel responsible to attain the milestones, etc.) for achieving those goals and objectives. Additionally, the goals and objectives should be measured and monitored on a periodic basis.**

Outreach College agrees that a more formal plan with specific goals for each unit would be beneficial.

Action: Outreach College will begin a process to develop a strategic/business plan. The initial plan will be completed by spring 2019.

- 3. Full-time UHM students attending the regular day program pay a fixed rate for 12 or more credits. However, these students are required to pay an additional amount (based on number of credit hours) for Credit Programs courses taken while enrolled as a full-time student. As this policy appears to place an additional financial burden on full-time students, Internal Audit recommends that Outreach College perform an evaluation to determine whether this tuition policy related to Credit Programs should be modified.**

Outreach College agrees and for the past year has been in discussions with the offices of the Chancellor and the Vice Chancellor for Academic Affairs on how to modify the tuition policy for full time UHM students.

Action: In cooperation with the Chancellor's Office, Outreach College will finalize a policy for handling full time UHM students and implement the policy by the Spring 2019 semester.

- 4. Internal Audit noted that the 10-week NICE program overlaps with courses offered by the Hawai'i English Language Program (HELP) also located at UHM. With the decline in enrollment of International Programs courses, International Programs should consult and collaborate with HELP management (and other international programs located within the University system, as applicable) to ensure that each of**

their respective programs are sufficiently diversified to eliminate the risk of offering similar courses.

Outreach College has been in discussions with relevant units across campus on the coordination of international programs. In particular, the overlap between the NICE and HELP has been evaluated. Actions to address this overlap are part of a wider, ongoing campus reorganization effort. The HELP program is in the College of Languages, Linguistics, and Literature, which is part of a proposed consolidation with the College of Arts & Humanities, and the School of Pacific and Asian Studies. That consolidation will include a decision on the re-organization of some international units on campus. Accordingly, the resolution of the NICE/HELP overlap is waiting on the resolution of the reorganization.

Action: In conjunction with the campus reorganization efforts, Outreach College will work to eliminate overlaps between the NICE and HELP programs. The implementation date is subject to progress on the campus reorganization efforts.

- 5. International and Professional Programs utilize three different databases/programs (Classware, Filemaker and Excel) outside of Banner to maintain class registration and student payment information. The use of multiple databases to maintain course and student information results in possible internal control gaps and operational inefficiencies due to the different processes and personnel involved in updating each database. Accordingly, Internal Audit recommends Outreach College consider utilizing a single database system for its International and Professional Programs.**

Outreach College agrees and has been working on developing or purchasing a single system for all noncredit programs. Note, noncredit fees are not tuition and, by State statute, noncredit funds must be kept separate from credit tuition. Also, the Banner system only handles credit tuition and fees. However, the integration of the noncredit system with KFS is a requirement of any new system and will allow for effective reconciliation.

Action: Outreach College will complete the procurement or development of a new noncredit system, with a goal of having a new system in place by January 1, 2019.

Attachment

1. Internal Auditor's December 2017 University of Hawai'i Outreach College Audit



DT 18707

18 JAN 31 PM 2:37

UNIVERSITY OF
HAWAII

Office of Intercollegiate Athletics • 1337 Lower Campus Road • Honolulu, Hawai'i 96822-2370

December 27, 2017

MEMORANDUM

TO: Mike McEnerney
Chair, Board of Regents Committee on Independent Audit

VIA: David Lassner
President, University of Hawai'i *David Lassner*

VIA: Kalbert Young
Vice President for Budget and Finance, CFO *Kalbert Young*

VIA: David Lassner
Interim Chancellor, University of Hawai'i at Mānoa *David Lassner*

FROM: David A. K. Matlin
Director, University of Hawai'i at Mānoa Intercollegiate Athletics *D.A.K.M.*

SUBJECT: University of Hawai'i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2017 Football Season

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

'18 JAN 31 P1:23

RECEIVED

The attached University of Hawai'i at Mānoa Intercollegiate Athletics Report on Agreed-Upon Procedures 2017 Football Season are submitted for Board of Regents Committee on Independent Audit for review and acceptance.

The report was prepared by the University in conformity with National Collegiate Athletics Association Bylaw 20.9.9.3.2 and audited by Accuity, LLP, a certified public accounting firm.

Attachments

Copy: Glenn Shizumura, Director of the Office of Internal Audit
Kathy Cutshaw, Vice Chancellor for Administration, Finance & Operations

18 JAN 31 04:28
RECEIVED

**University of Hawai'i at Mānoa
Intercollegiate Athletics**

**Report on Agreed-Upon Procedures
2017 Football Season**

DRAFT

Report of Independent Accountants

To the Intercollegiate Athletics Department
University of Hawai'i at Mānoa

We have performed the procedures enumerated below, which were agreed to by the University of Hawai'i at Mānoa Intercollegiate Athletics Department ("Mānoa Athletics"), solely to assist the University of Hawai'i (the "University") in evaluating whether the accompanying Football Actual Attendance Summary ("Summary") is in compliance with the National Collegiate Athletics Association Bylaw 20.9.9.3.2 for the 2017 Football season.

Management of Mānoa Athletics is responsible for the Summary and the Summary's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- A. We obtained the Summary (see Attachment A) and supporting worksheets for the 2017 Football Season and compared the totals to the Aloha Stadium AM Monitor for all six home games in 2017.

No exceptions were noted.

- B. We recalculated the totals from the "Attendance" column of the Aloha Stadium AM Monitor for all six home games in 2017.

No exceptions were noted.

- C. We obtained confirmation from management of the Aloha Stadium on the criteria used to include individuals in the actual attendance figures for the six home games in 2017.

No exceptions were noted.

- D. We recalculated the total actual attendance figures for the six home games on the Summary for the 2017 Football Season.

No exceptions were noted.

* * * * *

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Summary. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The accompanying Summary for the 2017 Football Season has not been audited, reviewed or compiled by us and accordingly, we do not express an opinion or any other form of assurance on it.

This report is intended solely for the information and use of University management and the Board of Regents, and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawai'i
February __, 2018

DRAFT



NCAA Division I Membership Requirements Certification - Football Bowl Subdivision

Attachment A: 2017 Actual Attendance Summary

Institution:

Conference:

Actual Attendance. For purposes of computing actual attendance figures, an individual may be counted if any one of the following conditions applies:

- a. Attendees are issued tickets that are collected on admission to the game and retained;
- b. Attendees enter through and are counted by a turnstile that is monitored by a representative of the department of athletics who verifies in writing the accuracy of the count on a per-game basis; or
- c. Attendees enter through a gate at which a representative of the department of athletics counts them individually with a manual counter (or an electronic scanner), and the representative provides a written statement verifying the accuracy of the count on a per-game basis.

Student-athletes and cheerleaders scheduled by the institution to be at the game and students performing services at the stadium (e.g., concessionaires, ticket takers, parking-lot attendants, ushers, groundskeepers) shall not be counted toward meeting the actual attendance requirements; however, each band member who satisfies any of the above-mentioned conditions for counting student attendance may be included in the calculation of actual attendance.

	Opponent	Date (mm/dd/yyyy)	Actual Attendance
Home Game 1	<input style="width: 100%;" type="text" value="W Carolina"/>	<input style="width: 100%;" type="text" value="09/02/2017"/>	<input style="width: 100%;" type="text" value="20,956"/>
Home Game 2	<input style="width: 100%;" type="text" value="Colorado S"/>	<input style="width: 100%;" type="text" value="09/30/2017"/>	<input style="width: 100%;" type="text" value="21,457"/>
Home Game 3	<input style="width: 100%;" type="text" value="San Jose S"/>	<input style="width: 100%;" type="text" value="10/14/2017"/>	<input style="width: 100%;" type="text" value="19,382"/>
Home Game 4	<input style="width: 100%;" type="text" value="San Diego"/>	<input style="width: 100%;" type="text" value="10/28/2017"/>	<input style="width: 100%;" type="text" value="15,353"/>
Home Game 5	<input style="width: 100%;" type="text" value="Fresno St."/>	<input style="width: 100%;" type="text" value="11/11/2017"/>	<input style="width: 100%;" type="text" value="12,050"/>
Home Game 6	<input style="width: 100%;" type="text" value="BYU"/>	<input style="width: 100%;" type="text" value="11/25/2017"/>	<input style="width: 100%;" type="text" value="17,450"/>
Home Game 7	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Home Game 8	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Home Game 9	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Home Game 10	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>

	Opponent	Date (mm/dd/yyyy)	Actual Attendance
	<input type="text"/>	<input type="text"/>	<input type="text"/>

Enter actual attendance totals below:

TOTAL ACTUAL ATTENDANCE HOME GAMES:

By electronically signing below, I certify that the reported attendance figures above were verified through the annual certified audit, as required by NCAA Bylaw 20.9.9.3.2.

Signed:
(Director of Athletics)

Date:
(mm/dd/yyyy)

UNIVERSITY OF HAWAI‘I
REVIEW OF CHECK DISBURSEMENTS
LESS THAN \$2,500

January 2018



University of Hawai'i
Office of Internal Audit



UNIVERSITY
of HAWAII®
SYSTEM

January 12, 2018

To the University of Hawai'i Board of Regents
and
University of Hawai'i Director of Finance and Chief Financial Officer (CFO)

In 2014, the University of Hawai'i (University) designated the Purchasing Card (PCard) as the preferred method of purchase for goods and services less than \$2,500. Also during 2014, the University's former Vice President of Budget and Finance/Chief Financial Officer reported that PCard purchases are more cost efficient than processing payments with a check. For the three years ended June 30, 2017, annual check disbursements as reflected on the University's check register approximated \$900 million. Of this annual amount, approximately \$50 million related to check disbursements less than \$2,500, of which approximately \$17 million was related to purchases without an identifiable exception. Accordingly, Internal Audit believes PCards may be underutilized.

To understand the significant reasons for potential PCard underutilization, Internal Audit surveyed a sample of Fiscal Administrators and Vice Chancellors of Administration across campuses, colleges, schools and departments (Units). The following common responses were noted:

- The monthly review and approval of PCard transactions is perceived by Fiscal Administrators as being time consuming and inefficient
- Insufficient frequency in PCard training
- The process of obtaining new PCards and unblocking Merchant Category Codes (MCCs) is not completed in a timely manner
- Blocked travel MCCs reduce PCard usage
- PCard moratoriums have limited and/or eliminated PCard usage at some of the Units

Overall, Internal Audit believes University Units and employees are making an effort to use PCards for transactions less than \$2,500. Increasing PCard usage will increase cost efficiencies within the University as well as the rebates received from the University's PCard issuer, First Hawaiian Bank. Internal Audit believes there are opportunities to achieve this objective by improving the timeliness of obtaining new PCards (or modifying PCard dollar limits), modifying the types of allowable PCard purchases (e.g., travel-related purchases) and improving the efficiency and effectiveness of the PCard review and approval process at the Units.

Sincerely,

Glenn Shizumura
Director

University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018

Background / Objectives

In September 2014, the University of Hawai‘i (University) implemented a new Purchasing Card (PCard) policy and procedure (Administrative Procedure AP 8.266) designating the PCard as the preferred method of purchase for goods and services less than \$2,500. The PCard Administrator’s website contains a list of allowable exceptions to this policy. A written justification is required by the Kualii Financial System (KFS) for purchases less than \$2,500 utilizing a purchase order. AP 8.806, Roles and Responsibilities for Payment Transaction Processing, states that Fiscal Administrators (FAs) and program managers (approving authority / account supervisor) are responsible for ensuring payments are in compliance with University Policies and Procedures, with the Disbursing and Payroll Office (Disbursing) responsible for conducting the final compliance review.

Also in 2014, in order to gain a better understanding of the efficiencies provided by the new PCard policy, the Board of Regents requested a review by University management of the estimated costs of processing payments via check versus PCard. As reported at the October 15, 2014 Board of Regents’ Committee on Independent Audit meeting, the University’s former Vice President of Budget and Finance/Chief Financial Officer reported that the costs incurred in using PCards is less than processing payments via check, though the exact amount of cost savings per payment was not quantified.

In 2016, Internal Audit evaluated the policies and procedures of the University’s PCard Program, as well as the related processes and controls (report dated May 2016). Internal Audit also conducted a follow up review in 2017 (report dated July 2017). The July 2017 report noted that the practices established and implemented by the PCard Administrator were sufficient to mitigate risks associated with PCard transactions. However, the report also noted three improvement opportunities: 1) include more timely notification to Senior Management of unapproved PCard transactions 2) modify the planning of PCard audits to focus on higher risk transactions, Cardholders, and Units (as defined below) 3) consider reducing the number of restricted Merchant Category Codes (MCCs are the four-digit number that identifies the primary type of goods/services provided by the merchant). Generally, Cardholders are not authorized to purchase goods and services from merchants associated with approximately 750 of 1,000 available MCCs, which Internal Audit believed could be decreased as a result of existing complementary controls.

The objective of this review is to evaluate AP 8.266 compliance within University campuses, colleges, schools and departments (Units) and assess efficient and effective use of resources with respect to purchases less than \$2,500.

Work Performed

Internal Audit reviewed University purchasing policies and obtained the University’s check register from the Financial Management Office for check disbursements less than \$2,500 for the years ended June 30, 2017, 2016 and 2015. In connection with the check register, Internal Audit performed analytics to determine the volume and frequency of checks processed for purchases less than \$2,500. Finally, Internal Audit surveyed a sample of FAs and Vice Chancellors of Administration (VCAs) across the University as to their practices and procedures in regards to check disbursements less than \$2,500, and researched higher education institutions within the Pac-12, Mountain West and Big West conferences, as well as other universities located in the State of Hawai‘i (collectively called ‘comparable universities’ heretofore). The purpose of the survey and research of higher education institutions was to understand the types and extent of purchases allowable under their respective PCard policies.

Summary of University Disbursements

Disbursing is the University’s Systemwide office responsible for processing all University payments, including those submitted and authorized via purchase order. Total check disbursements as recorded in the University’s check register for the years ended June 30, 2017, 2016 and 2015 were as follows:

**University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018**

Table 1:

Check Disbursement Attribute	June 30 (in 000's, except # of checks)					
	2017		2016		2015	
	# of Checks	Amount	# of Checks	Amount	# of Checks	Amount
Greater than \$2,500	17,329	\$ 838,713	17,234	\$ 854,182	18,028	\$ 890,071
Less than \$2,500 with identified exception*	51,132	33,980	53,343	35,202	59,398	39,709
Other Less than \$2,500 **	32,354	17,149	31,990	16,924	31,919	16,713
Total	<u>100,815</u>	<u>\$ 889,842</u>	<u>102,567</u>	<u>\$ 906,308</u>	<u>109,345</u>	<u>\$ 946,493</u>

* Includes check disbursements related to travel, utility payments, contracts, employee reimbursements, etc.

** Check disbursements in this category may or may not be pursuant to a policy exception. Determination can only be made via a detailed review of each transaction and supporting documentation.

First Hawaiian Bank (FHB) issues the University's PCards. Accordingly, the above table includes payments to FHB for the University's P-Card transactions. For the years ended June 30, 2017, 2016 and 2015, the annual payments approximated \$25.1 million, \$25.6 million and \$25.1 million respectively.

For the purpose of determining if the check register provided to Internal Audit included all check disbursements, Internal Audit requested the assistance of the Financial Management Office to reconcile check register disbursements to cash outflows per the University's Consolidated Statements of Cash Flows for the years ended June 30, 2017, 2016 and 2015:

Table 2:

Gross Cash Outflows	June 30 (in 000's)		
	2017	2016	2015
Operating activities	\$ 1,313,781	\$ 1,293,552	\$ 1,299,687
Capital and related financing activities	200,710	155,695	183,346
Total	<u>1,514,491</u>	<u>1,449,247</u>	<u>1,483,033</u>
Reconciling Items			
State of Hawai‘i general appropriations not received or paid in cash	(470,200)	(441,459)	(413,884)
State of Hawai‘i capital appropriations not received or paid in cash	(109,255)	(85,940)	(111,762)
Net UHF and RCUH payments	(31,662)	(27,940)	(10,936)
Net State of Hawai‘i related (payments)/receipts	22,204	25,641	15,098
Debt service paid via wire transfer	(46,140)	(28,790)	(20,251)
Other reconciling items	10,404	15,549	5,195
Total	<u>\$ 889,842</u>	<u>\$ 906,308</u>	<u>\$ 946,493</u>

**University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018**

For Other check disbursements less than \$2,500 noted in **Table 1**, Internal Audit noted the following breakdown amongst University campuses during the year ended June 30, 2017:

Table 3:

<u>University Campus</u>	<u>Check Disbursements Less Than \$2,500 during the year ended June 30, 2017</u>			<u># of Cardholders (October 2017)</u>
	<u># of Checks</u>	<u>Amount</u>	<u>% of Total</u>	
Mānoa	19,260	\$10,145,801	59	842
Kapi‘olani Community College	2,578	1,558,576	9	31
Hilo	2,394	1,141,426	7	123
Multiple Campuses	968	810,502	5	Not available
Hawai‘i Community College	1,397	538,786	3	43
Leeward Community College	1,143	511,230	3	44
Maui	1,164	437,567	3	41
West O‘ahu	797	428,660	2	13
Honolulu Community College	711	423,337	2	53
Kaua‘i Community College	648	415,021	2	24
System	678	389,677	2	73
Windward Community College	439	254,111	2	34
Community Colleges Administration	177	94,638	1	11
TOTALS	32,354	\$17,149,332	100	1,332

The University departments with the greatest Other check disbursements less than \$2,500 for the year ended June 30, 2017 were as follows:

<u>University Department</u>	<u>Other Check Disbursements Less Than \$2,500</u>	
	<u># of Checks</u>	<u>Amount</u>
Manoa Bookstore	3,605	\$2,088,613
Manoa Athletics	1,575	824,737
Manoa Student Housing Services	1,909	823,949
Office of Planning and Facilities	1,222	696,552
Office of Student Life and Development	809	477,092
Manoa Library Services	894	447,666
UH Press	637	443,795

During the year ended June 30, 2017, Internal Audit noted the following with respect to check disbursements less than \$100:

Table 4:

<u>Dollar range</u>	<u># of Checks</u>	<u>Aggregate Amount</u>
\$0.01-\$1.00	98	\$ 30
\$1.01-\$5.00	205	693
\$5.01-\$20.00	1,134	14,282
\$20.01-\$100.00	6,988	387,267

University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018

Within the \$0.01 - \$1.00 range, there were two checks amounting to \$0.01, three checks amounting to \$0.03, one check amounting to \$0.04, and eighteen checks amounting to between \$0.05 and \$0.10.

Observations and Analysis

A. Surveys

To determine the current practices and procedures used to make payments for goods and services less than \$2,500 across the University, Internal Audit surveyed a sample (including at least one from each campus) of FAs and VCAs (collectively referred to as “respondents”) at 16 Units. These Units were selected based on quantitative and qualitative attributes. Accordingly, Units with the greatest cumulative dollar amount of check disbursements less than \$2,500 (without an obvious allowable exception as noted on the PCard website) during the year ended June 30, 2017 as well as all Community College campuses were selected to be surveyed. The total number of respondents was eighteen. A summary of the questions and the aggregated responses is shown in Appendix A. Internal Audit noted the following key takeaways from review of the survey responses:

- 50% of respondents noted that PCards were their most common method of paying for goods/services less than \$2,500
- 66% of respondents believe PCards are the most efficient payment method for purchases less than \$2,500
- 69% of respondents believe PCards are underutilized within their Unit
- The most frequent impediments noted for use of PCards were: 1) Blocked MCCs (12), and 2) Administrative burden (i.e. monthly review of PCard transactions and follow up with Cardholders to ensure compliance with AP 8.266) for PCards is too great (12)
- The most common goods and/or services under \$2,500 for which a check was used were: 1) Supplies (10), 2) inventory (7), and 3) travel-related expenses (6)
- 61% of respondents believe they have a sufficient number of Cardholders within their Unit
- 33% of respondents noted their Unit has faced challenges in obtaining PCards, including: 1) Unit was penalized for prior violations with AP 8.266 (known as a PCard moratorium) and could not obtain additional PCards, and 2) the issuance of PCards is a time consuming and arduous process (in some instances, respondents noted that the issuance of PCards took between two and five months due to the PCard Administrator reviewing the application by section rather than its entirety such that revisions were requested piecemeal every few weeks rather than collectively)
- 56% of respondents noted that the FA’s review of documents supporting a check disbursement includes determining whether a PCard would be a more efficient option for payment

Additionally, the respondents were asked to provide suggestions to improve the process to pay for goods and/or services less than \$2,500 on a Systemwide basis as well as at their individual Unit. The following common responses were given:

- Improve the KFS monthly PCard transactions approval module by allowing the supporting documentation for each purchase to be attached on the same transaction line as the merchant and amount.
- The frequency of PCard training is insufficient.
- The unblocking process for blocked MCCs is too difficult and time consuming, making it more efficient to pay via a check. In particular, travel costs could be paid more efficiently via PCard.
- When a PCard cannot be used pursuant to AP 8.266 it would be more efficient to make payments via Electronic Funds Transfer (EFT) than check.
- Allow PCards to be used for certain “after-the-fact” payments if the Cardholder approved the purchase.

University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018

Finally, the respondents were asked to review a listing of check disbursements less than \$2,500 for their Unit during the year ended June 30, 2017, and provide the common reasons why PCards were not used for payment. The survey respondents provided the following common responses to their respective listing:

Allowable Exceptions

- Vendors do not accept credit card payments
- Incremental payments were less than \$2,500, but the total amount of transactions under the open purchase order was greater than \$2,500
- Refunds, reimbursements and construction-related purchases cannot be made via PCard
- Travel-related expenses

Other responses

- Unit’s fiscal office staff is too small to handle the administrative burden of a high volume of PCard transactions
- Low number of Cardholders
- The Unit is comfortable using purchase orders and tends to default to checks as their preferred payment method for purchasing goods and services.

Analysis

Internal Audit’s review of survey responses noted that while some of the responses as to why PCards were not used to purchase goods and services less than \$2,500 were allowable exceptions pursuant to the PCard Administrator’s website, others (those in the Other responses section above) would not be considered allowable exceptions. Additionally, most respondents believe PCards are the most efficient method to pay for purchases less than \$2,500 (66%), however, the majority believe PCards are underutilized within their Unit (69%). Based on survey responses and other procedures performed by Internal Audit, the underutilization of PCards is primarily due to:

- Currently, Internal Audit noted that the KFS transaction approval module does not allow the supporting documentation for each PCard transaction to be attached directly to the same transaction line as the merchant and amount. Instead, all supporting documentation (receipts, invoices, etc.) for an individual Cardholder are combined in KFS such that the reviewer must manually match the support with each related transaction. However, Internal Audit does not believe this purported inefficiency in KFS creates a significant time or administrative burden as the implementation of manual processes could mitigate this criticism.
- Per discussion with a few FAs, Internal Audit noted that online PCard training for new Cardholders is conducted by the PCard Administrator approximately once per month. If the training date is missed, it can result in delays in new Cardholders receiving their PCards. Additionally, an exam must be taken at the conclusion of training and passed with a score of 90% (nine out of ten correct answers) or greater. However, the scoring of the exam does not occur in real time, which may lead to additional delays if the exam must be retaken.
- Internal Audit noted that a significant number of MCC codes are blocked. In particular, a substantial number of travel-related MCC codes (airfare, hotels, rental cars, etc.) are permanently blocked, and the unblocking process is time consuming. Internal Audit believes many of these MCC codes could be unblocked without increasing the risk of improper purchases via PCards. Travel expenses are already highly controlled, with all travel requiring pre-approval by the employee’s Approving Authority (e.g. Supervisor and/or Principal Investigator/Program Manager) and FA. Out-of-state travel requires additional pre-approval by the Executive Approving Authority. Upon travel completion, a report detailing

University of Hawai'i
Review of Check Disbursements Less Than \$2,500
January 2018

all travel expenses must be reviewed and approved by the employee's FA. Finally, the Disbursing Office performs compliance audits on a significant portion of University travel prior to disbursement.

- Five of the respondents mentioned “after-the-fact” purchases as one type of purchase prohibited by the PCard Administrator. Internal Audit noted that according to the PCard website, an after-the-fact purchase is “a procurement made without authorization; the request for approval of the purchase is made after the purchase has occurred, thus violating the proper procedures.” The website goes on to state that a “PCard is a purchasing card, not a payment card, so the PCard transaction must be made at the time the goods are ordered or the services rendered.” Per discussion with an FA, a common example is when a service (e.g., repairing a printer/copier) is procured by a Cardholder, but the service provider doesn't supply an invoice and require payment until after the service has been provided. Thus, payment would be made after-the-fact. The website notes that “After-the-fact purchases are a procurement violation and must be avoided.” The website also references HAR 3-131-1 (effective December 15, 1995), which further defines after-the-fact as “a request for approval, unless the context requires otherwise, for a procurement made in violation of proper procedures.” Additionally, HAR 3-131-1 states, “The violation must have been committed in a deliberate manner, involving some calculated means, such as parceling for a single procurement, a deliberate misstatement of fact, or an after-the-fact purchase, which is purposefully designed to avoid the requirements of the law (referring to Hawai'i Administrative Rule §3-131-1 regarding procurement).” Internal Audit believes using a PCard to pay for a good/service after-the-fact would not violate any aspect of this rule, as long as the Cardholder has made the purchase themselves, or pre-approved another employee to make the purchase on their behalf. Either scenario would not be in violation of the law or in violation of proper procedures, as the Cardholder has the authority and training to authorize the purchase, regardless of whether payment is made at the time of purchase or after-the-fact. Furthermore, Internal Audit believes that a PCard, by its very nature, is both a purchasing card and payment card.
- Four respondents noted that PCard moratoriums are an impediment to PCard usage. One Unit surveyed noted that their PCard moratorium covered their entire campus and lasted approximately nine months. During this time, the campus had substantial turnover, and were unable to obtain new PCards for new employees, causing checks to be required to pay for certain goods and services for which a PCard would've otherwise been used. Internal Audit believes consequences for noncompliant PCard use is necessary, but that the PCard Administrator should consider, whenever possible, levying consequences on the individual responsible for a PCard violation, rather than an entire campus.

B. Research on comparable universities

Internal Audit researched the PCard policies of comparable universities to understand the types of goods and services that may be paid for using a PCard, noting the following:

- Many of the types of goods and services restricted by the comparable universities were similar in nature to the MCCs blocked by the University's PCard program (e.g. gambling, alcohol, personal transactions, etc.)
- 26% (nine of 34) of the comparable universities allowed PCards to be used to purchase airfare
- 21% (seven of 34) of the comparable universities allowed PCards to be used to purchase meals while traveling
- 32% (11 of 34) of the comparable universities allowed PCards to be used to purchase lodging
- 82% of the comparable universities either allowed PCards to be used to purchase travel-related goods/services, or provided a separate travel card to make such payments

**University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018**

Analysis

Internal Audit noted that approximately a quarter of the comparable universities allow PCards to be used for travel-related payments. Additionally, the majority (74%) of the comparable universities that do not allow PCards to be used for such payments provide a separate university-issued travel card. As noted previously, the University generally does not allow (by blocking MCCs) PCards to be used for travel-related payments (unless a temporary or permanent unblock is authorized). As noted in Internal Audit’s *Review of Travel Policy Compliance* report issued in September 2017, the risks related to the University paying for unauthorized and improper travel expenses are low due to the effective review and approval process at both the Units and within Disbursing’s pre-audit group. Thus, Internal Audit believes blocking all travel-related MCCs on PCards is an unnecessary and redundant control that provides minimal, if any, benefit to the University.

C. Cost savings and rebates:

As noted in the Background section of this report, the University previously determined that the overall cost of a PCard payment is less than that of a check payment. To validate this assertion, Internal Audit reviewed process flowcharts prepared and published by the University’s Financial Management Office for payments made via both PCard and check (see summarized versions in Appendices B and C, respectively), and noted the administrative process for reviewing and approving PCard transactions is substantially less onerous than that for a generating a check. Check payments require a Purchase Requisition, Purchase Order, Invoice, and Payment Request (PREQ) to be reviewed and approved (by approving authorities and FAs) prior to disbursement in addition to the involvement of Disbursing (staff and supervisors review supporting documentation and generate check payments). PCard payments that are generally limited to \$2,500 do not require as many documents and reviews. Also of note is that the PCard review process occurs once a month for each Cardholder’s transactions as a whole, while each check payment must be processed individually. Additionally, as noted in the Surveys section of this report, 66% of FAs believe PCards are a more efficient method of payment than check disbursements.

The University’s agreement with FHB provides a 1.33% rebate on all purchases. Internal Audit was informed that these rebates are deposited into a KFS account to fund the PCard Administrator’s operations. The following table reflects the annual FHB rebate and the KFS rebate account balance as of and for the three years ended June 30, 2017:

Table 5:

	June 30		
	2017	2016	2015
PCard rebates	\$ 334,174	\$ 339,928	\$ 333,453
Account balance	1,489,015	1,318,557	1,068,010

Internal Audit performed a sensitivity analysis of the University’s potential cost savings and rebates by using a range of possible cost savings across a range of percentages of payments (i.e. Sensitivity Level) for which a PCard could’ve been used during the year ended June 30, 2017 (using a baseline of \$17,149,332 and 32,354 checks as noted in **Table 1**):

Table 6:

Sensitivity Level	Potential FY17 Cost Savings per transaction				Potential 2017 Rebates
	\$10	\$25	\$50	\$100	
100%	\$323,540	\$808,850	\$1,617,700	\$3,235,400	\$228,086
75%	242,655	606,638	1,213,275	2,426,550	171,065
50%	161,770	404,425	808,850	1,617,700	114,043
25%	80,885	202,213	404,425	808,850	57,022

University of Hawai‘i
Review of Check Disbursements Less Than \$2,500
January 2018

As illustrated by **Table 6**, even if only 25% of the check payments less than \$2,500 could have been made using PCards, and only \$10 was saved per transaction, the University could have saved in excess of \$80,000 and earned over \$50,000 in additional rebates during the year ended June 30, 2017. Furthermore, additional rebates in excess of \$400,000 could have been earned for the year ended June 30, 2017 if PCards were permitted to be used for the University’s approximately \$33 million (as noted on the University’s audited financial statements) in travel expenses.

Conclusions

Making a greater number of payments less than \$2,500 using PCards rather than checks will provide both cost savings as well as additional rebates to the University. Overall, Internal Audit believes University Units and employees are making an effort to implement PCards as their primary method of purchasing goods and services less than \$2,500 (unless an exception is met) in accordance with AP 8.266. However, in practice PCards have not always been used for purchases less than \$2,500 due to the following:

1. There is a perceived administrative burden of reviewing and approving PCard transactions

Internal Audit noted that reviewing and approving PCard transactions on a monthly basis is more efficient and cost effective than paying via check, however a number of FAs perceive the opposite. This is likely due to all PCards transactions for a month being reviewed at one time, rather than spread out over the course of a month. However, Internal Audit believes this monthly review is part of what makes the PCard review process more efficient. Each Unit should consider implementing their own PCard procedures (if they haven’t already) with a focus on improving the efficiency and effectiveness of their PCard review and approval process.

2. PCard training is not conducted frequently enough for new Cardholders

Internal Audit suggests that the PCard Administrator consider moving to an on-demand online training platform with real-time scoring of the examination and the option to retake the exam immediately if a passing score is not achieved. This will reduce the delays in new Cardholders receiving PCards.

3. The MCC unblocking process is too stringent

Internal Audit believes the respective FAs have the responsibility for determining which MCCs their Cardholders can access. Furthermore, given the University’s robust controls around travel expenses, the PCard Administrator should consider unblocking travel-related MCCs.

4. The restrictions on “after-the-fact” purchases should be clarified

Internal Audit does not believe a PCard payment made after a good or service is received should be prohibited, as long as the Cardholder approved the purchase in advance.

5. From discussions with FAs, Internal Audit noted that PCard moratoriums may have been too severe

Internal Audit believes moratoriums levied on an entire Unit should be the rare exception, and only under circumstances in which there are significant breaches of AP 8.266 across multiple Unit personnel. In most cases, the violating Cardholder should bear the consequences of noncompliance with policy. Before levying a moratorium on an entire Unit, the Unit should have the opportunity to implement corrective actions (e.g. additional training, new procedures, new Cardholders, etc.).

6. Alternative uses for surplus PCard rebate account balance

Due to a surplus, Internal Audit noted that the amount of the PCard rebate account continues to grow year over year, reaching approximately \$1.5 million for the year ended June 30, 2017. Given the surplus, management should consider alternative University uses for account balances greater than what is needed per the PCard Administrator’s budget for the following fiscal year.

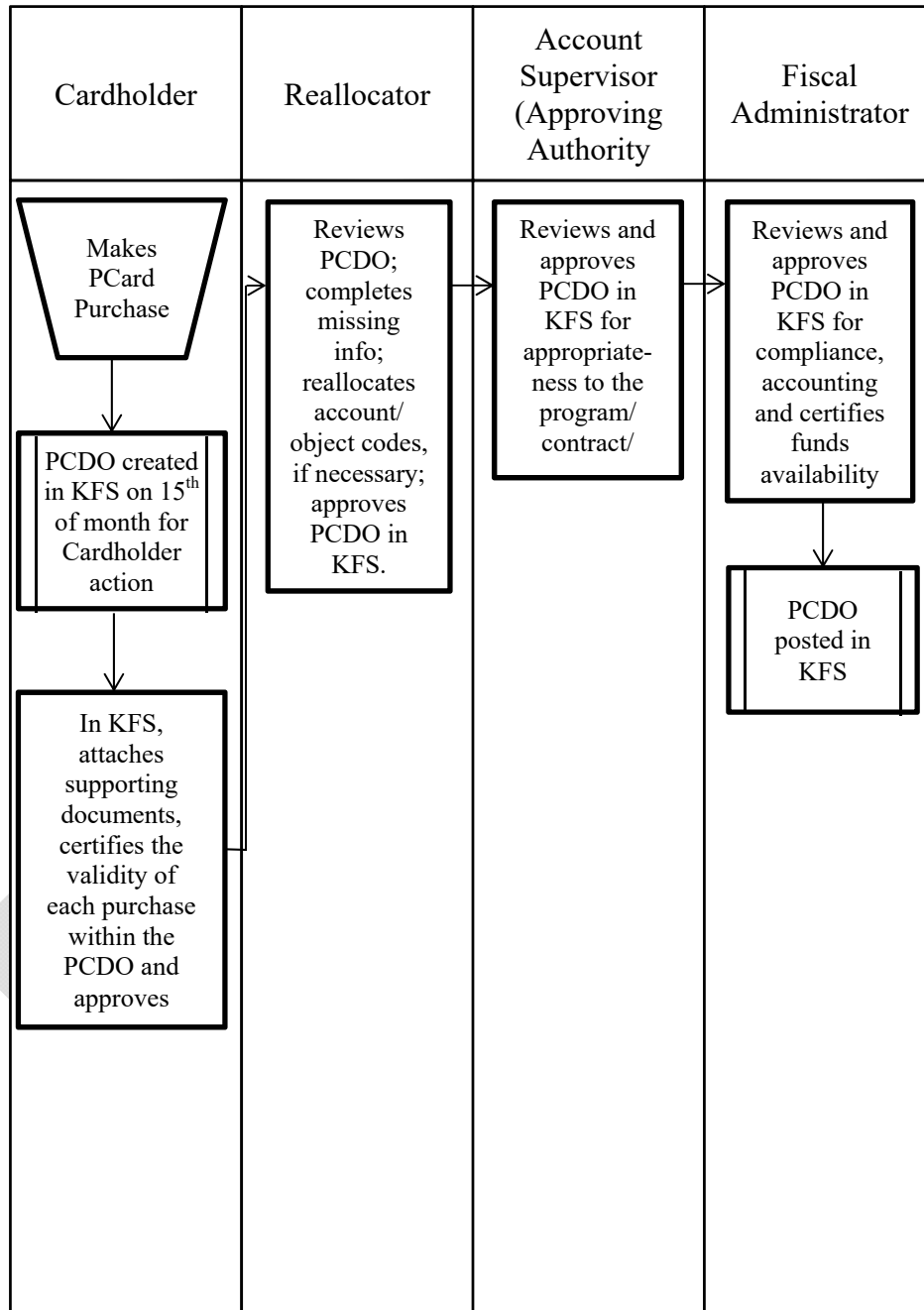
Appendix A
 Survey Questions and Summarized Responses

Question 1	Payment request by check	PCard	Employee reimbursement	Other
What is your Unit’s most common method to pay for goods and/or services less than \$2,500?	40%	50%	0%	10%
Question 2	Yes	No	Neither	
Are PCards a more efficient payment method for purchases less than \$2,500 within your Unit when compared to checks?	66%	28%	6%	
Question 3	Over	Under	Neither	
Do you believe PCards are over or underutilized within your Unit?	6%	69%	32%	
Question 4	Count			
What are the primary impediments, if any, to using PCards? (choose all that apply)				
• Unit does not have a PCard	0			
• Not enough Cardholders within the Unit	7			
• Moratorium on use of PCards for prior violations	4			
• Blocked Merchant Category Codes (MCCs)	12			
• Cardholder limits are too low	2			
• Unit preference is not to use PCards	6			
• Vendor prefers payment via check	6			
• Administrative burden for PCards is too great	12			

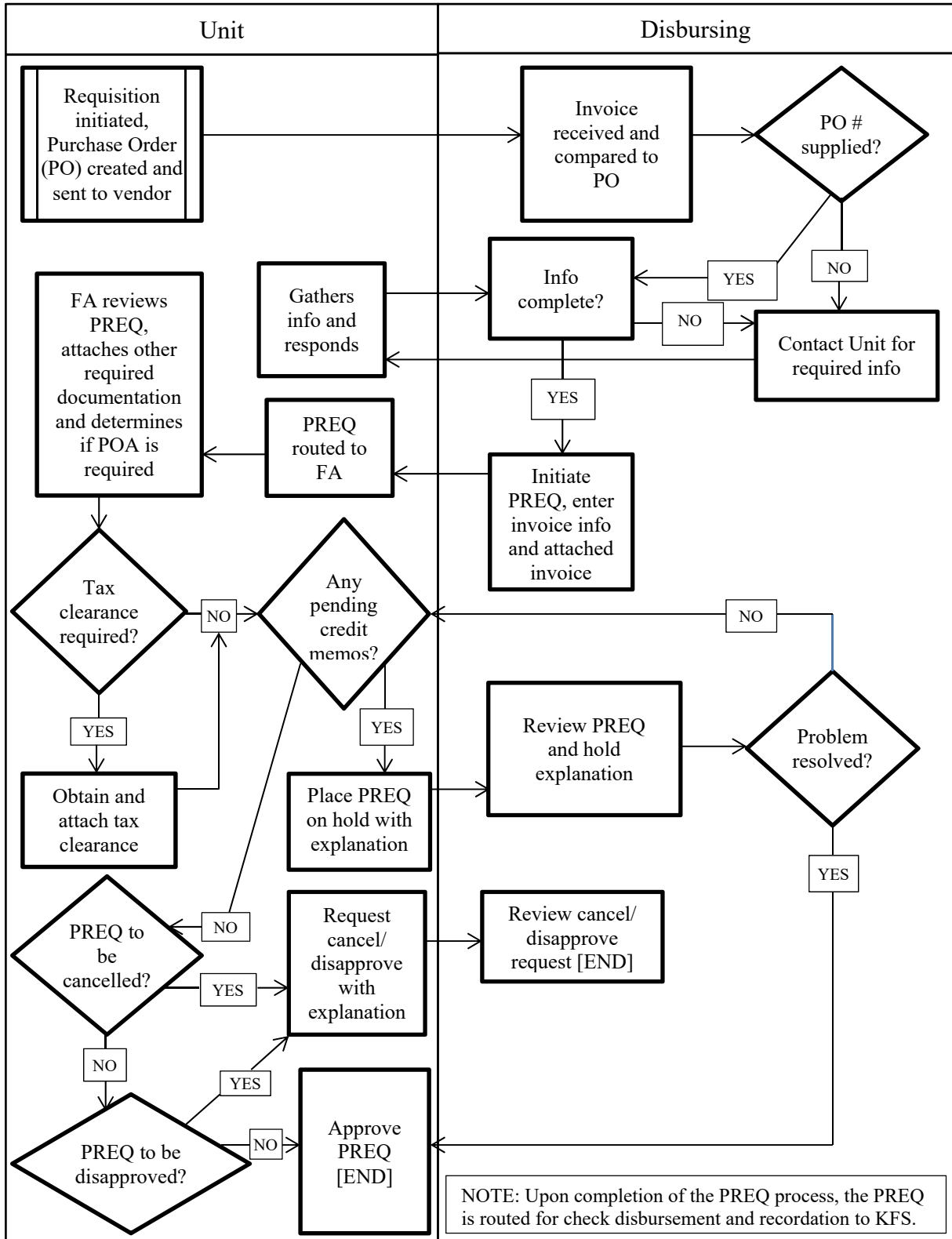
University of Hawai‘i
 Review of Check Disbursements Less Than \$2,500
 January 2018

• Other		7	Common “Other” impediments noted: PCard restrictions make Cardholders unwilling to use them, “after-the-fact” purchases		
• There are no impediments to using PCards within my unit		0			
Question 5		Count			
Please identify the most common goods and/or services under \$2,500 acquired by your Unit utilizing a check (choose all that apply).					
• Supplies		10			
• Medical expenses		1			
• Resale items		7			
• Equipment		2			
• Advertising/Marketing		1			
• Periodicals		3			
• Other		15	Common “Other” goods/services noted: travel expenses, cell phone charges, various services for which a contract is required, and meal expenses.		
Question 6		Sufficient	Slightly less than sufficient	Not sufficient	# of cardholders
Which of the following best describes your Unit with respect to the number of Cardholders?		61%	22%	17%	Avg: 30 Low: 3 High: 125
Question 7		Yes	No	Common Challenges	
Has your Unit faced any challenges in obtaining PCards?		33%	67%	1. Unit was on a moratorium and could not obtain additional PCards. 2. PCard training is infrequent. 3. The issuance of PCards is a long and arduous process.	
Question 8		Yes	No	Sometimes	
Within your Unit, does the FA’s review of documents supporting the check disbursement include determining whether a PCard would be a more efficient option for payment?		56%	33%	11%	

Appendix B
 PCDO review and approval process



Appendix C
 Payment request (PREQ) process



NOTE: Upon completion of the PREQ process, the PREQ is routed for check disbursement and recordation to KFS.



UNIVERSITY
of HAWAI'I
SYSTEM

Jan S. Gouveia
Vice President for Administration

UNIVERSITY OF HAWAII
BOARD OF REGENTS

18 FEB -2 P4:45

RECEIVED

February 2, 2018

MEMORANDUM

'18 FEB -2 P5:40

TO: Chair Michael McEnerney
Board of Regents Committee on Independent Audit

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

VIA: David Lassner *David Lassner*
President

FROM: Jan Gouveia *Jan Gouveia*
Vice President for Administration

SUBJECT: MANAGEMENT RESPONSE TO OFFICE OF INTERNAL AUDIT,
UNIVERSITY OF HAWAI'I, REVIEW OF CHECK DISBURSEMENTS
LESS THAN \$2,500, JANUARY 2018 AUDIT ("Audit")

GENERAL RESPONSE

Check disbursement operations at the University of Hawai'i are managed by the Disbursing Office within the Office of the Vice President for Budget and Finance. Despite the title of the immediate audit, the report states that its objective is to evaluate AP 8.266 (Purchasing Cards) compliance within University campuses, colleges, schools and departments (Units) and assess efficient and effective use of resources with respect to purchases less than \$2,500. Although the Report was directed to the Vice President for Budget and Finance, the primary focus of the report was the University's Purchasing Card Program. As such, the report was forwarded to the Office of the Vice President for Administration for response.

In addition to a review of compliance with AP 8.266, University purchasing policies and the University's check register from the Financial Management Office were reviewed for check disbursements less than \$2,500 for the years ended June 30, 2017, 2016 and 2015. Management is unclear on the audit methodology and how to interpret the results found on pages 3 – 4 of the Audit. However, the Audit notes at the top of page 5, that "[w]ithin the \$0.01 - \$1.00 range, there were two checks amounting to \$0.01, three checks amounting to \$0.03, one check amounting to \$0.04, and eighteen checks amounting to between \$0.05 and \$0.10." Unfortunately, the Audit does not provide any conclusions or analysis on (1) the compliance with AP 8.266, or (2) whether this is an efficient and effective use of resources.

Instead, the Audit focuses on the Purchasing Card (PCard) program and draws conclusions with recommendations based on a survey of Fiscal Administrators and Vice

Chancellors for Administration at 16 units, to which 18 people responded. The Audit does not indicate the total number of individuals who were surveyed and, therefore, we are unable to determine whether, from a statistical standpoint, the survey results are representative of the target population.

PCARD AUDIT BACKGROUND

In general, the conclusions and recommendations in the Audit are similar to those set forth in the December 2015 University of Hawai'i Purchasing Card Program Audit ("2015 PCard Audit") and the July 2017 University of Hawai'i Purchasing Card Program Follow-Up Review ("2017 PCard Audit Follow-Up").¹ Our responses to both the 2015 PCard Audit and the 2017 PCard Audit Follow-Up remain unchanged and will be restated below.

Fundamentally, the University's PCard program is based on Approving Authorities and Fiscal Administrators controlling what happens in their respective units. More specifically, the Approving Authority and Fiscal Administrator determine what dollar thresholds and purchasing authority should be granted to individual card holders in their unit – the PCard Administrator simply provisions these limits within the system. Management believes this business model ensures the best balance between risk of unauthorized transactions and efficient operational transactions. Similar to its position in the 2015 PCard Audit and the 2017 PCard Audit Follow-Up, however, the Office of Internal Audit (OIA) in this Audit generally believes that the University should provide a more blanket lift of current restrictions to increase usage of the PCard. Management believes this increases risk and liability exposure to the University, without providing an analysis of whether such risk is offset by any efficiencies gained.

RESPONSE TO CONCLUSIONS

1. There is a perceived administrative burden of reviewing and approving PCard transactions

Internal Audit noted that reviewing and approving PCard transactions on a monthly basis is far more efficient and cost effective than paying via check, however a number of FAs perceive the opposite. This is likely due to all PCards transactions for a month being reviewed at one time, rather than spread out over the course of a month. However, Internal Audit believes this monthly review is part of what makes the PCard review process more efficient. Each Unit should consider implementing their own PCard procedures (if they haven't already) with a focus on improving the efficiency and effectiveness of their PCard review and approval process.

Observation and Analysis

¹ The Audit references a May 2016 report, however we believe this references the December 2015 University of Hawai'i Purchasing Card Program Audit that was accepted by the Independent Audit Committee at its August 4, 2016 meeting.

Currently, Internal Audit noted that the KFS transaction approval module does not allow the supporting documentation for each PCard transaction to be attached directly to the same transaction line as the merchant and amount. Instead, all supporting documentation (receipts, invoices, etc.) for an individual Cardholder are

combined in KFS such that the reviewer must manually match the support with each related transaction. However, Internal Audit does not believe this purported inefficiency in KFS creates a significant time or administrative burden as the implementation of manual processes could mitigate this criticism.

Management Response: We agree with this finding and conclusion as a general proposition.

2. **PCard training is not conducted frequently enough for new Cardholders**

Internal Audit suggests that the PCard Administrator consider moving to an on-demand online training platform with real-time scoring of the examination and the option to retake the exam immediately if a passing score is not achieved. This will reduce the delays in new Cardholders receiving PCards.

Observation and Analysis

Per discussion with a few FAs, Internal Audit noted that online PCard training for new Cardholders is conducted by the PCard Administrator approximately once per month. If the training date is missed, it can result in delays in new Cardholders receiving their PCards. Additionally, an exam must be taken at the conclusion of training and passed with a score of 90% (nine out of ten correct answers) or greater. However, the scoring of the exam does not occur in real time, which may lead to additional delays if the exam must be retaken.

Management Response: We agree that on-demand online training should be made available. We hope to have this in place within one year.

3. **The MCC unblocking process is too stringent**

Internal Audit believes the respective FAs have the responsibility for determining which MCCs their Cardholders can access. Furthermore, given the University's robust controls around travel expenses, the PCard Administrator should consider unblocking travel-related MCCs.

Observation and Analysis

Internal Audit noted that a significant number of MCC codes are blocked. In particular, a substantial number of travel-related MCC codes (airfare, hotels, rental cars, etc.) are permanently blocked, and the unblocking process is time consuming. Internal Audit

believes many of these MCC codes could be unblocked without increasing the risk of improper purchases via PCards. Travel expenses are already highly controlled, with all travel requiring pre-approval by the employee's Approving Authority (e.g. Supervisor and/or Principal Investigator/Program Manager) and FA. Out-of-state travel requires additional pre-approval by the Executive Approving Authority. Upon travel completion, a report detailing all travel expenses must be reviewed and approved by the employee's FA. Finally, the Disbursing Office performs compliance audits on a significant portion of University travel prior to disbursement.

Internal Audit noted that approximately a quarter of the comparable universities allow PCards to be used for travel-related payments. Additionally, the majority (74%) of the comparable universities that do not allow PCards to be used for such payments provide a separate university-issued travel card. As noted previously, the University generally does not allow (by blocking MCCs) PCards to be used for travel-related payments (unless a temporary or permanent unblock is authorized). As noted in Internal Audit's Review of Travel Policy Compliance report issued in September 2017, the risks related to the University paying for unauthorized and improper travel expenses are low due to the effective review and approval process at both the Units and within Disbursing's preaudit group. Thus, Internal Audit believes blocking travel-related MCCs on PCards is an unnecessary and redundant control that provides minimal, if any, benefit to the University.

Management Response:

Management disagrees with this finding and conclusion. This matter was raised in both the 2015 PCard Audit and the 2017 PCard Audit Follow-Up and addressed by Management in its Management Responses, as accepted by the respective Independent Audit Committees on August 4, 2016 and August 10, 2017. In short, it is entirely within the discretion of the Unit FA and Approving Authority to determine who are assigned PCards within their unit and their respective purchasing authority. The Audit, however, notes that the "Unit's fiscal office is too small to handle the administrative burden of a high volume of PCard transactions" and that "the Unit is comfortable using purchase orders and tends to default to that as their preferred method of purchasing goods and services."

The Audit recommends that all travel-related transactions should not be restricted – regardless of PCard holder or operational need. Travel-related expenses generally present a higher level of risk because of the ability to have personal expenses or benefit included in the transaction. For example: food and beverage transactions charged to the hotel room; airfare travel dates that include personal time off days; and unauthorized travel will not be discovered until after the expenses are incurred. The Audit has not provided any empirical or objective data to assess whether the risks associated with unblocking travel-related transactions are outweighed by operational efficiencies.

4. The restrictions on "after-the-fact" purchases should be clarified

Internal Audit does not believe a PCard payment made after a good or service is received, as long as the Cardholder approved the purchase in advance.

Observation and Analysis

*Five of the respondents mentioned “after-the-fact” purchases as one type of purchase prohibited by the PCard Administrator. Internal Audit noted that according to the PCard website, an after-the-fact purchase is “a procurement made without authorization; the request for approval of the purchase is made after the purchase has occurred, thus violating the proper procedures.” The website goes on to state that a “PCard is a purchasing card, not a payment card, so the PCard transaction must be made at the time the goods are ordered or the services rendered. After-the-fact purchases are a procurement violation and must be avoided.” The website also references HAR 3-131-1 (effective December 15, 1995), which further defines after-the-fact as “a request for approval, unless the context requires otherwise, for a procurement made in violation of proper procedures.” Additionally, HAR 3-131-1 states, “The violation must have been committed in a deliberate manner, involving some calculated means, such as parceling for a single procurement, a deliberate misstatement of fact, or an after-the-fact purchase, which is purposefully designed to avoid the requirements of the law (referring to Hawai’i Administrative Rule §3-131-1 regarding procurement).” **Internal Audit believes using a PCard to pay for a good/service after-the-fact would not violate any aspect of this rule, as long as the Cardholder has made the purchase themselves, or pre-approved another employee to make the purchase on their behalf. Either scenario would not be in violation of the law or in violation of proper procedures, as the Cardholder has the authority and training to authorize the purchase, regardless of whether payment is made at the time of purchase or after-the-fact. Furthermore, Internal Audit believes that a PCard, by its very nature, is both a purchasing card and payment card.***

Management Response:

Without the benefit of any discussion with OIA prior to requiring this response, Management does not understand this conclusion nor the particular situations that have given rise to this conclusion.

However, Management has serious concerns with two parts of this conclusion:

- The OIA concludes that using a PCard to pay for a good/service after-the-fact would not violate any aspect of Hawai’i Administrative Rule Chapter 3-131 *et seq.*, a copy of which is attached hereto as Exhibit A. An “after-the-fact” transaction contemplates a request for approval for a procurement made in violation of proper procedures. Section 3-13-6 permits “after-the-fact” payments to be approved only after a report of findings and corrective actions to the chief financial officer is made that includes, at a minimum five (5) mandatory elements. Additionally, Chapter 3-131-4 and 5 set forth civil, criminal and administrative penalties for procurements made in violation of the Hawai’i Procurement Code. As such, we believe interpretation and application of HAR Chapter 3-131 *et seq.* should be performed by the Office of the General Counsel for the University of Hawai’i.

- The OIA appears to sanction a PCard holder authorizing another employee to make purchases on their behalf. This is a blatant violation of our PCard policies and procedures.

5. From discussions with FAs, Internal Audit noted that PCard moratoriums may have been too severe

Internal Audit believes moratoriums levied on an entire Unit should be the rare exception, and only under circumstances in which there are significant breaches of AP 8.266 across multiple Unit personnel. In most cases, the violating Cardholder should bear the consequences of noncompliance with policy. Before levying a moratorium on an entire Unit, the Unit should have the opportunity to implement corrective actions (e.g. additional training, new procedures, new Cardholders, etc.).

Observation and Analysis

Four respondents noted that PCard moratoriums are an impediment to PCard usage. One Unit surveyed noted that their PCard moratorium covered their entire campus and lasted approximately nine months. During this time, the campus had substantial turnover, and were unable to obtain new PCards for new employees, causing checks to be required to pay for certain goods and services for which a PCard would've otherwise been used. Internal Audit believes consequences for noncompliant PCard use is necessary, but that the PCard Administrator should consider, whenever possible, levying consequences on the individual responsible for a PCard violation, rather than an entire campus.

Management Response

We disagree with this finding and conclusion, especially as it is inconsistent with current protocol, the 2015 PCard Audit, and 2017 PCard Follow-Up Audit.

Generally speaking, individuals who repeatedly violate the PCard policy lose their PCard privileges after 2 written notices.

Moratoriums are placed on an entire Unit on the rare occasion when there are unit-wide violations that indicate a break down in internal controls. It should also be noted that existing PCard holders within the Unit continue to exercise their PCard privileges. The moratorium is placed only on expanding existing PCard holders or authorized transactions through unblocks. The purpose is to not further increase the risk of unauthorized transaction, until all outstanding PCDOs are cleared.

Additionally, as part of the 2015 PCard Audit and 2017 PCard Follow-Up Audit, the Internal Auditor noted that numerous Purchase Card Documents (PCDOs) were not reviewed and approved by Unit Supervisors. In its Conclusions and Recommendations, "Internal Audit believe[d] that the PCard Administrator must establish a procedure to

remedy significant and chronic PCard policy non-compliance with respect to the review and approval of PCard transactions.”

As a corrective action, Management indicated that “if departments have outstanding PCDOs that have been in unapproved status for 60 days or more or if no action has been taken on auto-approved PCDOs, the PCard administrator will not approve requests for temporary unblocks, process new applications, or take any action on changes to existing PCards (e.g., requests for limit increases) for the departmental unit such time that outstanding PCDOs have been approved and finalized.” As this was accepted by the Committee on Independent Audit, we believed, the Internal Auditor at the August 10, 2017 meeting subsequently accepted the corrective action.

As noted in the 2017 Follow-Up Audit, Management believes the moratorium played a significant role in reducing the total number of outstanding PCDOs from 748 out of 10,418 PCDOs as of June 30, 2015, to 66 out of 12,363 outstanding PCDOs as of June 30, 2016 (none of which were greater than 60 days outstanding). As such, Management believes the current procedure in place is achieving the objective of ensuring that PCDOs are timely approved.

6. **Alternative uses for surplus PCard rebate account balance**

Due to a surplus, Internal Audit noted that the amount of the PCard rebate account continues to grow year over year, reaching approximately \$1.5 million for the year ended June 30, 2017. Given the surplus, management should consider alternative University uses for account balances greater than what is needed per the PCard Administrator's budget for the following fiscal year.

Management Response: Management will use the surplus to develop on-demand training. The fund is also used to pay for the salaries of two (2) PCard specialists.

Management Conclusion

Many of the issues raised in this Audit were previously raised in conjunction with the 2015 PCard Audit and 2017 PCard Follow-Up Audit. Management's position remains unchanged on the substantive issues regarding unrestricting certain transactions writ large. Management continues to believe that the Fiscal Administrator is in the best position to dictate the level and scope of authority for each individual PCard holder in their unit. Furthermore, Management is not inclined to make significant business and operational decisions based on survey results from 18 people.

Attachment: Exhibit A

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Amendment and Compilation of Chapter 3-131
Hawaii Administrative Rules
July 16, 2009

SUMMARY

1. Title amended.
2. §3-131-1 is amended.
3. New §3-131-1.01 is added.
4. New §3-131-1.02 is added.
5. §§3-131-2 to 3-131-6 are amended.
6. §3-131-7 is repealed.
7. New §3-131-8 is added.
8. Chapter 3-131 is compiled.

HAWAII ADMINISTRATIVE RULES

TITLE 3

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

SUBTITLE 11

PROCUREMENT POLICY BOARD

CHAPTER 131

COMPLIANCE

§3-131-1	Definitions
§3-131-1.01	Applicability
§3-131-1.02	Procurement code of ethics
§3-131-2	Parceling
§3-131-3	Procurement violations
§3-131-4	Civil and criminal penalties
§3-131-5	Corrective action
§3-131-6	Report of findings and corrective actions
§3-131-7	Repealed
§3-131-8	Administrative fine

Historical Note: This chapter:

1. Replaces interim rules dated on 2/16/02 (file no. 2449) that amended sections 3-131-1, 3-131-2, 3-131-3, and 3-131-6.
2. Replaces interim rules effective 4/14/08 (file no. 2805) that added sections 3-131-1.01, 3-131-1.02, and 3-131-8; amended sections 3-131-1, 3-131-4, 3-131-5, and 3-131-6; repealed section 3-131-7; and compiled the chapter.

§3-131-1 Definitions. Definitions are in section 103D-104, HRS. The following definitions are also applicable to terms used in this chapter:

"After-the-fact" means a request for approval, unless the context requires otherwise, for a procurement made in violation of proper procedures.

"Business integrity" means the practice of good business responsibility such as business ethics, honesty, fidelity, and trustworthiness.

"Parceling" means the artificial division or intentional division of a purchase of same, like, or related items of goods, services, or construction into several purchases of smaller quantities, in order to evade the

statutory competitive requirements.

"Purchasing ethics" means the principles to be respected and applied, including the prohibition of any breach of the public trust by realizing or attempting to realize improper gain for oneself or another through conduct inconsistent with the requirements of this chapter.

"Reviewing officer" means the chief procurement officer, the head of a purchasing agency, or a designee above the level of a procurement officer, who has been delegated in writing by the chief procurement officer or head of a purchasing agency, the authority and responsibility to review procurement violations; provided the authority and responsibility to review procurement violations of a chief procurement officer or designee shall be that of the administrator and the authority and responsibility to review procurement violations of the administrator shall be with the department of commerce and consumer affairs, pursuant to section 103D-709, HRS. [Eff 12/15/95; comp 11/17/97; am and comp 11/25/02; am and comp **AUG 24 2009**] (Auth: HRS §§103D-202, 103D-305) (Imp: HRS §§103D-104, 103D-305, 103D-709)

§3-131-1.01 Applicability. This chapter shall apply to any person, including any actual or prospective bidder, offeror, contractor, or business. [Eff and comp **AUG 24 2009**] (Auth: HRS §103D-202) (Imp: HRS §103D-106)

§3-131-1.02 Procurement code of ethics. (a) Public employees shall act in good faith to discharge their duties to ensure the fair and equitable treatment of all persons who deal with government procurement; to foster public confidence in the integrity of the procurement process; and to ensure the appropriate application of purchasing ethics. Any person employed by a governmental body who, when engaging in procurement, shall be bound by this code of ethics, including but not limited to the following:

- (1) Avoid the intent and appearance of unethical behavior or practices;
- (2) Diligently follow the procurement laws, rules, and procedures;
- (3) Refrain from any activity that would create a conflict between personal interests and the interests of the State;
- (4) Identify and eliminate any conflicts of interest;
- (5) Avoid soliciting or accepting money, loans, credits, discounts, favors, or services from present or potential suppliers which may

influence or appear to influence purchasing decisions; and

- (6) Ensure that all persons are afforded equal opportunity to compete in a fair and open environment.

(b) Governmental bodies shall conduct procurement in accordance with all applicable statutes and rules, including chapter 84, HRS.

(c) Any person, including any actual or prospective bidder, offeror, contractor, or business shall act in good faith to practice purchasing ethics, and when applicable, display business integrity as a responsible offeror, including but not limited to the following:

- (1) Avoid the intent and appearance of unethical behavior or business practices;
- (2) Refrain from any activity that would create a conflict between personal interests and the interests of the State;
- (3) Identify and eliminate any conflicts of interest; and

- (4) Ensure that all persons are afforded equal opportunity to compete in a fair and open environment. [Eff and comp AUG 24 2009]
(Auth: HRS §103D-202) (Imp: HRS §§103D-101, 103D-106, 103D-310, 84-15, 84-16)

§3-131-2 Parceling. (a) Procurements should be done through a competitive process whenever possible. Since there is no definition of artificial division or intentional division that could address every circumstance, the procurement officer in deciding if a division is artificial or intentional, shall consider the following:

- (1) The higher the price of a group of procurements, the more likely they should be consolidated.
- (2) The more similar the good, service, or construction, or the more likely it is to purchase a group of goods, services, or construction from one type of vendor, the more likely it should be consolidated.
- (3) The more foreseeable the procurement of similar goods, services, and construction is, the more likely it should be consolidated.

(b) In determining whether a competitive sealed process is required and if consolidation is appropriate, the estimated expenditures for any twelve-month period exceeding the dollar limits as stated in section 103D-305, HRS, the competitive sealed process pursuant to section 103D-302, HRS, or section 103D-303, HRS, shall be used to establish a contract.

penalties, shall be subject to removal from office and shall be liable to the State or the appropriate county for any sum paid by it in connection with the violation, and that sum, together with interest and costs, shall be recoverable by the State or county.

(b) In order for civil penalties to apply, a person must have knowingly violated the requirements of the law. In other words, the person committing the violation must be aware that he or she is acting contrary to the requirements of the law at the time the violation occurs. Violations that are the result of administrative error or mistake, ignorance, or carelessness are usually not subject to the civil penalties. The determining factor is what the person understood the procurement requirements to be when the violation occurred, and whether or not the person believed he or she was acting in compliance with those requirements.

(c) In order for criminal penalties to apply, a person must have knowingly or intentionally engaged in a scheme or artifice to avoid the requirements of the law. The violation must have been committed in a deliberate manner, involving some calculated means, such as parceling for a single procurement, a deliberate misstatement of fact, or an after-the-fact purchase, which is purposefully designed to avoid the requirements of the law. Legally admissible documentary evidence of the wrongdoing must be available to law enforcement authorities in order for criminal prosecution to be undertaken. Law enforcement authorities will also need to determine whether personal gain was intended or involved for either the person committing the violation, a friend or relative of the person, or the vendor, or whether some other vendor was significantly injured, whether intended or not.

(d) In addition to any other civil and criminal penalty allowed by law, a chief procurement officer may render a written decision on any person found in violation of any provision of this chapter, and impose any of the following:

- (1) If an employee of a governmental agency:
 - (A) Reimbursement for any sum paid in connection with the violation, including interest and costs;
 - (B) A recommendation for termination of employment;
 - (C) Reduction or rescission of delegated procurement authority; and
 - (D) Administrative fine as provided in section 3-131-8.
- (2) If a person or actual or prospective offeror:
 - (A) Payment for any sum paid in connection with

- the violation, including interest and costs;
- (B) Suspension and debarment action pursuant to section 103D-702, HRS; and
 - (C) Administrative fine as provided in section 3-131-8. [Eff 12/15/95; comp 11/17/97; comp 11/25/02; am and comp **AUG 24 2009**] (Auth: HRS §103D-202) (Imp: HRS §§103D-106, 103D-702)

§3-131-5 Corrective action. When a procurement violation has occurred, the head of the purchasing agency shall determine whether any corrective action is necessary to remedy the situation, or prevent its reoccurrence. Action may include training, or a reduction of an employee's purchasing authority. [Eff 12/15/95; comp 11/17/97; comp 11/25/02; am and comp **AUG 24 2009**] (Auth: HRS §103D-202) (Imp: HRS §103D-106)

§3-131-6 Report of findings and corrective actions.

- (a) The purchasing agency shall consult with the chief procurement officer on all procurement violations and provide a report of findings and corrective actions that shall include, at a minimum:
- (1) The facts and circumstances leading to the need for the good or service, including the explanation as to why established procedures were not followed;
 - (2) Whether there are any indications of intent to deliberately evade established purchasing procedures;
 - (3) Any lack of procurement information or training;
 - (4) Whether this is the first occurrence; and
 - (5) Whether appropriate written assurance and safeguards have been established to preclude a subsequent unauthorized procurement.
- (b) If the head of the purchasing agency determines that payment to a vendor is also required, the head of the purchasing agency shall include a request for after-the-fact payment approval in the report of findings and corrective actions to the chief financial officer.
- (c) If the chief procurement officer disapproves the purchasing agency's report of findings and corrective actions, the provisions of section 3-131-4(d) shall apply. [Eff 12/15/95; comp 11/17/97; am and comp 11/25/02; am and comp **AUG 24 2009**] (Auth: HRS §103D-202) (Imp: HRS §103D-106)

§3-131-7 REPEALED. [R **AUG 24 2009**]

§3-131-8 Administrative fine. (a) A chief procurement officer may assess an administrative fine in the following amounts:

- (1) An amount not to exceed \$5,000 for each violation involving a procurement which amount is in excess of the dollar levels specified by section 103D-305, HRS;
- (2) An amount not to exceed \$1,000 for each violation involving a procurement which amount is less than the dollar levels specified by section 103D-305, HRS.

(b) Prior to the imposition of an administrative fine, the chief procurement officer shall notify the person in writing that the chief procurement officer intends to assess an administrative fine. The person then shall be given an opportunity to be heard by the chief procurement officer. A request for a meeting shall be made within seven calendar days after the receipt of the chief procurement officer's letter. After the meeting, if any, should the chief procurement officer determine that the imposition of an administrative fine is appropriate, the person may request the review of the assessment through an administrative review of the chief procurement officer's decision pursuant to section 103D-709, HRS. The request shall be made within seven calendar days pursuant to section 3-125-42, after the receipt of the chief procurement officer's decision.

(c) The payment of the administrative fine shall be the responsibility of the person, and if the person is a government employee, shall not be paid with government funds.

(d) The chief procurement officer shall report annually to the state procurement office any administrative fines assessed. The report shall include but not be limited to the following information: the name of the person, the amount of fine, and the reason for the fine. [Eff and comp **AUG 24 2009**] (Auth: HRS §103D-202) (Imp: HRS §103D-106)

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Amendments to and compilation of chapter 3-131, Hawaii Administrative Rules, on the Summary Page dated July 16, 2009 were adopted at the Procurement Policy Board meeting on July 16, 2009, following a public hearing held on July 13, 2009, after public notice was given in the Honolulu Star-Bulletin, The Maui News, The Garden Island, Hawaii Tribune-Herald, and West Hawaii Today newspapers on June 10, 2009.

The rules replace rules previously adopted and effective on 02/16/02 and 4/14/08. The rules shall take effect ten days after filing with the Office of the Lieutenant Governor.



PAMELA A. TORRES
Chairperson
Procurement Policy Board



RUSS K. SAITO
State Comptroller



LINDA LINGLE
Governor
State of Hawaii

JAMES R. AIONA JR.

ACTING GOVERNOR

Dated: _____

Filed

'09 AUG 14 AM 5:56

LIEUTENANT GOVERNOR
OFFICE

APPROVED AS TO FORM:



Deputy Attorney General

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
218	UH - Manoa	Violation of University policy	Employee	01/23/18	x		Non-compliance with policies, laws and regulations.
217	Hawaii CC	Violation of University policy	Employee	01/20/18		x	Conflict of interest reviewed. No violation.
216	System	Violation of University policy	Employee	01/17/18	x		HR matter under investigation
215	UH - Manoa	No violation alleged	Non-employee	01/17/18		x	Identical to case #213.
214	UH - Manoa	No violation alleged	Non-employee	01/16/18		x	Identical to case #213.
213	UH - Manoa	No violation alleged	Non-employee	01/16/18		x	Crowded classroom resolved by moving to a larger class.
212	UH - Manoa	Violation of University policy	Employee	01/15/18	x		HR matter under investigation
211	UH - Hilo	Employee misconduct	Employee	01/13/18	x		HR matter under investigation
210	Windward CC	No violation alleged	Non-employee	01/13/18		x	Inappropriate Facebook post.
209	UH - Manoa	Student misconduct	Non-employee	01/13/18	x		Alcohol and drug complaint. Addtl info requested from reporter.
208	UH - Hilo	Employee misconduct	Non-employee	01/12/18	x		HR matter under investigation
207	UH - Manoa	Violation of University policy	Non-employee	01/12/18		x	Non-compliance with policies, laws and regulations.
206	UH - Manoa	Violation of University policy	Employee	01/12/18		x	Individuals smoking on campus. Forwarded to Public Safety.
205	UH - West Oahu	Violation of University policy	Non-employee	01/12/18	x		Individuals not smoking in designated areas.
204	UH - Hilo	No violation alleged	Employee	01/10/18	x		HR matter under investigation
203	Hawaii CC	Violation of University policy	Non-employee	01/08/18	x		Title IX. Addtl info. requested from reporter.
202	Kapiolani CC	Hazardous condition	Employee	01/02/18		x	Caution tape blocking flooded stairwell. Campus addressed matter
201	Hawaii CC	Violation of University policy	Employee	12/27/17	x		HR matter under investigation
200	UH - Hilo	Violation of University policy	Employee	12/20/17		x	HR matter under investigation. Addtl info requested from reporter.
199	UH - Manoa	Student misconduct	Non-employee	12/14/17		x	Student cheated on exam. Forwarded to Office of Judicial Affairs.
198	Honolulu CC	No violation alleged	Non-employee	12/12/17		x	Inappropriate Facebook post.
197	Kapiolani CC	Hazardous condition	Employee	12/04/17		x	Equipment stored in hallways. Reviewed and resolved.
196	Kapiolani CC	Violation of University policy	Employee	12/04/17		x	HR matter reviewed and resolved.
195	UH - Manoa	Violation of University policy	Employee	12/03/17		x	Addtl info. requested from reporter. Addtl info not provided.
194	Hawaii CC	No violation alleged	Employee	11/27/17		x	Identical to case #190.
193	UH - Hilo	No violation alleged	Employee	11/26/17	x		Competency of staff personnel.
192	Windward CC	Violation of University policy	Non-employee	11/23/17	x		Title IX
191	System	Employee misconduct	Non-employee	11/19/17		x	Addtl info. requested from reporter. Addtl info not provided.
190	Hawaii CC	No violation alleged	Employee	11/18/17		x	Inequitable work shifts. Reviewed and resolved.
189	Kapiolani CC	Violation of University policy	Employee	11/01/17		x	Policy violation allegation investigated. No violation.
188	UH - Hilo	No violation alleged	Non-employee	10/31/17		x	Identical to case #185.
187	UH - Hilo	No violation alleged	Non-employee	10/31/17		x	Identical to case #185.
186	UH - Hilo	No violation alleged	Non-employee	10/31/17		x	Identical to case #185.
185	UH - Hilo	No violation alleged	Non-employee	10/31/17		x	Competency of staff personnel.
184	UH - Hilo	Employee misconduct	Non-employee	10/23/17		x	HR matter reviewed and resolved.
183	System	Violation of University policy	Employee	10/18/17		x	Non-compliance with laws/regs. Addtl info requested not provided.
182	UH - Manoa	Violation of University policy	Employee	10/17/17	x		Non-compliance with University policies
181	Windward CC	Violation of University policy	Employee	10/12/17		x	Title IX. Addtl info. requested. Addtl info not provided.
180	UH - Manoa	No violation alleged	Non-employee	10/11/17		x	Academic grievance forwarded to departmental personnel.
179	UH - Hilo	Employee misconduct	Non-employee	10/10/17		x	HR allegation reviewed and resolved
178	UH - Manoa	Employee misconduct	Non-employee	10/09/17		x	Identical to case #177.
177	UH - Manoa	Employee misconduct	Non-employee	10/09/17		x	Academic grievance forwarded to departmental personnel.
176	Honolulu CC	Violation of University policy	Employee	10/09/17		x	Addtl info. requested from reporter. Addtl info not provided.

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
175	UH - Manoa	No violation alleged	Employee	10/03/17		x	Service animal.
174	Kapiolani CC	Violation of University policy	Employee	09/14/17		x	Conflict of interest reviewed. No violation.
173	UH - Manoa	Violation of University policy	Employee	09/13/17		x	Addtl info. requested from reporter. Addtl info not provided.
172	Kapiolani CC	Violation of University policy	Employee	09/13/17		x	Conflict of interest reviewed. No violation.
171	System	Violation of University policy	Employee	09/11/17		x	Conflict of interest reviewed and resolved.
170	UH - Manoa	Employee misconduct	Non-employee	09/09/17		x	Addtl info. requested from reporter. Addtl info not provided.
169	Honolulu CC	Violation of University policy	Employee	09/05/17		x	Addtl info. requested from reporter. Addtl info not provided.
168	UH - Manoa	Violation of University policy	Non-employee	09/03/17		x	HR matter reviewed and resolved.
167	Kapiolani CC	Student misconduct	Non-employee	09/01/17		x	Free speech. Forwarded to departmental personnel.
166	UH - Manoa	Employee misconduct	Employee	09/01/17		x	Smoking allegation forwarded to departmental personnel.
165	UH - Manoa	Violation of University policy	Employee	09/01/17		x	HR allegation reviewed and resolved
164	Windward CC	Violation of University policy	Employee	08/25/17		x	HR matter investigated. No violation.
163	UH - Manoa	No violation alleged	Employee	08/23/17		x	Academic grievance reviewed and resolved.
162	UH - Hilo	Violation of University policy	Non-employee	08/21/17		x	HR allegation reviewed and resolved
161	UH - Manoa	No violation alleged	Non-employee	08/19/17		x	No violation.
160	Maui College	No violation alleged	Non-employee	08/18/17		x	HR allegation reviewed and resolved
159	UH - Hilo	Violation of University policy	Employee	08/18/17		x	HR allegation reviewed and resolved
158	System	Violation of University policy	Employee	08/16/17		x	HR allegation reviewed and resolved
157	UH - Manoa	No violation alleged	Non-employee	08/16/17		x	Academic grievance forwarded to departmental personnel.
156	Windward CC	Violation of University policy	Employee	08/15/17		x	Conflict of interest. No violation.
155	Windward CC	No violation alleged	Employee	08/15/17		x	HR matter investigated. No violation.
154	UH - Manoa	Violation of University policy	Employee	08/08/17		x	Addtl info. requested from reporter. Addtl info not provided.
153	System	Violation of University policy	Employee	08/07/17		x	Conflict of interest reviewed and resolved.
152	System	No violation alleged	Employee	07/28/17		x	Expense reimbursement policy investigaed. No violation.
151	UH - Manoa	No violation alleged	Non-employee	07/28/17		x	Argument at faculty housing
150	UH - Manoa	Violation of University policy	Employee	07/05/17		x	HR allegation reviewed and resolved
149	Hawaii CC	Violation of University policy	Employee	07/03/17		x	HR allegation reviewed and resolved
148	UH - Manoa	Student misconduct	Non-employee	07/03/17		x	Academic dishonesty. Forwarded to Office of Judicial Affairs.
147	UH - Manoa	No violation alleged	Employee	07/01/17		x	Addtl info. requested from reporter. Addtl info not provided.
146	Kapiolani CC	Violation of University policy	Employee	06/20/17		x	Misuse of facilities. Matter resolved.
145	Kapiolani CC	Violation of University policy	Employee	06/13/17		x	HR matter investigated. No violation.
144	Kapiolani CC	Violation of University policy	Employee	06/09/17		x	HR matter investigated. No violation.
143	UH - Manoa	Violation of University policy	Employee	06/09/17	x		HR matter under investigation
142	Kapiolani CC	No violation alleged	Non-employee	05/23/17		x	Academic grievance. Reviewed with action taken.
141	UH - Manoa	Violation of University policy	Non-employee	05/23/17		x	Allegation is identical to #133.
140	UH - Manoa	Violation of University policy	Employee	05/22/17		x	Hiring policy investigated with appropriate action taken.
139	System	Violation of University policy	Non-employee	05/21/17		x	Allegation is identical to #133.
138	UH - Hilo	Violation of University policy	Non-employee	05/21/17		x	Allegation is identical to #133.
137	UH - Manoa	Violation of University policy	Non-employee	05/20/17		x	Allegation is identical to #133.
136	UH - Manoa	Violation of University policy	Non-employee	05/20/17		x	Allegation is identical to #133.
135	System	Violation of University policy	Non-employee	05/19/17		x	Allegation is identical to #133.
134	UH - Manoa	Violation of University policy	Non-employee	05/19/17		x	Allegation is identical to #133.
133	System	Violation of University policy	Non-employee	05/18/17		x	Free speech. Reviewed by administration and resolved.

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
132	Kapiolani CC	Violation of University policy	Employee	05/17/17		x	HR allegation reviewed and resolved
131	UH - Manoa	No violation alleged	Non-employee	05/15/17		x	Professor misrepresentation. Forwarded to appropriate office.
130	System	Violation of University policy	Non-employee	05/12/17		x	Improper use of University vehicle. Investigated and determined that vehicle is not owned by the University.
129	Honolulu CC	Violation of University policy	Employee	05/10/17		x	Conflict of interest. No violation.
128	Kapiolani CC	Violation of University policy	Non-employee	05/03/17		x	HR allegation reviewed and resolved
127	UH - Manoa	Violation of University policy	Non-employee	05/02/17		x	Hiring policy investigated. No violation.
126	UH - Manoa	Violation of University policy	Non-employee	05/02/17		x	Hiring policy investigated. No violation.
125	Honolulu CC	Violation of University policy	Employee	05/01/17		x	HR matter.Addtl info. requested from reporter but not provided.
124	UH - Manoa	Violation of University policy	Employee	04/27/17		x	HR allegation reviewed and resolved
123	UH - Hilo	Violation of University policy	Employee	04/20/17		x	Procurement of goods/services reviewed and resolved.
122	UH - Manoa	No violation alleged	Non-employee	04/14/17		x	Bird in dorm room investigated and resolved.
121	UH - Manoa	Violation of University policy	Non-employee	04/13/17		x	Title IX
120	UH - Manoa	Violation of University policy	Non-employee	04/12/17		x	Title IX
119	Kapiolani CC	Violation of University policy	Employee	04/11/17		x	Former employee has campus keys. Reviewed by administration and resolved.
118	Kapiolani CC	Violation of University policy	Employee	04/11/17		x	Former employee on campus.Reviewed by administration and resolved.
117	UH - Manoa	Violation of University policy	Employee	04/05/17		x	HR matter. Addtl info. requested from reporter but not provided.
116	Kapiolani CC	No violation alleged	Non-employee	03/24/17		x	Culinary operations. Matter resolved.
115	Kapiolani CC	Violation of University policy	Employee	03/21/17		x	Casual hiring policy. No violation.
114	Kapiolani CC	Violation of University policy	Employee	03/20/17		x	Hiring policy investigated. No violation.
113	Kapiolani CC	Violation of University policy	Employee	03/20/17	x		HR matter investigation completed. VC to render decision.
112	Kapiolani CC	No violation alleged	Non-employee	03/15/17	x		Academic grievance. Investigation ongoing due to addtl complaints.
111	UH - Manoa	No violation alleged	Employee	03/14/17		x	Vague allegation. Addtl info. requested. None rec'd.
110	UH - Manoa	No violation alleged	Non-employee	03/11/17		x	Academic grievance.
109	UH - Hilo	Violation of University policy	Employee	03/10/17		x	Casual hiring policy. Addtl info. requested. None rec'd.
108	Kapiolani CC	Violation of University policy	Employee	03/09/17		x	HR matter investigated. No violation.
107	UH - West Oahu	No violation alleged	Non-employee	03/03/17		x	Health center hours of operation. Signage at health center updated.
106	Kapiolani CC	Violation of University policy	Employee	03/02/17		x	Former employee loitering on campus. Reviewed by administration and resolved.
105	System	Violation of University policy	Employee	03/01/17		x	Employee grievance investigated. No violation.
104	UH - Manoa	Violation of University policy	Employee	02/28/17		x	HR allegation reviewed and resolved
103	UH - Manoa	Violation of University policy	Non-employee	02/17/17		x	Free speech. Reviewed by administration and resolved.
102	UH - Hilo	Violation of University policy	Employee	02/17/17		x	HR allegation reviewed and resolved
101	Kapiolani CC	Violation of University policy	Employee	02/16/17		x	HR allegation reviewed and resolved
100	Kapiolani CC	Violation of University policy	Employee	02/16/17		x	Policy violation allegation investigated. No violation.
99	Kapiolani CC	Violation of University policy	Employee	02/16/17		x	HR allegation reviewed and resolved
98	UH - Manoa	No violation alleged	Employee	02/15/17		x	Inappropriate use of e-mail allegation investigated. No violation.
97	Hawaii CC	No violation alleged	Employee	02/15/17		x	Improper paint disposal allegation investigated. No violation.
96	Kauai CC	Violation of University policy	Employee	02/13/17		x	HR allegation reviewed and resolved
95	UH - Manoa	No violation alleged	Employee	02/10/17		x	Inappropriate use of parking pass. Forwarded to appropriate dept.
94	Kapiolani CC	Violation of University policy	Employee	02/10/17		x	Addtl info. requested from reporter. Addtl info not provided.

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
93	Kapiolani CC	Violation of University policy	Employee	02/10/17		x	HR matter investigated. No violation.
92	Kauai CC	No violation alleged	Employee	02/10/17		x	Service animals. Investigated and resolved.
91	Kapiolani CC	Violation of University policy	Employee	02/10/17		x	Outdated policies allegation reviewed and resolved.
90	Kapiolani CC	Violation of University policy	Employee	02/09/17		x	HR allegation reviewed and resolved
89	UH - Manoa	No violation alleged	Non-employee	02/08/17		x	Academic grievance.
88	Leeward CC	Violation of University policy	Employee	02/06/17		x	HR allegation reviewed and resolved
87	UH - Hilo	No violation alleged	Non-employee	02/05/17		x	Academic grievance
86	Kapiolani CC	Violation of University policy	Non-employee	01/26/17		x	HR matter investigated. No violation.
85	Kapiolani CC	Campus maintenance	Non-employee	01/20/17		x	Poor classroom condition resolved to complainant satisfaction.
84	UH - Manoa	Violation of University policy	Employee	01/17/17		x	HR allegation forwarded to departmental personnel.
83	Hawaii CC	Violation of University policy	Employee	01/17/17		x	Free speech. Reviewed by administration and resolved.
82	Maui College	Violation of University policy	Non-employee	01/15/17		x	Financial aid. Reviewed by administration and resolved.
81	UH - Hilo	No violation alleged	Non-employee	01/11/17		x	HR allegation reviewed and resolved
80	UH - Manoa	No violation alleged	Non-employee	01/11/17		x	Academic grievance
79	Kauai CC	No violation alleged	Non-employee	01/10/17		x	HR allegation reviewed and resolved
78	UH - Manoa	No violation alleged	Non-employee	01/09/17		x	Loud music
77	Kapiolani CC	Violation of University policy	Employee	01/09/17		x	HR matter under investigation
76	UH - Hilo	Violation of University policy	Employee	01/08/17		x	HR allegation reviewed and resolved
75	UH - Hilo	Violation of University policy	Non-employee	01/08/17		x	Federal regulation non-compliance. Reviewed by administration and resolved.
74	Kapiolani CC	No violation alleged	Employee	01/06/17		x	Former employee loitering on campus. Reviewed by administration and resolved.
73	Kapiolani CC	Violation of University policy	Employee	01/05/17		x	HR allegation reviewed and resolved
72	UH - Hilo	Violation of University policy	Employee	12/26/16		x	HR allegation reviewed and resolved
71	UH - Hilo	Employee misconduct	Employee	12/26/16		x	Compliance with UHF policies. Reviewed by administration and resolved.
70	UH - Manoa	Violation of University	Non-employee	12/25/16		x	Addtl info. requested from reporter. Addtl info not provided.
69	UH - Manoa	Violation of University policy	Employee	12/23/16		x	HR allegation reviewed and resolved
68	UH - Manoa	Violation of University policy	Non-employee	12/15/16		x	Allegation withdrawn by reporter
67	UH - Manoa	No violation alleged	Employee	12/08/16		x	Use of handicap parking pass
66	UH - Manoa	Violation of University policy	Employee	11/17/16		x	Addtl info. requested from reporter. Addtl info not provided.
65	UH - Hilo	No violation alleged	Employee	11/09/16		x	HR allegation reviewed and resolved
64	UH - Manoa	No violation alleged	Employee	11/09/16		x	No-smoking policy
63	Hawaii CC	Violation of University policy	Non-employee	10/30/16		x	Addtl info. requested from reporter. Addtl info not provided.
62	UH - Hilo	Violation of University policy	Employee	10/28/16		x	HR allegation reviewed and resolved
61	Honolulu CC	No violation alleged	Non-employee	10/26/16		x	HR allegation reviewed and resolved
60	Hawaii CC	No violation alleged	Non-employee	10/24/16		x	Addtl info. requested from reporter. Addtl info not provided.
59	Maui College	Employee misconduct	Employee	10/24/16		x	HR allegation reviewed and resolved
58	Honolulu CC	No violation alleged	Employee	10/21/16		x	HR allegation reviewed and resolved
57	Maui College	Violation of University policy	Employee	10/21/16		x	HR allegation reviewed and resolved
56	Maui College	No violation alleged	Employee	10/21/16		x	HR allegation reviewed and resolved
55	Maui College	No violation alleged	Employee	10/21/16		x	HR allegation reviewed and resolved

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
54	UH - Hilo	Violation of University policy	Employee	10/20/16		x	HR allegation reviewed and resolved
53	Honolulu CC	Violation of University policy	Employee	10/19/16		x	Health insurance. Reviewed by administration and resolved.
52	UH - Manoa	Violation of University policy	Non-employee	10/18/16		x	Unreconciled account balances. Reviewed and resolved by administration.
51	UH - Manoa	Violation of University policy	Employee	10/16/16		x	Addtl info. requested from reporter. Addtl info not provided.
50	UH - Hilo	Employee misconduct	Non-employee	10/12/16		x	HR allegation reviewed and resolved
49	UH - Manoa	Hazardous condition	Employee	09/20/16		x	Cluttered stairwell
48	UH - Manoa	Violation of University policy	Employee	09/20/16		x	HR allegation reviewed and resolved
47	Windward CC	No violation alleged	Non-employee	09/01/16		x	Addtl info. requested from reporter. Addtl info not provided.
46	UH - Hilo	Violation of University policy	Non-employee	08/29/16		x	Free speech. Reviewed by administration and resolved.
45	UH - Hilo	Violation of University policy	Employee	08/27/16		x	HR allegation reviewed and resolved
44	UH - Manoa	Student misconduct.	Non-employee	08/24/16		x	Alcohol complaint
43	Hawaii CC	Employee misconduct	Employee	08/24/16		x	HR allegation reviewed and resolved
42	UH - Manoa	Violation of University policy	Employee	08/22/16		x	HR allegation reviewed and resolved
41	UH - Manoa	Employee misconduct	Employee	08/19/16		x	Addtl info. requested from reporter. Addtl info not provided.
40	UH - Manoa	Violation of University policy	Non-employee	08/18/16		x	HR allegation reviewed and resolved
39	UH - Manoa	Violation of University policy	Employee	08/17/16		x	HR allegation reviewed and resolved
38	UH - Manoa	Employee misconduct	Non-employee	08/16/16		x	HR allegation reviewed and resolved
37	UH - Manoa	Violation of University policy.	Non-employee	08/08/16		x	Allegation withdrawn by reporter
36	System	Violation of University policy	Employee	08/04/16		x	Addtl info. requested from reporter. Addtl info not provided.
35	System	Violation of University policy.	Employee	07/27/16		x	HR allegation reviewed and resolved
34	UH - Manoa	Violation of University policy.	Employee	07/19/16		x	Use of general funds. Reviewed by administration and resolved.
33	Honolulu CC	Campus maintenance	Employee	07/14/16		x	Addtl info. requested from reporter. Addtl info not provided.
32	UH - Manoa	Violation of University policy	Non-employee	07/14/16		x	Parking safety allegation reviewed by administration. No violation.
31	System	Violation of University policy	Employee	07/12/16		x	HR allegation reviewed and resolved
30	UH - Manoa	Violation of University policy	Non-employee	07/11/16		x	HR allegation reviewed and resolved
29	UH - Manoa	Student misconduct	Non-employee	07/11/16		x	Title IX
28	UH - Hilo	Violation of University policy	Non-employee	07/05/16		x	HR allegation reviewed and resolved
27	UH - Hilo	Violation of University policy	Non-employee	07/01/16		x	HR allegation reviewed and resolved
26	UH - Manoa	Campus maintenance	Employee	06/30/16		x	Dirty parking facility
25	Kapiolani CC	Violation of University policy	Employee	06/27/16		x	HR allegation reviewed and resolved
24	UH - West Oahu	Violation of University policy	Employee	06/21/16		x	HR allegation reviewed and resolved
23	Kapiolani CC	Violation of University policy	Employee	06/19/16		x	HR allegation reviewed and resolved
22	Kapiolani CC	Violation of University policy	Employee	06/17/16		x	HR matter under investigation
21	Kapiolani CC	Violation of University policy	Employee	06/16/16	x		HR matter investigation completed. Chancellor to render decision.
20	UH - Manoa	Hazardous condition	Employee	06/16/16		x	HR allegation reviewed and resolved
19	UH - Manoa	Violation of University policy	Employee	06/16/16		x	Allegation does not involve the University
18	UH - Hilo	Violation of University policy	Non-employee	06/16/16		x	HR allegation reviewed and resolved
17	System	Violation of University policy	Employee	06/16/16		x	Addtl info. requested from reporter. Addtl info not provided.
16	UH - Manoa	Violation of University policy	Employee	06/15/16		x	HR allegation reviewed and resolved
15	Leeward CC	Employee misconduct	Employee	06/15/16		x	HR allegation reviewed and resolved
14	Kapiolani CC	Violation of University policy	Employee	06/15/16		x	Allegation was previously reported, resolved and closed.

University of Hawaii
Whistleblower Tracking Report
June 15, 2016 - January 26, 2018

Case #	Campus	Classification	Submitted by	Date Opened	Status		Description
					In process	Closed	
13	Kapiolani CC	No violation alleged	Employee	06/15/16		x	Information request.
12	UH - Manoa	No violation alleged	Employee	06/15/16		x	Addtl info. requested from reporter. Addtl info not provided.
11	Hawaii CC	Violation of University policy	Non-employee	06/15/16		x	HR allegation reviewed and resolved
10	UH - Manoa	Hazardous condition	Employee	06/15/16		x	Mold. Resolved by Work Coord Ctr and Envir Hlth & Safety Office

Cases #1 - #9 were test/pilot cases entered by administrators to familiarize themselves with the system.

Item IV.B.2.

**ERM – Overview of
Cybersecurity at UH**

NO MATERIALS

ORAL REPORT



CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Insight.

MOVING FORWARD

Working Together to Reach Your Goals



University of Hawai'i

Professional Education Series
for the Board of Regents
Committee on Independent Audit
February 2018



Agenda

1. What is the purpose of the University's consolidated financial statements?
2. Statements in the consolidated financial statements and what each will tell you
3. Financial highlights

Purpose

What is the purpose of the University's consolidated financial statements?

1. Included in the State of Hawaii ("State") Comprehensive Annual Financial Report ("CAFR")
2. Business-Type-Activity ("BTA")
3. Component units of the University of Hawaii

Consolidated Financial Statements

The University's consolidated financial statements consist of:

1. Management's Discussion and Analysis ("MD&A")
2. Statement of Net Position ("SNP")
3. Statement of Revenues, Expenses and Changes in Net Position ("SRECNP")
4. Statement of Cash Flows ("SCF")
5. Notes to the Consolidated Financial Statements ("Notes to CFS")
6. Required Supplementary Information Other Than Management's Discussion and Analysis ("RSI")

Statement of Net Position

The statement of net position contains information about:

- Things of value the University owns or controls – its assets
- Amounts the University owes – its liabilities
- What is left after assets are used to satisfy its liabilities – its net assets

Use the information in the statement of net position to:

- Identify what assets it owns, what kinds of debt it owes; and the nature of the net assets that remain
- Learn about the University's long-lived capital assets
- Assess the University's ability to cover its costs and to continue financing services in the future
- Find out how much of the University's position is unrestricted vs. restricted

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position contains information about:

- The resources obtained to finance services (revenues)
- The costs of providing services (expenses)
- Other resources and costs outside of core services (non-operating revenues and expenses)

Use the information in the statement of net position to:

- Learn where the University gets its resources from and what it uses it for
- Discover if sufficient resources were obtained during the year to cover costs
- Determine if the University's fiscal status is improving or declining (change in net position)

Statement of Cash Flows

The statement of cash flows contains information about:

- Total change in cash and cash equivalents
- Sources and uses of cash and cash equivalents
- Noncash financing and investing activities

Use the information in the statement of cash flows to:

- Determine the cash collected for tuition and fees, contracts and grants and other revenue sources and the cash used to pay employees, suppliers, and scholarships (operating activities)
- Determine cash obtained from State appropriations, gifts and grants and other sources (noncapital financing)
- Determine cash obtained from capital appropriations, used for purchases of capital assets, proceeds from issuance of debt and payments made towards debt (capital and related financing activities)
- Determine cash from investment income and from sales and maturities of investments, and used for purchasing of investments (investing activities)

Financial Highlights

We bring the following items to your attention from the 2017 consolidated financial statements:

Revenue Trends

- Tuition revenue flat despite decrease in enrollment (MD&A and SRECNP)
- Decrease in Federal contracts and grants revenue due to Federal budget cuts (MD&A and SRECNP)
- Increase in State appropriations, both general and capital (MD&A and SRECNP)

Expense Trends

- Compensation and benefits continue to increase due to pay increases from collective bargaining agreements, pension and fringe benefits. There was slight reprieve in other post employment benefit (“OPEB”) expense due to funding of the OPEB liability. (MD&A, SRECNP, and Notes to CFS)

Other Highlights

We would also like to bring the following items to your attention from the 2017 consolidated financial statements:

Shidler Gift

- In fiscal year 2017, the Foundation received gifts of real estate which fulfilled Jay Shidler's \$69 million pledge from fiscal year 2015. (MD&A and Notes to CFS)

Atherton Property

- On April 20, 2017, the Foundation purchased the Atherton Property for \$8.2 million which was financed through a loan. (MD&A, SNP, SCF and Notes to CFS)

Federal Perkins Loans

- Due to the expiration of the Federal Perkins Loan program in September 2017, the University is required to return the Federal Capital Contributions ("FCC"). During 2017, the University accrued for this liability and recorded an expense of \$13.6 million. (SRECNP)



First Hawaiian Center
999 Bishop Street, Suite 1900
Honolulu, HI 96813
PHONE 808.531.3400
FAX 808.531.3433
www.acuityllp.com

© 2018 Acuity LLP.
This publication is protected under the copyright laws of the United States
and other countries as an unpublished work. All rights reserved.