

**Notice of Meeting**

**UNIVERSITY OF HAWAI'I**

**BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT**

Members: Regents McEnerney (Chair), Higaki (Vice-Chair), Acoba,  
Portnoy

**Date:** Thursday, May 2, 2019

**Time:** 10:15 a.m.

**Place:** University of Hawai'i at Mānoa  
Information Technology Building  
1<sup>st</sup> 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 19, 2018, and January 17, 2019, Meetings**

**III. Public Comment Period for Agenda Items:** All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via US mail, email at [bor@hawaii.edu](mailto: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 and will be posted on the board's website.

**IV. Agenda Items**

A. Approval of Annual Review of Committee Charter

B. Approval of Proposed Internal Audit Work Plan for 2019-2020

C. Acceptance of the Draft Committee on Independent Audit Annual Report to the Board

D. Review and Acceptance of the Office of Internal Audit (OIA) Report on its Review of the University of Hawai'i Sodexo Food Service Contracts

E. Review and Acceptance of the OIA Report on its Review of the University of Hawai'i Cash Receipts Process

- F. Follow-up Report on the Evaluation of the Status of Corrective Action Related to Travel Policy Compliance and Employee Cell Phone Charges Audit Reports
  - G. Follow-up Report on the Evaluation of the Status of Correction Action Related to the University of Hawai'i at Mānoa Athletics Department Equipment and Apparel and Commuter Services Audit Reports
  - H. Whistleblower Report (Deferred from January 17, 2019)
  - I. FY 2018 Whistleblower Hotline Annual Report (Deferred from January 17, 2019)
  - J. Whistleblower Reports Involving the President/Regent Policy 2.205, Policy on Whistleblowing and Retaliation (Deferred from January 17, 2019)
  - K. Committee Annual Review
- V. Adjournment**

# Item IV.A.

Approval of Annual Review  
of Committee Charter

**ITEM TO BE  
DISCUSSED AT  
MEETING**

UNIVERSITY OF HAWAII  
Mānoa • Hilo • West O'ahu • Community Colleges

OFFICE OF INTERNAL AUDIT

Audit Plan

*For the Fiscal Year Ended June 30, 2020*



## Overview

The University of Hawai'i (University) Office of Internal Audit (Internal Audit) has developed this audit plan for the fiscal year ended June 30, 2020 (Audit Plan) as required by the Charter of the Office of Internal Audit of the University of Hawai'i (Charter). The primary purpose of the Audit Plan is to document Internal Audit's role, objectives, and goals underlying its intent to make a contribution to the University's continued success.

Pursuant to the Bylaws of the BOR (Article II, Section D, 2.) and Hawaii Revised Statutes §304A-321, the University's Board of Regents (BOR) Committee on Independent Audit (Audit Committee) is responsible to review and approve the Audit Plan and significant changes to the Audit Plan. The Audit Committee is also responsible to evaluate the extent to which the Audit Plan addresses high risk areas.

As set forth in its Charter, Internal Audit's mission is to assist the BOR and University Management (President, Senior Management Team, Chancellors and Vice Chancellors) in fulfilling their oversight, management, and operating responsibilities. This is accomplished through providing independent and objective assurance and consulting services conducted in a systematic and disciplined approach to evaluate, add value, and improve the University's operations while simultaneously mitigating the University's risk. Internal Audit services are described below:

### **Assurance Services**

Assurance services may vary depending on the nature of the engagement, its objectives and type of assurance desired. Assurance services include the following:

- Financial audits and reviews – determine the fairness, accuracy, and reliability of financial information presented in accordance with established or stated criteria.
- Attestation engagements – examination, review, or agreed-upon procedures on a subject matter, or an assertion about a subject matter (including financial information).
- Operational reviews – evaluate an area, department, or functional operation for the purpose of evaluating efficiency and effectiveness.
- Compliance reviews – address adherence to laws, regulations, policies and procedures, and terms and conditions of contracts/agreements.
- Follow-up reviews – evaluate the status of corrective actions on internal or external audit findings reported in a previously completed audit report.

### **Consultation and Investigation Services**

Consultations are similar to operational reviews. The nature and scope of consultation services are to add value and improve the auditee's governance, risk management, and control processes without Internal Audit assuming management responsibility. Investigations may relate to fraud, waste and/or abuse complaints reported to the BOR office, University management or the whistleblower hotline.

Internal Audit has also been consulted on generally accepted accounting principles and its application, accounting and operational process analyses and related internal control matters. Internal Audit also provides guidance and consults with auditees in connection with their implementation of Internal Audit recommendations. Throughout the year, Internal Audit seeks opportunities to become involved in planning committees, policy and guidance development, and other University strategic efforts in order to promote internal controls, quality processes, and the alignment of resources in the planning and implementation stages.



### **Audit Plan Development and Objectives**

As in prior years, the Audit Plan was developed using a risk-based approach and considered Internal Audit's available resources. Executive Policy (EP) 8.204, *University Audits* states that the University's Vice President for Budget and Finance/Chief Financial Officer (CFO) shall serve as the President's designee to work Internal Audit in the planning and coordination of internal audits. Accordingly and consistent with prior years, the Director of Internal Audit consulted and obtained feedback from the University's President and CFO with respect to potential audit projects to be included in the fiscal 2020 Audit Plan. Criteria used in selecting audit projects included providing coverage of higher risk departments/units/functions and areas of concern to the BOR and University management. The following were also considered in preparing Internal Audit's Audit Plan:

- Matters discussed at periodic Committee on Independent Audit (Audit Committee) meetings.
- Observations and findings contained in historical reports issued by Internal Audit. Certain University departments and/or functions may be reviewed as a result of:
  - audit issues identified in connection with fiscal 2019 audit projects that warrant further analysis
  - audit issues noted in departments and/or functions with similar operations and/or
  - unremediated audit findings.
- Review of the various Internal Control and Business Issues Reports issued by the University's external auditors.
- Meetings and discussions with Accuity LLP (Accuity) with respect to sensitive audit areas.
- Regulatory compliance.

Internal Audit designs audit procedures for projects listed in the Audit Plan to assess the following:

- Risks are appropriately identified and managed.
- Information is accurate, reliable and timely.
- Employee actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Operations are efficient and effective.
- Resources are acquired economically, used efficiently and adequately protected.
- Accountability systems are in place to ensure organizational and program missions, goals, plans and objectives are achieved.

This Audit Plan is a living document, requiring continual monitoring and revision as conditions warrant. Flexibility is an inherently accepted part of the Audit Plan to accommodate management requests and other unanticipated priorities that arise throughout the year. Accordingly, an Audit Plan approved by the Audit Committee may be supplemented with additional projects due to the sensitivity, high risk and/or media exposure associated with the additional project. These additional projects may be the result of University President and Senior Management consultation with the BOR (including the Audit Committee). In addition, projects may be deferred as a result of a project's initially identified risk being resolved and/or mitigated prior to the commencement of work. All revisions to the approved Audit Plan require Audit Committee concurrence. Additionally, a few audit projects that commenced in 2019 are carried over for completion in fiscal 2020. The carryover projects were expected and in line with a normal audit process where audits commencing in the last few months of the fiscal year end are completed early in the following year.

The ongoing support of the BOR, University Management, and other constituents in developing this Audit Plan and maximizing Internal Audit's effectiveness is greatly appreciated.



## **Proposed Audit Engagements July 1, 2019 to June 30, 2020**

### **External Audits**

#### **Overview:**

During April 2018, Accuity was re-engaged to provide external audit services to the University for the three year period ended June 30, 2020. The University has an option to extend the contract for an additional year. Accuity is scheduled to perform the following audits for the fiscal year ended June 30, 2019:

- Single Audit – University of Hawai'i
  - Consolidated Financial Statements
  - Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- Intercollegiate Athletics – University of Hawai'i at Mānoa (UHM Athletics)
  - NCAA Agreed-Upon Procedures

The University consistently issues its consolidated financial statements prior to the due date established by the State of Hawai'i Comptroller for inclusion in the State of Hawai'i's Comprehensive Annual Financial Report.

Internal Audit will provide up to 1,000 hours of external audit assistance to Accuity to decrease external audit hours and the related audit fees. In addition to the 1,000 hours of external audit assistance, Internal Audit will perform the following in connection with the above noted audits:

- Upon request, assist in the preparation of the financial statements and related notes based on financial information provided by University personnel.
- Participate in meetings (planning, status, financial statement review, etc.) impacting the audits.
- Review and comment on draft reports.
- Additional procedures as requested by Accuity.

#### 1. Single Audit (Uniform Guidance) – University of Hawai'i

Federal regulations require that organizations (state/local governments and non-profits) expending federal awards in excess of \$750,000 are subject to the Single Audit requirements of OMB Uniform Guidance. The University's Schedule of Expenditures of Federal Awards for the year ended June 30, 2018 noted approximately \$512 million in federal expenditures.

A Single Audit requires an examination by an independent certified public accountant of the financial records, financial statements, federal award transactions and expenditures, and internal control systems of the auditee. The Single Audit consists of financial statement and compliance audit components. The Single Audit reports are required to be submitted to the federal government within 9 months after the organization's year-end (March 31 for the University).

The University is responsible for preparing the Management Discussion and Analysis, consolidated financial statements and related notes, supplementary information accompanying the consolidated financial statements, and the Schedule of Expenditures of Federal Awards (SEFA) and related notes.



The University's independent auditor, Accuity, is required to audit the University's consolidated financial statements and SEFA in accordance with *Government Auditing Standards* (Yellow Book) and the federal audit requirements of OMB Uniform Guidance.

Type:	Financial, Compliance
Period under audit:	July 1, 2018 – June 30, 2019
Est. time of performance:	September 2019 – December 2019

2. Intercollegiate Athletics – University of Hawai'i at Mānoa

University of Hawai'i at Mānoa (UHM) Athletics is subject to an annual agreed-upon procedures review pursuant to NCAA requirements. The NCAA manual requires that Division I institutions submit financial data detailing operating revenues, expenses and capital expenditures related to its intercollegiate athletics program on an annual basis. The financial data shall be subject to annual agreed-upon verification procedures conducted by a qualified independent accountant who is not a staff member of the institution and who is selected by the institution's chancellor or president or by an institutional administrator from outside the athletics department designated by the chancellor or president.

Type:	Attestation (agreed-upon procedures)
Period under audit:	July 1, 2018 – June 30, 2019
Est. time of performance:	July 2019 – December 2019





## **Audit Committee Assistance**

### 1. Whistleblower Hotline

The University whistleblower hotline and associated website was launched on June 15, 2016. The hotline/website is accessible globally 24 hours/day, 365 days/year and is available to University employees and the general public for the reporting of violations of law, rules or regulations in a confidential and anonymous manner.

Internal Audit and the Office of Risk Management have administrative roles with respect to the hotline and consult with campus personnel overseeing the investigation of claims received through the hotline. The Director of Internal Audit prepares and presents whistleblower reports at Audit Committee meetings.

### 2. Audit Committee Reports

Internal Audit will continue to assist the Audit Committee prepare the following reports required by Hawai'i Revised Statutes §304A- 321:

- a. Annual report to the BOR and the Hawai'i State Legislature (Legislature), no later than twenty days prior to the convening of each regular session of the Legislature on matters that include the following:
  - All instances of material weakness in internal control, including the responses of University management (to these instances); and
  - All instances of fraud, including the responses of University management (to these instances).

Historical reports submitted to the Legislature included documents prepared by Accuity noting that Accuity did not identify any matters that they considered to be material weaknesses in internal control over financial reporting and that they noted no instances of fraud or illegal acts.

- b. Annual report to the BOR to evaluate the effectiveness of the Audit Committee.

## **Internal Audits**

### 3. Government Accounting Standards Board Statement No. 87

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87 (GASB 87), *Leases*. GASB 87 will replace the current operating and capital lease categories with a single model for lease accounting based on the concept that leases are a means to finance the right to use an asset. Under the new rules, a lessee will recognize a lease liability and an intangible asset while the lessor will recognize a lease receivable and a deferred inflow of resources.

Certain contracts do not qualify for lease accounting under this standard. These contracts include contracts for intangible assets, biological assets, inventory, service concession arrangements, supply contracts and leases with a maximum possible term of 12 months or less. The University's lease footnotes (Notes 10 and 12) included in the University's Consolidated Financial Statements for the years ended June 30, 2018 and 2017 disclose the following:



Year ending June 30,	Equipment leases		Real property
	Principal	Interest	
2019	\$ 2,103	\$ 602	\$ 1,884
2020	1,437	724	913
2021	1,539	688	640
2022	1,565	649	584
2023	1,709	609	324
2024 – 2028	10,899	2,317	625
2029 – 2032	11,279	727	450
Thereafter	-	-	1,534
Total	<u>\$ 30,531</u>	<u>\$ 6,316</u>	<u>\$ 6,954</u>

The standard is applicable for periods beginning after December 15, 2019 (fiscal year end June 30, 2021 for the University). Although a few years down the road, Internal Audit will assist the University assess the new standard and develop processes and procedures to determine the magnitude and effect of implementing GASB 87.

Internal Audit’s assistance may include but not be limited to the following:

- Create an inventory of potential contracts to evaluate
- Determine which contracts meet the definition of a lease
- Review lease contracts for multiple components, such as multiple asset components and service components
- Identify contracts that can be excluded based on an exception or materiality
- Gather key data from contracts in order to determine the lease term and calculate lease liability/asset or receivable/deferred inflow
- Gather data required for footnote disclosures

Type:	Financial
Period under audit:	As of December 31, 2019
Est. time of performance:	February 2020 – May 2020

#### 4. The Vietnam Executive MBA Program

The Vietnam Executive MBA program (VEMBA) is a two year graduate program operated by the Shidler College of Business (Shidler) and hosted at Vietnam universities. The VEMBA program began in 2001 in Hanoi and 2007 in Ho Chi Minh City (HCMC).

Instruction for the VEMBA program is conducted at the campuses of the following Vietnam universities:

- International University - Vietnam National University located in HCMC and
- Thanh Tay University located in Hanoi

During Internal Audit’s “Review of the Cash Receipts Process” during fiscal years 2018 and 2019, Internal Audit identified certain opportunities for internal control and process improvements and noted that the VEMBA program incurred operating losses (unaudited) for the years ended June 30, 2017 and 2018 of approximately \$200,000 and \$478,000, respectively. Given the opportunities for internal control and process improvements, the objective of this audit is to further review the VEMBA program’s processes, procedures and internal controls and compliance with University policies.



Type:	Operational, Compliance, Financial
Period under audit:	July 1, 2018 – June 30, 2019
Est. time of performance:	November 2019 – April 2020

5. Revenue Bond Covenant Compliance

In April 2014, Internal Audit issued an audit report evaluating the University’s process and policies to ensure compliance with revenue bond (Bond) covenants and federal income tax laws (arbitrage and private business use). Internal Audit determined that the University had not performed compliance procedures on an annual or consistent basis but rather on an as needed basis. Non-compliance with Bond covenants could constitute an Event of Default resulting in the Bonds outstanding principal and interest becoming due and payable immediately. Non-compliance with federal tax law could result in the loss of the Bonds’ tax-exempt status, federal tax penalties, bondholder lawsuits and reputational risk to the University.

University financial management personnel, having recognized this deficiency, engaged the BLX Group LLC (contract commenced date is January 1, 2014) to assist the University formalize and revise its revenue bond compliance process and policies.

The University’s Consolidated Financial Statements for the years ended June 30, 2018 and 2017 note an outstanding Bond balance of \$525 million as of June 30, 2018. The University’s current Bond compliance policies are Administrative Procedure (AP) 8.560, *Post-Issuance Tax Compliance Procedures for Tax-Exempt and Build America Bonds* (dated October 2010) and EP 2.212, *Management of University Bond System* (dated October 2014). The objective of this audit is to evaluate revisions to the University’s Bond covenant and federal income tax law compliance process and policies and determine if the University’s current process is consistent with policy and sufficient to mitigate the risk of non-compliance.

Type:	Operational, Compliance, Financial
Period under audit:	July 1, 2018 – June 30, 2019
Est. time of performance:	January 2020 – March 2020

6. Faculty Housing

Internal Audit issued a follow-up audit report dated February 2013 in connection with a December 2010 evaluation of the UHM Auxiliary Enterprises Faculty Housing Department (UHM Faculty Housing) operations. In connection with the follow-up review, it was determined that UHM Faculty Housing had revised policies to address Internal Audit issues identified in the December 2010 audit. The significant issues consisted of the following:

- Tenant occupancy period – as of February 2013, it was determined that 181 applicants were on the faculty housing waitlist with approximately 47% of the tenants residing in faculty housing in excess of five years with two tenants living in faculty housing at least 18 years. The revised policy limits the occupancy period to one (1) year with tenured or tenure tracked faculty having the ability to renew their lease annually up to a maximum of three (3) years.
- Rental rates – charged rental rates were historically lower than the US Department of Housing and Urban Development (HUD) published fair market rental rates for the Honolulu area. According to Internal Revenue Code Section (IRC) 119, if fair market rent exceeds the rent



charged to faculty, the difference should be reported as gross income to the faculty/tenant. The revised policy references compliance with IRC 119 and notes that appraisals will be performed every three years. In addition, the revised policy allows 3% annual increases in rental rates with increases in excess of 3% requiring approval by the President or authorized designee.

The primary objective of this audit is to evaluate compliance with University policies. EP 9.230, *University Housing Assistance Program* requires UHM Faculty Housing to be a self-sustaining operation. Accordingly, Internal Audit will also review historical financial results.

Type:	Compliance, Financial
Period under audit:	July 1, 2018 – June 30, 2019
Est. time of performance:	November 2019 – February 2020

### Legislative resolutions

As of April 15, 2019, the Senate Committee on Ways and Means of the Thirtieth Legislature of the State of Hawai'i, Regular Session of 2019 have passed Senate Resolution (SR) 120 and Senate Resolution (SR) 31 that are described below. Internal Audit will include SR 120 and SR 31 as audit projects for the fiscal year ended June 30, 2020 if deemed appropriate by the Audit Committee.

#### 7. University of Hawai'i West O'ahu – Extramurally Funded Programs

SR 120 is titled, "Requesting the University of Hawai'i Office of Internal Audit to Conduct an Audit of Various Programs at the University of Hawai'i West O'ahu that Receive Extramural Funding, including Title III Grant Funding". SR120 requests that the audit include the following programs:

- 'A'ali'i Scholars Program
- 'Ike Ola
- Mobile High-Touch, High Tech Learning Environment Program
- Kūkulu ma ke Kahua
- PIKO project
- University of Hawai'i West O'ahu Pueo Scholars
- University of Hawai'i at Hilo and Hawai'i Community College cooperative arrangement development grant
- Ho'okahua

SR120 cites discrepancies in information provided by the University of Hawai'i West O'ahu on various programs, from initial to follow-up documentation, as well as inconsistencies in the reporting of extramural funds as the reason for this audit.

SR120 requires the audit to include a review of the Title III grant funding received by the above noted programs in addition to the travel completion reports associated with these programs. Tentative audit procedures include the following:

- Meet with appropriate State Legislative personnel to discuss audit objectives
- Meet with personnel managing UHWO's Title III programs
- Review relevant Title III program documents
- Review relevant sections of the Uniform Guidance



- Perform compliance testing pursuant to the requirements (e.g., eligibility, use of federal funds, reporting requirements, etc.) documented in the program documents and Uniform Guidance
- Other testing as deemed appropriate

Type:	Compliance, Financial
Period under audit:	Initial expenditure of federal funds for the above noted programs through June 30, 2019
Est. time of performance:	July 2019 – December 2019

8. State Auditor evaluation of Internal Audit’s 2017 Travel Audit

SR 31 is titled, “Requesting the Auditor to evaluate the 2017 University of Hawai’i Internal Audit of Travel Policy Compliance for fiscal years 2015-2017”. SR 31 requires the State Auditor to report on the following:

- Whether the internal audit was conducted in accordance with best practice,
- Whether the approved travel met the University of Hawai’i Systemwide Policies and Procedures relating to travel,
- Whether additional investigation was warranted to obtain a full and fair evaluation of the level of noncompliance and the impact on University of Hawai’i operations and finances, and
- Whether the corrective action suggested in the internal audit was sufficient to curb any current and future non-compliance.

State Auditor written testimony dated April 1, 2019 indicated “no position” with respect to SR 31 and stated that the State Auditor’s current workload and limited resources would limit its ability to perform this project. If the State Auditor proceeds with this project, Internal Audit may need to perform the following:

- Organize and provide access to Internal Audit workpapers
- Provide photocopies of requested working papers
- Respond to State Auditor questions

Type:	Compliance
Period under audit:	TBD by State Auditor
Est. time of performance:	TBD by State Auditor

**Recurring:**

Internal Audit provides audit services to University units to reduce their burden of incurring audit fees for services provided by external auditors.

9. Associated Students of the University of Hawai’i at Mānoa

The Constitution of Associated Students of the University of Hawai’i at Mānoa (ASUH) requires that an annual audit be performed of ASUH’s financial statements. Senate Resolution 07-10 stipulates that the audit be performed no more than once every ten years by an external certified public accounting firm. Accuity audited ASUH’s financial statements for the year ended June 30, 2008.



The type or scope of audit is not defined in the ASUH Constitution or Senate Resolution. During fiscal year 2015, an ASUH resolution 07-16 was issued requiring an external audit for fiscal year 2020, internal fiscal reviews for fiscal years 2017 and 2023, and operational audits for fiscal years 2016, 2018, 2019, 2021, 2022, 2024 and 2025.

Senate Resolution 07-16 specifies that the fiscal year 2019 operational review will consist of a review of scholarships, general legislation and Registered Independent Organization (RIO) funding. Internal Audit will also perform follow-up procedures to evaluate the status of corrective action on audit findings reported in the prior year.

Type:	Attestation
Period:	July 1, 2018 – June 30, 2019
Est. time of performance:	November 2019 – February 2020

**Follow-up:**

The following engagements relate to the performance of follow-up reviews to evaluate the status of corrective action of audit findings reported in reports issued in the prior year.

10. Corrective Action – Auditee Status

Internal Audit performs follow-up reviews to evaluate the status of corrective action on audit findings reported in prior year audit reports. An assessment of the implementation of corrective action for historical Internal Audit projects will be performed during fiscal 2020. The report will document Internal Audit’s prior year recommendations and the procedures performed to assess corrective action implementation. Follow-up reviews in connection with fiscal 2019 audits are anticipated to include the following:

- Sodexo Food Service Contracts
- Student Fees for Professional Programs
- Student Accounts Receivable
- Cash Receipts Process
- ASUH (see no. 9 above)

Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2019
Est. time of performance:	March 2020 – June 2020

11. Maunakea- Corrective Action – Auditee Status

Internal Audit will perform a follow-up review to evaluate the status of Internal Audit’s recommendations reported in its September 2018 “Review of Maunakea” report presented to the Audit Committee on December 19, 2018. The review will evaluate the status of corrective actions including assessing the sufficiency of tour operator charges, improving documentation of transfers of amounts between cost centers and sharing Ranger Program costs with the various observatories on Maunakea.



Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2019
Est. time of performance:	March 2020 – June 2020

12. UHM Student Housing- Corrective Action – Auditee Status

Internal Audit’s September 2018 Status of Corrective Action report for UHM Student Housing noted a number of corrective actions to address recommendations documented in Internal Audit’s July 2016 report still in-process. The in-process corrective actions included improving budget to actual financial comparisons, renegotiating and finalizing a new laundry services contract that expired in 2011, developing written standards and expectations for in-house custodial maintenance service staff, and developing a comprehensive deferred maintenance plan to identify, prioritize and manage deferred and preventative maintenance projects. Thus, Internal Audit will perform an additional follow up review to determine whether corrective actions have been implemented.

Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2019
Est. time of performance:	January 2020 – March 2020

13. UHH Student Housing- Corrective Action – Auditee Status

Internal Audit’s September 2018 Status of Corrective Action report for UHH Student Housing noted a number of corrective actions to address recommendations documented in Internal Audit’s December 2016 report were still in-process. The in-process corrective actions include improving ventilation in Hale ‘Alahonua to increase occupancy, obtaining capital asset information from FMO to improve financial reporting, and reviewing the features and functionality of the StarRez subsidiary system for adequacy. Thus, Internal Audit will perform an additional follow up review to determine whether corrective actions have been implemented.

Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2019
Est. time of performance:	January 2020 – March 2020

**Carryover:**

14. Suspense and Clearing Accounts

In connection with fiscal 2018 audit projects, Internal Audit noted various transactions posted to Quali Financial System (KFS) accounts identified as either a suspense or clearing account. These accounts were used to record transactions in which there was uncertainty regarding the proper KFS accounting classification of the transaction. It is the responsibility of accounting personnel to investigate and clarify the purpose of the transactions recorded to the suspense accounts and reclassify the transaction to the appropriate general ledger account to ensure accurate financial reporting.

As of June 30, 2018, KFS had 961 accounts designated as an account type “Clearing” or “CL”. Of those, approximately 200 were active (i.e., financial transactions were recorded to the account) on average during fiscal years 2018, 2017 and 2016. As of June 30, 2018, the net balance within University



suspense/clearing accounts was approximately \$81,000. Internal Audit is also aware of other University accounts not designated as a CL, but which are used for a similar purpose. One example is the Banner Clearing Account, which carried a balance in excess of \$8 million as of June 30, 2018.

In connection with preliminary audit procedures performed during fiscal 2019, FMO personnel informed Internal Audit that the above noted CL or Clearing accounts are known as “Continuation accounts” and are primarily utilized to record transactions for closed KFS accounts, which then must be reclassified into new KFS accounts or require the closed accounts to be reopened. According to FMO personnel, transactions recorded into Continuation accounts are posted to the University’s general ledger and are properly recorded on the University’s Consolidated Financial Statements. AP 8.650, *Continuation Accounts*, provides University policies related to the use and monitoring of Continuation Accounts. Internal Audit will assess compliance with AP 8.650 and review the process of classifying the CL accounts for financial statement reporting purposes.

Type:	Operational, Compliance, Financial
Period under audit:	As of and for the year ended June 30, 2018

#### 15. UHM Bookstore

The UHM Bookstore (Bookstore) sells books, electronics, clothing, supplies and other items both at its store and via an online portal. In addition, the Bookstore took over the operations of the H-Zone from UHM Athletics during June 2017. The H-Zone sells Rainbow Warrior and Rainbow Wahine apparel and merchandise.

The Bookstore is responsible for all accounting functions of all University bookstore locations within the University. In connection with Internal Audit’s “Review of the Cash Receipts Process” project, Internal Audit identified operational, compliance and financial risks related to the Bookstore’s inventory management, monitoring of financial results and overall compliance with University policy. Internal Audit previously evaluated the Bookstore as a result of a material weakness in internal control comment by Accuity LLP in connection with its fiscal year 2009 audits. In Internal Audit’s December 2010 report, recommendations were provided to mitigate risks related to inventory management, internal controls and financial oversight.

Thus, Internal Audit will review operational, compliance and financial aspects of the Bookstore, including but not limited to the following:

- Inventory management and related accounting and operational controls
- Monitoring of outstanding accounts receivable and credit memos
- Monitoring and management of financial results

In connection with preliminary audit procedures performed during fiscal 2019, Internal Audit noted the following:

- Approximately \$1.1 million of unapplied credit memos and chargebacks (approximately \$100,000 greater than 120 days outstanding) as of June 30, 2018
- Greater than \$5,000,000 of inventory as of June 30, 2018
- Operating loss (operating expenses less operating revenues) of approximately \$687,000 for the year ended June 30, 2018
- It was determined that UHM Conference & Event Services (CES) is a component of the Bookstore’s operations that incurred operating losses for the years ended June 30, 2018 and





2017 of approximately \$67,000 and \$21,000, respectively. CES provides support services for conferences, training sessions, workshops, symposiums, seminars, and meetings ranging from 20 - 1,000 participants. These services are provided to the UH community, state and county agencies, non-profit organizations, and local professional associations. The minimum administrative fee charged per event is \$750.

Type: Operational, Compliance, Financial  
Period under audit: July 1, 2017 – June 30, 2018

16. Evaluation of Corrective Action Status

As noted previously, Internal Audit performs follow-up reviews to evaluate the status of corrective action on audit findings reported in prior year audit reports. Follow-up reviews in process and that will be completed during fiscal 2020 include the following:

- Outreach College
- Capital Improvement Projects and Repairs and Maintenance
- Check Disbursements less than \$2,500

Except for the Check Disbursements Less Than \$2,500 project, audit fieldwork is substantially completed and preliminary draft reports have been prepared. Based on the work performed to date, Internal Audit noted the following:

Outreach College- The majority of corrective actions have not been implemented but are in process and expected to be completed in fiscal year 2020.

Capital Improvement Projects and Repairs and Maintenance- The majority of corrective actions have been implemented. Any corrective actions not yet completed are in process.

Check Disbursements Less Than \$2,500- Preliminary meetings conducted with responsible personnel. The majority of corrective actions have not been implemented but are in process and expected to be completed in fiscal year 2020. Accordingly, the evaluation of corrective action status was deferred until fiscal year 2020.

Type: Financial, Operational, Compliance  
Period under audit: Through December 31, 2018



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# Committee on Independent Audit of the Board of Regents

Annual Report  
*For the Fiscal Year Ended June 30, 2019*

+ Office of Internal Audit: *Audit Results for the fiscal year ended June 30, 2019*

## **Summary**

This Annual Report is prepared pursuant to the provisions of Hawai‘i Revised Statutes (HRS) §304A-321, *Independent Audit Committee*. This June 30, 2019 Annual Report is organized by the following sections:

1. Committee on Independent Audit (Audit Committee) Charter
2. Audit Committee Membership
3. Audit Committee Meetings

The Audit Committee has fulfilled its responsibilities pursuant to the Bylaws of the Board of Regents of the University of Hawai‘i (BOR Bylaws) and HRS §304A-321. Collectively, BOR Bylaws (Article II.D.2.e) and HRS §304A-321 functions as the Audit Committee’s Charter. This Annual Report includes and is complemented and supported by the “Audit Results” report prepared by the University of Hawai‘i (University or UH) Office of Internal Audit (Internal Audit) that summarizes Internal Audit’s activities during the fiscal year ended June 30, 2019.

## **Committee on Independent Audit (Audit Committee) Charter**

The duties and responsibilities of the Audit Committee are documented in its Audit Charter (collectively BOR Bylaws and HRS §304A-321 ). The Audit Committee’s duties and responsibilities include the following:

1. Undertake professional development to improve the financial expertise of the Audit Committee.
2. Provide oversight relating to enterprise risk management.
3. Hold meetings at least twice per year.
4. Review the Audit Committee’s effectiveness and prepare or oversee the preparation of an annual report to the BOR.
5. Review the procedures for the receipt, retention, and treatment of complaints received by the University regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any internal or external party.
6. Review (1) significant findings of internal audits and auditee responses, (2) whether internal auditors have encountered difficulties in the course of their audits, (3) changes in the scope of internal audits, (4) the internal audit budget and staffing, (5) the annual internal audit plan, and (6) the annual report of the internal audit department.
7. Review the following with management and the external auditor: (1) UH’s annual financial statements and related footnotes, (2) all reports certified by the external auditor, (3) the external auditor’s judgments about the quality of UH’s accounting principles, (4) any significant changes required in the external auditor’s audit plan, (5) any difficulties or disputes encountered during the audit, and (6) matters pursuant to Statement on Auditing Standards No. 114 (critical accounting policies and practices, consultations with audit firms other than the external auditor, and any other information relating to significant estimates and judgments).
8. Review with the external auditor matters affecting internal control including (1) the adequacy of UH’s internal control, including computerized information system controls and security and (2) any related significant findings and recommendations of the internal and external auditors, together with the responses of UH.
9. Annually evaluate the external auditor and the internal audit function.
10. Recommend to the BOR, the external auditor to be retained by UH and their fees.
11. Submit an annual report to the BOR and the legislature no later than 20 days prior to the convening of each regular session of the legislature on matters that include (1) all instances of

material weaknesses in internal control, including the responses of UH management and (2) all instances of fraud, including the responses of UH management.

12. Perform such other functions as assigned by the BOR and/or its bylaws.

### **Audit Committee Membership**

The Audit Committee members are appointed by the BOR Chair and serve for one year or until the appointment of successors. The Audit Committee Chair is selected by the members of the Audit Committee.

The Audit Committee must consist of at least three members but not more than five members. During the fiscal year ended June 30, 2019, membership of the Audit Committee consisted of the following Regents:

1. Michael McEnerney, Chair
2. Wayne Higaki, Vice Chair
3. Simeon Acoba
4. Jeffrey Portnoy
5. Douglas Shinsato (resigned during calendar year 2019)

### **Audit Committee Meetings**

The Audit Committee is required to meet at least twice per year. During fiscal year 2019, the Audit Committee held six meetings. The fiscal year 2019 Audit Plan was approved by the Audit Committee at the May 18, 2018 Audit Committee meeting. In addition to Audit Committee members, other BOR members attending fiscal year 2019 meetings included BOR Chair Putnam and Regents Higa, Moore, Tagorda, Yuen, Wilson, Nahale-a, Westerman and Acopan. Meeting attendees also included University executive management (President, Vice Presidents, Chancellors of various campuses, etc.), the Director of Internal Audit, and personnel from the University's external auditors (Accuity, LLP or Accuity). Other attendees consisted of University personnel from a University campus/department/function associated with an Audit Committee meeting agenda topic or matter.

The following summarizes the significant matters and topics discussed at Audit Committee meetings held during fiscal year 2019.

#### **August 2, 2018:**

1. The Audit Committee reviewed and accepted the committee's goals and objectives.
2. Internal Audit presented the Whistleblower Hotline Tracking Report.
3. Vice President for Administration Gouveia introduced the Interim Director of Risk Management, Darren Suzuki, who provided the Office of Risk Management annual report.
4. The Audit Committee annual review was deferred until the next meeting.

#### **October 4, 2018:**

1. The Audit Committee reviewed and accepted the following reports presented by Internal Audit:
  - a. Review of Student Accounts Receivable
  - b. University of Hawai'i at Mānoa (UHM)- Review of Student Fees for Professional Programs
2. Internal Audit presented the Whistleblower Hotline Tracking Report.
3. Vice President for Administration Gouveia provided an update on the University's enterprise risk management efforts.

**November 27, 2018:**

1. Accuity discussed their professional responsibilities and required communications pursuant to Statement on Auditing Standards No. 114
2. The Audit Committee reviewed and accepted the following reports presented by Accuity:
  - a. University Audited Financial Reports for the year ended June 30, 2018
  - b. UHM Intercollegiate Athletics NCAA Agreed-Upon Procedures Report for the year ended June 30, 2018
  - c. UHM Intercollegiate Athletics Department Internal Control and Business Issues Report for the year ended June 30, 2018
3. The Audit Committee reviewed and accepted the Annual Report to the Legislature on Material Weaknesses and Fraud pursuant to HRS §304A-321 prepared and presented by Internal Audit. The report noted no material weaknesses or fraud.

**December 19, 2018:**

The Audit Committee reviewed and accepted the Review of Maunakea report prepared and presented by Internal Audit.

**January 17, 2019:**

1. The Audit Committee reviewed and accepted the following reports presented by Accuity:
  - a. University Audited Financial and Compliance Reports pursuant to Uniform Guidance for the year ended June 30, 2018
  - b. University Internal Control and Business Issues Report for the year ended June 30, 2018.
  - c. UHM Intercollegiate Athletics Report on Agreed-Upon Procedures for the 2018 Football Season attendance.
2. The Audit Committee reviewed and accepted the UH Press and Student Housing Services – Status of Corrective Action report prepared and presented by Internal Audit.
3. Accuity presented an education session on an Overview of Services Accuity LLP provides to the University of Hawai‘i.
4. The Whistleblower Hotline Tracking Reports, the fiscal year 2018 Whistleblower Annual Report and discussion of BOR policy (RP) 2.205, *Policy on Whistleblowing and Retaliation* were deferred.

**May 2, 2019:**

The following lists the matters and topics anticipated to be discussed at this meeting.

1. The Audit Committee’s review and acceptance of the following reports presented by Internal Audit:
  - a. Proposed year ended June 30, 2020 Audit Plan
  - b. Year ended June 30, 2019 Annual Report of the Committee on Independent Audit
  - c. Year ended June 30, 2019 Audit Results of the Office of Internal Audit
  - d. Review of the Cash Receipts Process
  - e. Review of the Sodexo Food Service Contracts
  - f. UHM Athletics Department Equipment and Apparel and Commuter Services - Status of Corrective Action
  - g. Travel Policy Compliance and Employee Cell Phone Charges- Status of Corrective Action
2. The Director of Internal Audit presenting Whistleblower Hotline Tracking Reports.

# UNIVERSITY OF HAWAII

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## OFFICE OF INTERNAL AUDIT

### Audit Results

*For the Fiscal Year Ended June 30, 2019*

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For the Committee on Independent Audit of the Board of Regents

May 2019



## Executive Summary

### Introduction

The Office of Internal Audit (Internal Audit) prepares this Audit Results (or Annual Report) report to summarize their activities and accomplishments for the fiscal year ended June 30, 2019. The Bylaws of the Committee on Independent Audit of the Board of Regents (Audit Committee) require that the Audit Committee review this report. Additionally, the preparation of this report assists the Audit Committee review the internal audit function of the University of Hawai'i (University) as required by Hawai'i Revised Statutes (HRS) §304A-321, *Independent Audit Committee*. Pursuant to the Charter of the Office of Internal Audit of the University of Hawai'i (Internal Audit Charter), an annual audit plan is developed and submitted to the Audit Committee for review and approval. The fiscal year 2019 Audit Plan was approved by the Audit Committee on May 18, 2018.

### Overview of fiscal 2019 audit engagements

*Exhibit 1* summarizes the audit objective(s), audit scope, observations, findings, conclusions and status of the fiscal 2019 audit engagements. The following table categorizes the 22 engagements listed in *Exhibit 1*.

Fiscal 2019 engagements:	Completed reports		In process	Total
	Reviewed and accepted	For information		
New and carryover	5	-	3	8
Audit Committee assistance	2	1	-	3
Follow-up	7	-	4	11
<b>Total</b>	14	1	7	22

The Audit Committee assistance engagements consisted of 1) the Whistleblower Hotline Program and related tracking reports, 2) the annual report to the Hawai'i State Legislature noting no instances of material weaknesses or fraud and 3) the Audit Committee's annual report evaluating their effectiveness. Substantial audit work has been completed with respect to the in-process engagements. The in-process engagements are anticipated to be completed during the first half of fiscal 2020.

With respect to the completed engagements, Unit (audited campus, college, department, etc.) management concurred with all observations/findings and conclusions. Internal Audit produced recommendations ranging from 6 – 16 in connection with each engagement to mitigate identified operational, financial and compliance risks. Unit management have implemented or are in the process of implementing corrective action pursuant to these recommendations. Regarding the completed follow-up audits, Internal Audit noted that the majority of corrective actions were implemented with solutions for the in-process corrective actions developed and planned for implementation in fiscal year 2020.

Additionally, one of the major carryover audits included in the fiscal year 2019 Audit Plan was the Review of Maunakea. This audit project was added by the Audit Committee to the fiscal year 2018 Audit Plan via an Audit Plan - Supplement on March 8, 2018 pursuant to a BOR Resolution dated February 22, 2018. The Resolution required Internal Audit to perform a financial management audit of the relevant University-related entities engaged in Maunakea stewardship and management.



The Review of Maunakea was a significant project and major accomplishment for Internal Audit. This project necessitated multiple meetings and discussions with key personnel from numerous University-related entities, review of documents and contracts, and analysis of financial records at the University-related entities involved with Maunakea, including but not limited to the University System, University of Hawai'i at Mānoa, the Institute for Astronomy (IfA), the University of Hawai'i at Hilo, the Office of Maunakea Management (OMKM), RCUH and Maunakea Observatories Support Services (MKSS). Internal Audit determined that each entity has a distinct and separate function as well as operating objectives. Accordingly, no individual or group of individuals at any entity could describe the University's overall operations and related financial results associated with Maunakea resulting in the scheduling of a substantial number of meetings and phone calls and the distribution of e-mails and other forms of correspondence to understand the nature and breadth of University related Maunakea operations. In addition, the volume of documents requested and reviewed by Internal Audit resulting from these meetings and correspondence were substantial.

### **Conclusion**

In connection with the fiscal 2019 audit engagements, Internal Audit did not identify conditions that we believe are material weaknesses. Common recommendations included in fiscal 2019 audit reports included improving compliance with, establishing and/or updating policies and procedures, improving the performance of periodic budget to actual analyses, and improving collaboration/consistency across University campuses and departments that engage in similar processes and procedures.

Internal Audit recognizes the importance of building and sustaining effective relationships among the Audit Committee, University management and the external auditor. These relationships provide efficiencies and enhancements in the University's risk assessment and management processes and in the performance of internal and external audits. Accordingly, Internal Audit appreciates and thanks University management and staff for their cooperation and responsiveness in connection with the engagements summarized in *Exhibit 1*. Further, we thank the Audit Committee for their continued support of Internal Audit. Please call Glenn Shizumura at 956-7318 with any questions or comments with respect to the contents of this report.





## **Audit Resources & Competencies**

Internal Audit's staffing at the conclusion of the fiscal year ended June 30, 2019 consisted of its Director and three full-time staff auditors which was consistent with staffing as of July 1, 2018. However, the staffing mix changed due to a full-time staff auditor moving to the mainland in December 2018 for personal reasons. In February 2019, another full-time staff auditor resigned to pursue a position outside of the University. The open positions were filled in March 2019 with personnel with relevant audit experience at Deloitte. One of the new staff auditors was hired in December 2018 but delayed her Internal Audit start date to complete ongoing Deloitte audit projects. This staff auditor has approximately 11 years of public sector audit experience with Deloitte. Collectively, Internal Audit's professionals have a substantial number of years of auditing and accounting experience within both the University environment and the private sector. The hiring of the two new staff auditors increased the audit experience of Internal Audit personnel at international public accounting firms from approximately 30 years to more than 40 years.

Internal Audit also employs University students majoring in accounting to provide the students with the opportunity to experience auditing from an internal audit perspective in addition to an external audit perspective. Assistance on Internal Audit projects include research and preparing working papers documenting the results of their research, verifying the mathematical accuracy of schedules and financial statements, obtaining and analyzing financial information from the University's general ledger, reviewing the contents of electronic and manual audit files for completeness, etc. Student auditor tasks may also include research on new or recently revised accounting and auditing literature. The work product of this research is an oral presentation and PowerPoint slide presentation to Internal Audit staff and student auditors. Audit experience gained through their employment at Internal Audit has benefited and assisted student auditors obtain internship and/or full-time employment opportunities with international and local accounting firms.

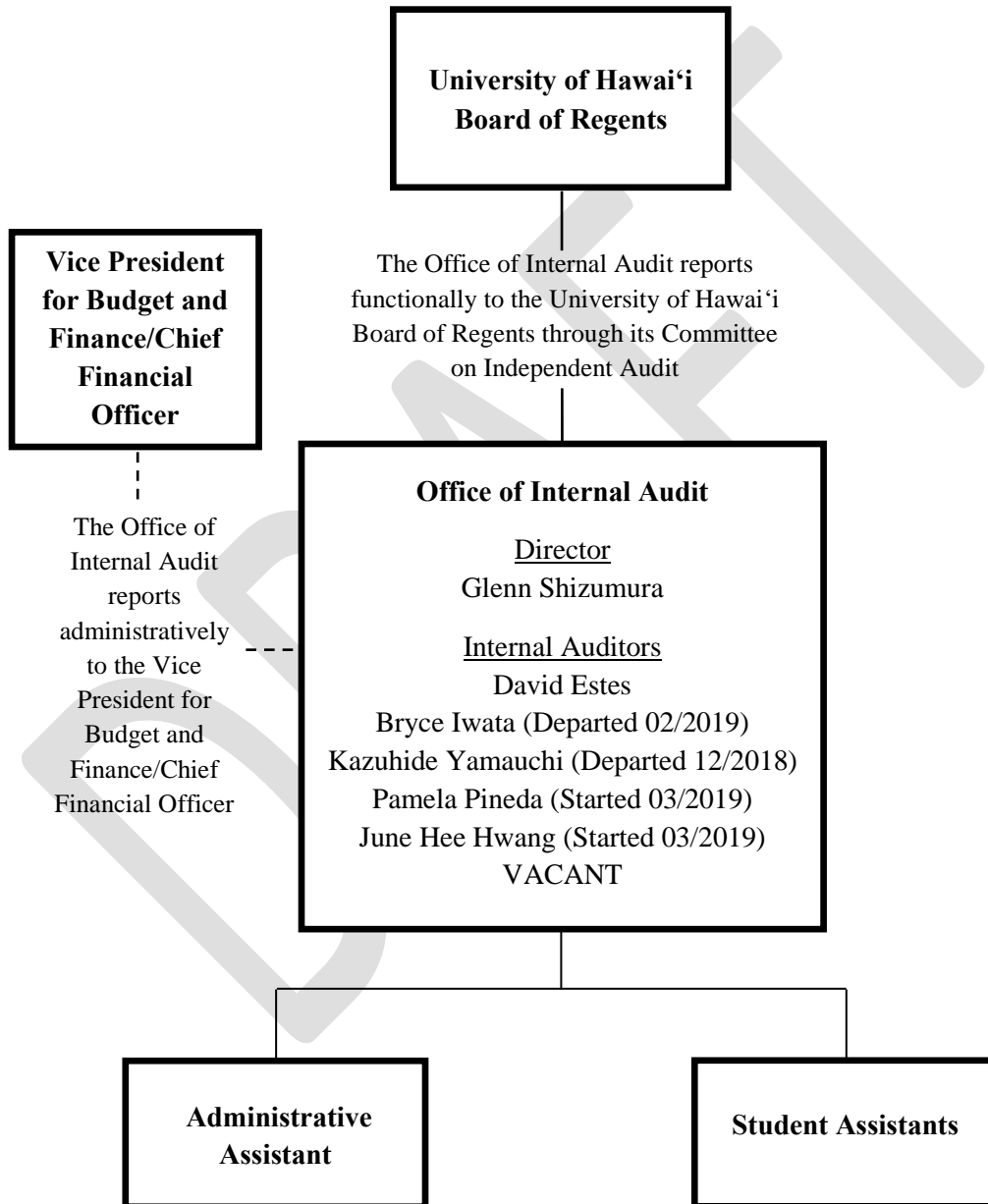
Internal Audit employed a total of eight students during the year ended June 30, 2019. During this period, three – five students were employed at any point in time. Employment fluctuations result from student internships at downtown accounting firms and graduation. Internal Audit encourages these internships and reserves the student auditor position for the student upon the completion of their internship.

The administrative functions of Internal Audit are handled by a full-time Administrative Assistant and student auditors. Administrative duties consist primarily of the following:

- Provide information technology support.
- Manage the storage, back-up and security of Internal Audit's electronic files.
- Prepare and issue fiscal related documentation for procuring goods and processing payments.
- Coordinate work orders and auxiliary services.
- Maintain office supplies and equipment, including routine security maintenance on computers.
- File and archive internal and external audit reports.
- Manage office information flow.
- Prepare monthly and year-to-date financial reports to track and monitor Internal Audit expenses.
- Compare and analyze current year-to-date expenses to budget and prior year expenses.



**Office of Internal Audit  
Organization Chart  
July 1, 2018 – June 30, 2019**





## Profile of the Office of Internal Audit

Name:	Glenn Shizumura
Title:	Director
Professional Designation:	Certified Public Accountant (CPA) – Hawai‘i 1990
Academic Qualification:	Bachelor of Business Administration (BBA)
Work Experience:	23 years Public Accounting/Ernst & Young <ul style="list-style-type: none"><li>• Executive Director/Principal</li><li>• Industry expertise – public sector, real estate, retail, insurance and not-for-profit</li></ul> 9 years Director of Internal Audit/University of Hawai‘i
Name:	David Estes
Title:	Internal Auditor
Professional Designation:	CPA – Pennsylvania 2004
Academic Qualifications:	BBA
Work Experience:	6 years Public Accounting/PricewaterhouseCoopers <ul style="list-style-type: none"><li>• Industry expertise – investment management, not-for-profit</li></ul> 2 years Operational Risk/Perpetual Ltd. (Sydney, Australia) 2 years Internal Audit/University of Hawai‘i
Name:	Bryce Iwata (departed 2/2019)
Title:	Internal Auditor
Academic Qualifications:	BBA/MAcc
Work Experience:	4 years Public Accounting/Deloitte 1 year Financial Accounting/Bishop Insurance Agency 11 years Internal Audit/University of Hawai‘i
Name:	Kazuhide Yamauchi (departed 12/2018)
Title:	Internal Auditor
Academic Qualification:	BBA
Work Experience:	3 years Public Accounting/MC Group Hawai‘i 1 year Internal Audit/University of Hawai‘i
Name:	Pamela Pineda (hired 12/2018, started 3/2019)
Title:	Internal Auditor
Academic Qualifications:	BBA
Work Experience:	11 years Public Accounting/Deloitte <ul style="list-style-type: none"><li>• Industry expertise – public sector (Single Audits, Uniform Guidance, OMB Compliance) and not-for-profit</li></ul>
Name:	June Hee Hwang (hired 3/2019)
Title:	Internal Auditor
Academic Qualifications:	BS/MBA in Accounting
Work Experience:	2 years Public Accounting/Deloitte 4 years Accounting/Various Investment Banks 1 year Accounting Lecturer/HCC



## Internal Audit Activity and Results

### Audit Plan

Internal Audit's fiscal 2019 Audit Plan was approved by the Audit Committee during its meeting held on May 18, 2018. The Audit Plan was developed using a risk-based approach and considered Internal Audit's available resources. Criteria used in selecting audit projects included providing coverage of higher risk departments/units/functions and areas of concern to the Board of Regents (BOR) and University management. The following are considered in preparing Internal Audit's Audit Plan:

- Matters discussed at periodic Audit Committee meetings.
- Meetings and discussions with certain members of University management.
- Observations and findings contained in historical reports issued by Internal Audit. Certain University departments and/or functions may be reviewed as a result of:
  - audit findings noted in departments and/or functions with similar operations and/or
  - unremediated audit findings.
- Review of the various University Internal Control and Business Issues Reports issued by the University's external auditors (Accuity).
- Meetings and discussions with Accuity with respect to sensitive audit areas.
- Regulatory compliance.

The following are the types of engagements (including examples of fiscal 2019 engagements) generally performed by Internal Audit:

- **Financial audits and reviews** – determine the fairness, accuracy, and reliability of financial information presented in accordance with established or stated criteria.
- **Attestation engagement** – examination, review, or agreed-upon procedures on a subject matter, or an assertion about a subject matter (including financial information). An example is the review of ASUH's financial statements that is required every three years pursuant to the ASUH Constitution (last performed for the year ended June 30, 2018). The performance of this engagement by Internal Audit precluded the need to engage an external audit firm.
- **Operational reviews** – evaluate an area, department, or functional operation with the objective of evaluating efficiency and effectiveness. Examples of operational review projects include the 1) Review of student accounts receivable, 2) Review of UHM student fees for professional programs and 3) Maunakea project.
- **Compliance reviews** – assess the adherence to laws, regulations, policies and procedures. A compliance review may also include assessing compliance with the terms and conditions of contracts/agreements. Examples of compliance review projects include 1) Review of the Cash Receipts Process and 2) Review of the Sodexo Food Service Contracts.
- **Follow-up audits** – performed to identify and evaluate management actions implemented in response to a prior audit. Follow-up audits are generally performed during the year following the issuance of the report to assess if management actions have been effectively implemented or if senior management has accepted the risk of not taking action.



Internal Audit provides consultative services to University personnel when questions arise with respect to generally accepted accounting principles and its application, accounting and operational process analyses and related internal control matters. Internal Audit also provides guidance and collaborates with auditees in connection with their implementation of Internal Audit recommendations. In addition, Internal Audit may perform and participate in investigation projects as a result of complaints to the BOR office, University management and/or Whistleblower Hotline.

### **Audit Phases**

Internal Audit's audit process commences with the above described Audit Plan. Summarized below are the typical audit phases utilized by Internal Audit in connection with each audit project. An overarching Internal Audit objective is frequent and constant communication with Unit personnel on an ongoing basis. Ongoing and effective communication is critical in validating potential audit issues/findings as well as determining feasible recommendations.

1. Preliminary review:

Internal Audit gathers and reviews information to obtain a preliminary understanding of the operation, activity or process that will be audited. A preliminary assessment of risks relevant to the audit is conducted.

2. Notification:

The Director of Internal Audit contacts appropriate University management regarding an audit project(s) that will impact their Unit. The audit purpose and objective, scope, time period covered by the audit, etc. are also discussed.

3. Initial meeting:

An initial meeting is scheduled to establish the tone for the audit and to discuss the audit's scope, objectives, timing and expectations. Internal Audit will also request the auditee to describe their Unit's operations that will be impacted by the audit as well as available resources (personnel, facilities, systems, etc.) and any other issues or concerns.

4. Planning:

Written documentation of relevant processes and controls is requested and analyzed. Internal Audit will perform a walk-through to confirm the documented processes and controls. Subsequent to the completion of the preliminary risk assessment, an audit plan and program are developed to assist in the performance of an efficient and effective audit. Internal Audit has developed a quality assurance checklist to utilize on all engagements to ensure compliance with applicable professional authoritative literature and Internal Audit's in-house policies.

5. Fieldwork:

Fieldwork consists of gathering evidence and analyzing and evaluating that evidence pursuant to the audit program. Audit procedures are performed such that the most significant and high risk audit risk areas are completed first. Internal Audit utilizes Microsoft One Note to manage and electronically file audit documentation and workpapers. All engagement documentation and workpapers are reviewed by the designated supervisor(s).

6. Report draft:

The drafting of the audit report commences during the performance of fieldwork. Internal Audit schedules a meeting with Unit management to discuss the form and content of the draft report and

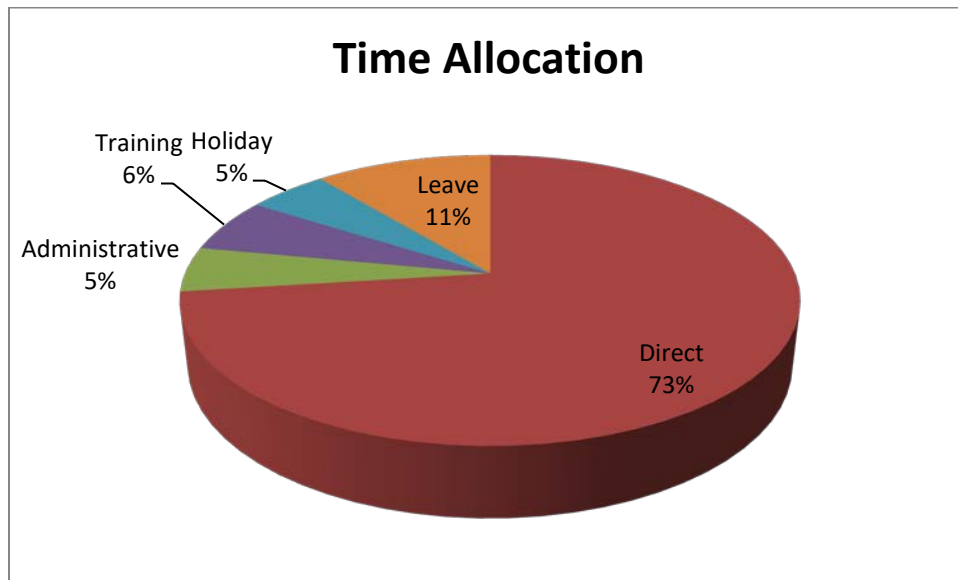


provides a copy of the draft report concurrently with or subsequent to this meeting. From a timing perspective, Internal Audit generally provides the preliminary draft report to the auditee approximately four (4) weeks prior to the next scheduled Audit Committee meeting. The auditee is requested to provide draft report comments by an agreed upon due date of receiving the initial draft report. Internal Audit incorporates relevant and appropriate comments received by the auditee into the report draft. A revised draft report is generally distributed to the auditee within one business day.

7. Report distribution to the Audit Committee Chair, Vice Chair and BOR Office:  
Subsequent to incorporating auditee comments into the draft report, the report draft will generally be distributed to the Audit Committee Chair and Vice Chair for review and comment. Subsequent to review by the Audit Committee Chair and Vice Chair, the report draft will be forwarded to the BOR Office for distribution to Audit Committee members prior to the Audit Committee meeting. The report draft will be presented by the Director of Internal Audit at the Audit Committee meeting.
8. Management response:  
Unit management is generally requested to provide a written response to findings and recommendations included in Internal Audit's report. Depending upon the timing of management's preparation of their written response, the Director of Internal Audit forwards the written response to the Audit Committee Chair and Vice Chair prior to distribution to Audit Committee members. Unit management personnel are requested to attend the Audit Committee meeting to respond to possible Audit Committee member questions and comments.
9. Final report distribution:  
Subsequent to the Audit Committee's review and acceptance of the draft report, Internal Audit finalizes and distributes printed and electronic copies of the report to Unit management and appropriate senior management personnel of the University.
10. Follow-up:  
Approximately one year subsequent to audit report issuance, Internal Audit performs a follow-up audit to assess the implementation of Internal Audit's recommendations and Unit corrective action.

### **Time Allocation**

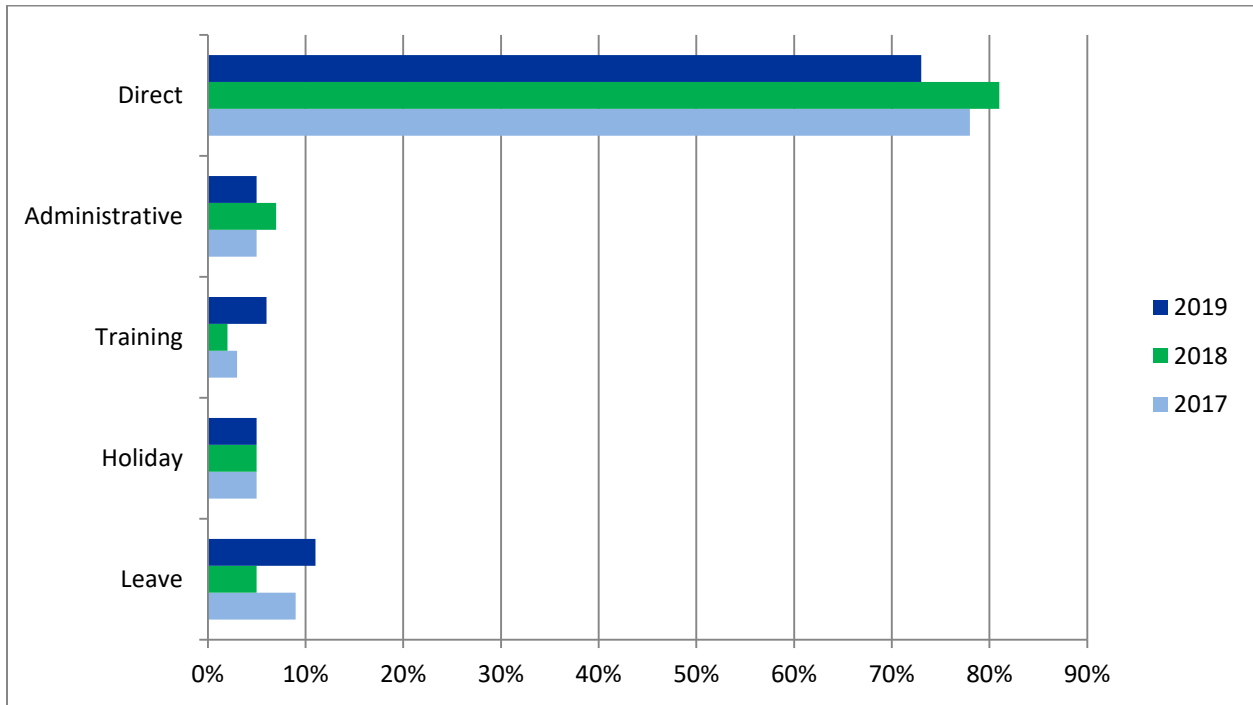
Similar to other professionals in accounting and auditing, Internal Audit tracks time spent on each project and task. The following chart summarizes the time allocation for the fiscal year ended June 30, 2019 (actual time through April 15<sup>th</sup> and estimate to complete through June 30<sup>th</sup>):



Administrative time primarily includes various human resource related functions (e.g., performance of employee evaluations, hiring of full-time and student auditors, review and approval of student auditor timesheets, etc.) and office management functions (e.g., review of current year-to-date expenses to budget and prior year expenses, engagement scheduling, etc.). Training time includes the reading of various professional organization periodicals (Association of College and University Auditors, National Association of College and University Business Officers, Journal of Accountancy, etc.) and participating in webinars and on-line courses relating to emerging accounting, auditing and operational issues primarily affecting governmental entities and higher education institutions. Additionally, for the fiscal year ended June 30, 2019, training time includes the training/onboarding of Internal Audit's two new employees.

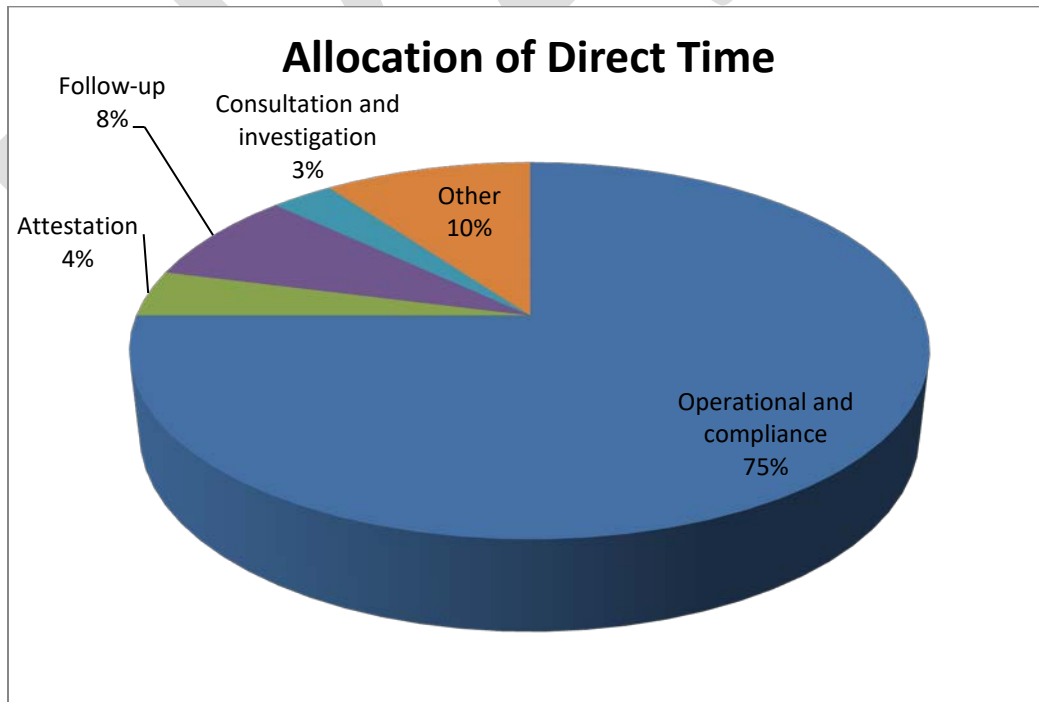
The following table and chart compares Internal Audit's allocation of total time for the fiscal years ended June 30, 2019, 2018, and 2017:

	Fiscal Year Ended June 30,		
	2019	2018	2017
Direct	73%	81%	78%
Administrative	5%	7%	5%
Training	6%	2%	3%
Holiday	5%	5%	5%
Leave	11%	5%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



**Direct Time**

Direct time represents services directly benefiting the University. The following chart summarizes the allocation of direct time by engagement type for the fiscal year ended June 30, 2019:



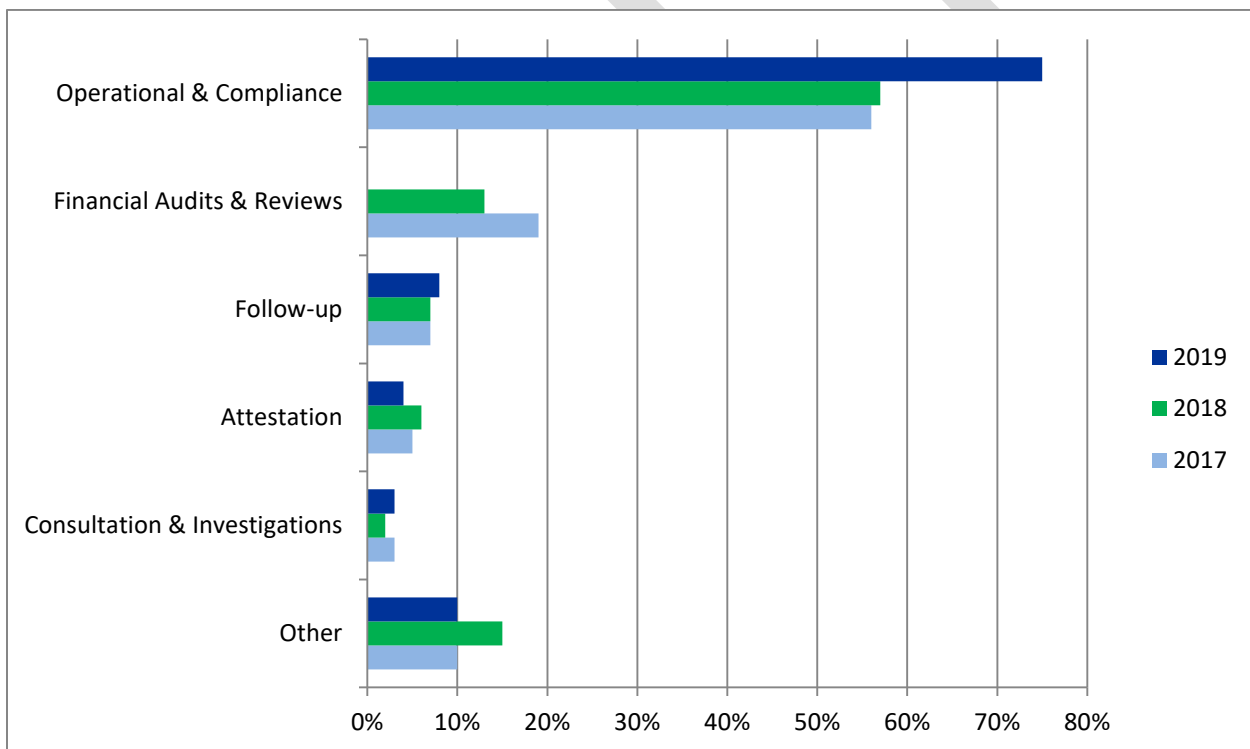




Other time represents audit related functions, such as preparing for and attending Audit Committee meetings and Audit Committee planning meetings, as well as the preparation of documents for the Audit Committee.

The following table and chart compares Internal Audit’s allocation of direct time for the fiscal years ended June 30, 2019, 2018, and 2017:

	Fiscal Year Ended June 30,		
	2019	2018	2017
Operational & Compliance	75%	57%	56%
Financial Audits & Reviews	0%	13%	19%
Follow-up	8%	7%	7%
Attestation	4%	6%	5%
Consultation & Investigations	3%	2%	3%
Other	10%	15%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
<b>AUDIT COMMITTEE ASSISTANCE</b>			
<b>1. Whistleblower Hotline</b> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: Ongoing</li> </ul>	The Audit Committee will be provided with a “Whistleblower Hotline Tracking Report” summarizing the type, nature, status, etc. of hotline reports received during their periodic meetings.	Most frequently reported complaints relate to human resource matters. Administrators continue to oversee the resolution of reported cases.	<ul style="list-style-type: none"> <li>• Continuous.</li> <li>• Report provided for the Aug. 2018, Oct. 2018 and May 2019 Audit Committee meetings.</li> </ul>
<b>2. Audit Committee Reports – Annual Report to the Board of Regents (BOR) and Hawai‘i State Legislature</b> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: July 1, 2017 – June 30, 2018</li> </ul>	Assisting the Audit Committee prepare an annual report to the Board of Regents (BOR) and Hawai‘i State Legislature identifying 1) all instances of material weakness in internal controls and 2) all instances of fraud required by HRS §304A-321.	Annual report to the Hawai‘i State Legislature dated December 2018 noted no instances of material weaknesses in internal controls over financial reporting and no instances of fraud or illegal acts.	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on November 27, 2018.</li> </ul>
<b>3. Audit Committee Reports – Annual Report to the BOR</b> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: July 1, 2018 – June 30, 2019</li> </ul>	Assisting the Audit Committee prepare an annual report to the BOR regarding the Audit Committee’s effectiveness required by HRS §304A-321.	Annual report to the BOR notes that the Audit Committee fulfilled its HRS §304A-321 and Charter responsibilities for the fiscal year ended June 30, 2019.	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented at the May 2019 Audit Committee meeting.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<b>INTERNAL AUDITS</b>					
<p><b>4. Review of Student Accounts Receivable</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: As of and for the year ended June 30, 2017.</li> </ul>	<p>Review and analyze the processes, policies and procedures related to originating, recording, collecting, reserving and writing off student accounts receivable (A/R) balances.</p> <p>In addition, evaluate compliance with University student accounts receivable policies.</p>	<p>The gross student A/R balance has increased from \$16m to \$35m during the period June 30, 2011 to June 30, 2017. To reduce the historical gross student A/R balance and mitigate the risk of creating additional uncollectible student A/R, recommendations include:</p> <ul style="list-style-type: none"> <li>• Enforce compliance with University policy requiring the cancellation of class registrations for students not making payment by stated deadlines.</li> <li>• Consolidate student A/R balances to reduce student confusion of the total amounts owed to the University</li> <li>• Investigate the cost benefit of implementing a centralized billing system.</li> <li>• Delay payment of excess student financial aid until student eligibility has been confirmed.</li> <li>• Enhance Banner system automated controls to ensure financial holds are not removed from a student's account for insignificant payments or prior to payment of all amounts owed.</li> </ul>	<p>Management response dated September 24, 2018 agreed with all recommendations.</p>	<p>An evaluation of corrective action status will be performed during fiscal year 2020.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on October 4, 2018.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>5. University of Hawai'i at Mānoa (UHM)- Review of Student Fees for Professional Program</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: Three years ended June 30, 2017</li> </ul>	<p>Evaluate the methodology for determining the professional fee amounts charged UHM students in addition to evaluating the adequacy, appropriateness, and usage of these fees by the respective professional program.</p>	<p>Overall, the establishment of professional fees for the College of Engineering, School of Nursing and Dental Hygiene and School of Architecture conformed to University policy. Internal Audit was unable to corroborate if the establishment of the professional fee for the Shidler College of Business was in conformance with University policy.</p> <p>Recommendations included:</p> <ul style="list-style-type: none"> <li>• Perform an annual review to validate whether the professional fee is reasonable based on past and expected future expense levels (all programs).</li> <li>• Implement processes and procedures for budgeting, tracking, and monitoring of professional fees and the associated expenses (all programs except for Engineering).</li> <li>• Enhance transparency by disclosing the purpose of the professional fee and the expenses incurred annually associated with the professional fees (all programs except Engineering).</li> </ul>	<p>Management response dated August 22, 2018 agreed with all recommendations.</p> <p>The expected date of addressing all findings and recommendations is April 2019.</p>	<p>An evaluation of corrective action status will be performed during fiscal year 2020 by Internal Audit.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on October 4, 2018.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>6. University of Hawai'i – Maunakea</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Financial</li> <li>• Period: Three years ended June 30, 2017 with select information updated through the end of fieldwork</li> </ul>	<p>Evaluate University funds, lease payments and any external funds received in the support of stewardship, management, education and other activities related to Maunakea, as well as review transfers of funds between entities, including both the University and RCUH, and payments made to University-related support programs by Maunakea Observatories (Observatories) or other third parties.</p>	<p>University entities involved with Maunakea have developed processes and procedures to appropriately account for their respective financial transactions in connection with their management of Maunakea. Opportunities for improvement include:</p> <ul style="list-style-type: none"> <li>• Maunakea Support Services (MKSS) should consider improving its documentation in regards to transfers between cost centers to ensure the flow of financial information is complete and accurate.</li> <li>• The Office of Maunakea Management (OMKM) and the Institute for Astronomy (IfA) should initiate discussions with the Observatories with respect to allocating a portion of Ranger Program costs to all Observatories</li> <li>• Determine if the commercial tour operator per passenger charge (\$6) is sufficient to recover the costs incurred by OMKM and MKSS in servicing these passengers.</li> <li>• IfA should consult with FMO to determine the applicability of GASB Statement No. 83 related to the future decommissioning of the four Observatories owned by the University.</li> </ul>	<p>Management response dated November 19, 2018 agreed with all recommendations.</p>	<p>An evaluation of corrective action status will be performed during fiscal year 2020 by Internal Audit.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on December 19, 2018</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>7. Review of Cash Receipts Process</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2017 through December 2018</li> </ul>	<p>Evaluate the University’s cash receipts process including 1) adequacy of internal controls; 2) proper segregation of duties; and 3) compliance with University policies. Additionally, assess compliance with the Payment Card Industry’s (PCI) Data Security Standard (DSS) given its significance to the cash receipts process.</p>	<p><u>PCI DSS Compliance:</u> Internal Audit identified non-compliance with certain PCI DSS requirements in addition to identifying N/A responses that should be evaluated and considered an area for improvement and best practices. In addition, relevant PCI DSS requirements and training should be included in University policy. Internal Audit also believes that ITS and FMO should collaborate with and support Treasury’s PCI DSS compliance efforts.</p> <p><u>Cash Receipts Process:</u> The University has sufficient processes, procedures and internal controls with respect to the initiation, authorization, processing and recordation of University related Cash receipts. Internal Audit noted instances of policy non-compliance with the most frequent exception relating to the untimely recordation of Cash receipts to KFS.</p>	<p>ITS and FMO are drafting a response.</p>	<p>An evaluation of corrective action status will be performed during fiscal year 2020 by Internal Audit.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019</li> </ul>
<p><b>8. Review of the Sodexo Food Service Contracts</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2017 - June 30, 2018</li> </ul>	<p>Review and evaluate Sodexo’s compliance with the terms and conditions of the four Sodexo contracts (UHM, UHH, UHM Athletics and UH Maui College). In addition, identify contract terms and conditions that are beneficial to the University but that are not included in all contracts.</p>	<p>Overall, Internal Audit noted significant inconsistencies in the various Sodexo contracts. The University should investigate and consider the feasibility of entering into a single food services contract to drive efficiencies and ensure consistency of contract terms and conditions.</p> <p>Internal Audit noted minimal and insignificant instances of Sodexo noncompliance.</p>	<p>Not deemed necessary as no corrective actions were identified.</p>	<p>An evaluation of corrective action status will be performed during fiscal year 2020 by Internal Audit.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>9. Associated Students of the University of Hawai'i at Mānoa (ASUH)</b></p> <ul style="list-style-type: none"> <li>• Type: Operational and Compliance</li> <li>• Period: July 1, 2017 – June 30, 2018</li> </ul>	<p>Perform an operational and compliance review of service awards and graduate test preparation awards.</p>	<p><u>Service Awards</u>: ASUH personnel generally complied with written ASUH and University policies and procedures and controls were generally operating as intended.</p> <p>Opportunities for improvement include:</p> <ul style="list-style-type: none"> <li>• Either comply with ASUH Senate Rule 19-4 or revise this rule to allow for flexibility in the granting of Service Awards.</li> <li>• Implement a consistent approach to documenting the granting of monthly Service Awards.</li> </ul> <p><u>Graduate test preparation awards (GTPAs)</u>: ASUH personnel generally complied with written ASUH policies and procedures and controls were generally operating as intended.</p> <p>Opportunities for improvement include:</p> <ul style="list-style-type: none"> <li>• Enhance the eligibility review process to ensure conformance with written requirements.</li> <li>• Adopt policies requiring award payment within a specified period of time since certain awards were paid six months after student submission of required information.</li> </ul>	<p>ASUH Advisors and Executive Board will draft a response.</p>	<p>An evaluation of corrective action status will be performed by Internal Audit.</p>	<ul style="list-style-type: none"> <li>• Pending ASUH review of the draft report and preparation of management's response.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>10. Suspense and Clearing Accounts</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: As of and for the year ended June 30, 2018.</li> </ul>	<p>Internal Audit will assess compliance with AP 8.650, <i>Continuation Accounts</i>, and review the purpose of these accounts and the process of classifying such accounts for financial statement reporting purposes.</p>	<p><u>Preliminary:</u> As of June 30, 2018, KFS had 961 accounts designated as an account type “Clearing” or “CL”. Of those, approximately 200 were active (i.e., financial transactions were recorded to the account) on average during fiscal years 2018, 2017 and 2016.</p> <p>FMO personnel informed Internal Audit that the CL or Clearing accounts are primarily utilized to record transactions for closed KFS accounts.</p>	<p>N/A</p>	<p>N/A</p>	<ul style="list-style-type: none"> <li>• Preliminary planning meeting conducted.</li> <li>• Information is being gathered and reviewed.</li> <li>• Report is in draft form.</li> </ul>
<p><b>11. UHM Bookstore</b></p> <ul style="list-style-type: none"> <li>• Type: Operational and Financial</li> <li>• Period: July 1, 2017 - June 30, 2018.</li> </ul>	<p>Review operational and financial aspects of the Bookstore, including inventory management and related accounting and operational controls, monitoring of outstanding accounts receivable and credit memos, and monitoring and management of financial results.</p>	<p><u>Preliminary:</u></p> <ul style="list-style-type: none"> <li>• Approximately \$1.1 million of unapplied credit memos and chargebacks (approximately \$100,000 greater than 120 days outstanding) as of June 30, 2018</li> <li>• Operating loss (operating expenses less operating revenues) of approximately \$687,000 for the year ended June 30, 2018</li> <li>• UHM Conference &amp; Event Services (CES) is a component of the Bookstore’s operations that incurred operating losses for the years ended June 30, 2018 and 2017 of approximately \$67,000 and \$21,000, respectively.</li> </ul>	<p>N/A</p>	<p>N/A</p>	<ul style="list-style-type: none"> <li>• Preliminary planning meeting conducted.</li> <li>• Information is being gathered and reviewed.</li> <li>• Report is in draft form.</li> </ul>



**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<b>FOLLOW-UP</b>					
<p><b>12. Auditee Status – University of Hawai‘i Press</b></p> <ul style="list-style-type: none"> <li>• Type: Follow-up</li> <li>• Period: Through December 31, 2017</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Six (6) recommendations identified in the prior year.</p>	<p>Management informed Internal Audit that all recommendations have been implemented.</p>	<p>All recommendations have been implemented.</p>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on January 17, 2019.</li> </ul>
<p><b>13. Auditee Status – UHM Student Housing Services</b></p> <ul style="list-style-type: none"> <li>• Type: Follow-up</li> <li>• Period: Through December 31, 2017</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Fourteen (14) recommendations identified in the prior year.</p>	<p>Management informed Internal Audit that all recommendations have been implemented or are in the process of being implemented.</p>	<p>All recommendations were implemented or in process with expected implementation in fiscal year 2020. In process recommendations included:</p> <ul style="list-style-type: none"> <li>• Monthly comparison of actual financial results to budgeted amounts for the corresponding period.</li> <li>• Renegotiate all expired contracts (e.g., laundry contract that expired in 2011).</li> <li>• Finalize draft deferred maintenance plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on January 17, 2019.</li> <li>• UHM Student Housing management provided a revised management response dated January 10, 2019.</li> <li>• I/A to perform additional follow up procedures in fiscal year 2020.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>14. Auditee Status – UHH Student Housing Services</b></p> <ul style="list-style-type: none"> <li>• Type: Follow-up</li> <li>• Period: Through December 31, 2017</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Ten (10) recommendations identified in the prior year.</p>	<p>Management informed Internal Audit that all recommendations have been implemented or are in the process of being implemented.</p>	<p>All recommendations were implemented or in process with expected implementation in fiscal year 2020. In process recommendations included:</p> <ul style="list-style-type: none"> <li>• Installation of air conditioning in Hale ‘Alahonua.</li> <li>• Improve the review process for the quarterly budget to actual financial analysis.</li> <li>• Evaluate StarRez features/modules to assist reconciling to KFS.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on January 17, 2019.</li> <li>• UHH Student Housing management provided a revised management response dated January 10, 2019.</li> <li>• I/A to perform additional follow up procedures in fiscal year 2020.</li> </ul>
<p><b>15. Auditee Status - Travel Policy Compliance</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2018</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Ten (10) recommendations identified in the prior year.</p>	<p>Management response letter dated September 22, 2017 agreed with all findings and recommendations.</p> <p>The expected date of addressing all findings and recommendations ranged from March 2018 – June 2018.</p>	<p>All recommendations were implemented or in process with implementation in fiscal year 2020.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
<p><b>16. Auditee Status– Review of Employee Cell Phone Charges</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2018</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Three (3) recommendations identified in the prior year.</p>	<p>Management response letter dated January 22, 2018 agreed with all findings and recommendations.</p> <p>The expected date of addressing all findings and recommendations was December 31, 2018.</p>	<p>All recommendations have been implemented.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019.</li> </ul>
<p><b>17. Auditee Status – UHM Athletics Equipment and Apparel</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through June 30, 2018.</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Five (5) pending recommendations were assigned to the Head Equipment Mgr. who was expected to be hired in the prior year.</p>	<p>N/A</p>	<p>All recommendations have been implemented or solutions have been developed that will be implemented in fiscal year 2020.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019.</li> </ul>
<p><b>18. Auditee Status – UHM Commuter Services</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through June 30, 2018</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Four (4) pending recommendations were to be fully implemented by December 2017.</p>	<p>N/A</p>	<p>All recommendations have been implemented or solutions have been developed that will be implemented in fiscal year 2020.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented to the Audit Committee on May 2, 2019.</li> </ul>
<p><b>19. Auditee Status– Associated Students of the University of Hawai‘i at Mānoa (ASUH)</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2018</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Internal Audit noted instances of noncompliance with ASUH investment policy.</p>	<p>Management response letter dated January 24, 2018 agreed with the management letter recommendation noting that ASUH will draft and present revisions of RP 8.207 to the BOR by June 2019 to address this</p>	<p>I/A noted that the ASUH investment portfolio has been in compliance with ASUH investment policy since late 2017 and recommended that ASUH improve documentation</p>	<ul style="list-style-type: none"> <li>• <del>Complete.</del></li> <li>• Pending ASUH review of draft report and preparation of management response.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Implementation Status	Status
			matter.	supporting investment policy compliance.	
<p><b>20. Auditee Status - UHM Outreach College</b></p> <ul style="list-style-type: none"> <li>• Type: Follow-up</li> <li>• Period: Through December 31, 2018</li> </ul>	Assess the implementation status of corrective action.	Eight (8) recommendations identified in the prior year.	<p>Management response letter dated January 31, 2018 agreed with all recommendations.</p> <p>The expected date of addressing all recommendations range from the Fall 2018 semester to the Spring 2019 semester except that the 10-week NICE program course recommendation, which may be impacted by the campus reorganization.</p>	<u>Preliminary:</u> All recommendations have been implemented or solutions have been developed that are expected to be implemented in fiscal year 2020.	<ul style="list-style-type: none"> <li>• Fieldwork complete.</li> <li>• Audit report in draft form.</li> </ul>
<p><b>21. Auditee Status - University of Hawai'i – Capital Improvement Projects and Repairs and Maintenance</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2018.</li> </ul>	Assess the implementation status of corrective action.	Thirteen (13) recommendations identified in the prior year.	Management response letter dated March 2, 2018 agreed with all recommendations, but noted for two (2) of the recommendations that an analysis of the risks vs benefits of implementation would be required.	<u>Preliminary:</u> All corrective actions have been completed or are in process.	<ul style="list-style-type: none"> <li>• Fieldwork in process.</li> <li>• Audit report in draft form.</li> </ul>
<p><b>22. Auditee Status– Check</b></p>	Assess the implementation status of corrective action.	Six (6) recommendations identified in the prior year.	Management response letter dated March 2,	<u>Preliminary:</u> All corrective actions	<ul style="list-style-type: none"> <li>• Preliminary meetings</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2019**

<b>Engagement</b>	<b>Primary Objective(s)/ Audit Scope</b>	<b>Condensed Conclusions &amp; Comments</b>	<b>Management Response/Action Plan</b>	<b>Implementation Status</b>	<b>Status</b>
<p><b>Disbursements less than \$2,500</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2018.</li> </ul>			<p>2018 agreed with all recommendations but will analyze the risks and benefits associated with the MCC restrictions and penalties for policy non-compliance.</p>	<p>are in progress and expected to be completed in fiscal year 2020.</p>	<p>conducted.</p>

DRAFT

**UNIVERSITY OF HAWAI‘I**  
**REVIEW OF THE SODEXO FOOD SERVICE**  
**CONTRACTS**

March 2019

DRAFT



University of Hawai'i  
Office of Internal Audit

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UNIVERSITY  
of HAWAII®  
SYSTEM

March 15, 2019

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

The University of Hawai'i (University) has entered into various food services contracts with Sodexo America, LLC (Sodexo) for the following campuses/departments: University of Hawai'i at Mānoa (UHM), University of Hawai'i at Hilo (UHH), UHM Athletics Department (UHM Athletics) and University of Hawai'i Maui College (UHMC). A University employee (Contract Administrator) manages each Sodexo contract in addition to monitoring Sodexo's compliance with the contract's terms and conditions. Internal Audit was informed that separate contracts were executed to meet the particular food service needs of each campus/department, which has led to substantial differences in contract structure and terms/conditions.

In regards to contract compliance, Internal Audit noted minimal and insignificant instances of Sodexo noncompliance for three of the four contracts. No instances of noncompliance were noted for the UHM Athletics Sodexo Contract. With respect to monitoring contract compliance, Internal Audit noted that Contract Administrator processes and procedures were generally sufficient, but not always consistent.

Internal Audit recommends that the UHM, UHH and UHMC Contract Administrators collaborate with each other and with Sodexo to determine a consistent approach to monitor compliance with all contract terms and conditions, or, if applicable, which contract terms and conditions both parties agree are no longer deemed to be of value and thus are no longer required. Internal Audit believes the University should investigate and consider the feasibility of entering into a single food services contract to drive efficiencies in contract management and monitoring.

Sincerely,

Glenn Shizumura  
Director

**University of Hawai‘i  
Review of the Sodexo Food Service Contracts  
March 2019**

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**I. Background / Objectives**

The University of Hawai‘i (University) entered into various food services contracts with Sodexo America, LLC (Sodexo). The University’s current Sodexo food services contracts (hereafter referred to as “Sodexo Contracts”) are as follows:

**Table 1: Summary of Sodexo Contracts**

<b>University Campus/Entity</b>	<b>Effective Date</b>	<b>Contract Expiration Date</b>	<b>Contract Description</b>
University of Hawai‘i at Mānoa (UHM)	May 15, 2010	May 14, 2015 (initial five year contract has been renewed annually through May 14, 2019)	Board meal operations (meal plans) in the UHM student resident halls and retail operations at the UHM Campus Center and other student affairs related facilities (i.e., convenience store located at the UHM student housing complex). Food service for the University Children’s Center.
University of Hawai‘i at Hilo (UHH)	July 1, 2015	June 30, 2020	Board meal operations (meal plans) in the UHH student resident halls and retail operations at the UHH Campus Center.
UHM Athletics Department (UHM Athletics)	July 1, 2016	June 30, 2023	Food and beverage concessions at UHM athletic events (Stan Sheriff Center, Murakami baseball stadium, etc.).
University of Hawai‘i Maui College (UHMC)	August 19, 2015	August 18, 2016 (renewable annually for five years)	Management of the administrative functions for retail food services operations and the Culinary Arts Program at UHMC.

The procurement of each of the above contracts was managed by the University’s Office of Procurement and Real Property Management (OPRPM). From a historical perspective, separate contracts were executed to meet the particular food service needs of each department/campus, which has led to substantial differences in contract structure and terms/conditions.

For each of the University’s Sodexo Contracts, a specific University employee (Contract Administrator) is responsible for managing and monitoring Sodexo’s compliance with the terms and conditions of their respective contract. The Contract Administrator(s) for each Sodexo Contract is/are as follows:

- UHM- Director of Student Life and Development (SLD) Business Services
- UHH- Director of Special Projects, Administrative Affairs (retail operations) and the Director of Housing (campus dining)
- UHM Athletics- Manager of University Housing/Food Services/Mail Services
- UHMC- Vice Chancellor for Administrative Affairs

The Office of Internal Audit (Internal Audit) issued a report dated March 2013 noting that the UHM Director of SLD Business Operations was diligently monitoring the UHM Sodexo Contract and that the financial and operational results were relatively consistent with the budgets and goals established by UHM. However, Internal Audit also noted that the contract provisions provided Sodexo with substantial rewards (reimbursement of all operating expenses exceeding retail sales plus management fees) with minimal risks and incentives to manage the food program more efficiently and effectively, thereby minimizing UHM’s amount of reimbursements to Sodexo. Fiscal 2017 audit projects related to UHM Student Housing and UHH Student Housing noted different terms and



**University of Hawai‘i**  
**Review of the Sodexo Food Service Contracts**  
**March 2019**

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conditions with the respective Sodexo Contracts in addition to certain non-compliance issues with respect to the UHH Sodexo Contract.

The objective of this audit is to review the Sodexo Contracts and evaluate Sodexo’s compliance with the terms and conditions of the respective contracts. Internal Audit will also compare the Sodexo Contracts to identify terms and conditions that are beneficial to the University but that are not included in all Sodexo Contracts.

## **II. Work Performed**

Internal Audit reviewed the contract terms of each Sodexo Contract to evaluate consistency as well as the financial and operational impact to the University. Internal Audit also met with and/or held multiple discussions with each Contract Administrator to discuss the terms and conditions of their respective contract as well as Sodexo’s compliance with these terms and conditions. In connection with evaluating Sodexo’s compliance with the terms of each contract, Internal Audit reviewed the following documents:

- Invoices (e.g., fee invoices from Sodexo to the University, supporting vendor invoices, etc.)
- Sodexo annual operating budgets and expenditure plans
- Sodexo food service financial reports (unaudited)
- Relevant Sodexo audit reports (internal and external)
- Correspondence between University and Sodexo personnel
- Sodexo equipment repair and replacement schedules
- The results of annual food service surveys
- Sodexo employee medical certificates
- State of Hawai‘i (State) Department of Health (DOH) inspection reports
- Required Sodexo insurance certificates and third party fidelity bonds
- Other documents as needed

Furthermore, Internal Audit reviewed each Contract Administrator’s process to monitor Sodexo’s compliance with their respective contract. For purposes of determining if the Sodexo Contract provisions provide the University with favorable outcomes (financial, environmental, health and safety, etc.) from a food service standpoint, Internal Audit researched and compared the Sodexo Contracts to higher education institution food services standards and best practices.

## **III. Observations and Testing**

### **A. Sodexo Contracts Financial Considerations**

#### **1. UHM Sodexo Contract**

According to the University’s Vice President for Budget and Finance/Chief Financial Officer (CFO) and the UHM Director of SLD Business Services, the current Sodexo contract is structured as a management contract (an arrangement under which operational control of an enterprise is vested in a separate enterprise that performs the managerial functions in return for a fee) due to potential income tax consequences arising from the financing of UHM Campus Center improvements with tax-exempt revenue bonds. However, according to the CFO, these restrictions were lifted in December 2017.

Pursuant to the terms of the current management contract, UHM pays Sodexo a fixed annual management fee (\$650,000) plus 2.5% of gross retail sales. Additionally, UHM reimburses Sodexo for any operating expenses not offset by net retail sales. Management fees, variable fees and reimbursement of expenses are paid by UHM to

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Sodexo on a monthly basis. As noted in the Background section of this report, this structure provides Sodexo with substantial rewards with minimal risks and incentives to manage the food program more efficiently and effectively.

The University’s CFO informed Internal Audit that as of January 2018, the potential tax consequences associated with the tax-exempt revenue bonds used to finance UHM Campus Center improvements are no longer applicable due to the University refinancing and converting a portion of tax-exempt revenue bonds to taxable revenue bonds. UHM SLD Business Services collaborated with OPRPM to issue a Call for Offers on February 5, 2019 for a new UHM food services contract. According to the Director of SLD Business Services, the new food services provider will be selected in mid-May 2019 and the new contract (commencing July 1, 2019) is planned to be structured as a concession contract (a negotiated contract between a company and a governmental entity that gives the company the right to operate a specific business within the government’s jurisdiction, subject to certain conditions).

Historically, the University has renewed the existing UHM Sodexo Contract (expired in May 2015) on an annual basis. For the three years ended June 30, 2018, Internal Audit reviewed financial information (Sodexo Operating Statements, annual budget to actual analyses, revenues and expenses recorded in the University’s general ledger system, Quali Financial System (KFS), etc.) related to the UHM Sodexo Contract. The following financial results were derived from a combination of Sodexo Operating Statements and reports prepared by the Director of SLD Business Services and compared to KFS noting no significant differences:

**Table 2: Financial Results- UHM Sodexo Contract (unaudited)**

	<b>For the years ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b><u>Revenues</u></b>			
Retail Sales per Sodexo	\$11,248,485	\$11,039,782	\$12,017,423
Less: Meal Points and Equivalencies included in Retail Sales	(4,259,591)	(4,311,244)	(4,769,100)
Net Retail Sales (collected by Sodexo)	6,988,894	6,728,538	7,248,323
UHM Student Housing:			
Meal Points and other Student Dining Programs	11,821,617	12,005,376	11,555,351
Conference and Other Sales	777,765	398,320	370,488
Total	12,599,382	12,403,696	11,925,839
<b>Total Revenues</b>	<b>\$19,588,276</b>	<b>\$19,132,234</b>	<b>\$19,174,162</b>
<b><u>Expenses</u></b>			
Operating Expense Reimbursement (paid to Sodexo)	\$ 9,160,878	\$ 8,532,905	\$ 8,879,948
Sodexo Operating Expenses offset by Net Retail Sales	6,988,894	6,728,538	7,248,323
Total Sodexo Operating Expenses	16,149,772	15,261,443	16,128,271
Management Fees (paid to Sodexo)	650,000	650,000	650,000
Variable Fees (paid to Sodexo)	281,029	276,086	300,155
Other Expenses/(Revenue)	419,868	(124)	(13,020)
Total Expenses	\$17,500,669	\$16,187,405	\$17,065,406
Excess Revenues over Expenses <sup>1</sup>	<b>\$ 2,087,607</b>	<b>\$ 2,944,829</b>	<b>\$ 2,108,756</b>
Profit as a percentage of Total Revenues	<b>10.7%</b>	<b>15.4%</b>	<b>11.0%</b>

1- According to the Director of SLD Business Services, 50% of the Excess Revenues over Expenses (less any amounts reserved for projects) is provided to UHM Student Housing Services and the remainder is retained by SLD to offset other expenses associated with the food services program, such as utility (electricity, water, gas) expenses.

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For the fiscal year ended June 30, 2018, Internal Audit recalculated fixed/variable fee amounts and compared to amounts noted on the monthly operating statements and paid to Sodexo, noting no differences. Additionally, Internal Audit reviewed the fiscal year 2018 operating budget, as well as a comparison of budgeted amounts to actual amounts, and noted actual revenues were greater than budget by approximately \$200,000, while actual expenses were greater than budget by approximately \$800,000, primarily due to higher than expected labor costs. According to the UHM Contract Administrator, the labor budget overruns were primarily due to the increase in minimum wage and the hiring of two open positions.

**2. UHH Sodexo Contract**

The UHH Sodexo Contract is structured as a concession contract, whereby all food service revenues are recorded/deposited by Sodexo. Sodexo also incurs and is not reimbursed for the majority of operating expenses (except for certain utility costs that are the responsibility of UHH). Under the contract, UHH is compensated (commissions) as follows:

- 5% of board meal plans revenues
- 5% of retail sales
- 10% of catering sales

Commissions are paid by Sodexo to UHH on a monthly basis. For the three years ended June 30, 2018, Internal Audit reviewed financial information (Sodexo Operating Statements, annual budget to actual analyses, revenues and expenses recorded in KFS, etc.) related to the UHH Sodexo Contract. The following financial results were derived from Sodexo Operating Statements and the commissions received from Sodexo were compared to KFS noting no significant differences:

**Table 3: Financial Results- UHH Sodexo Contract (unaudited)**

<b>Sodexo Revenues</b>	<b>For the years ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Board Meal Plans	\$2,195,982	\$1,924,595	\$1,905,197
Retail Sales	1,362,988	1,315,670	1,418,861
Conference, Catering and Other Sales	329,101	305,001	395,410
Total Revenues	\$3,888,071	\$3,545,266	\$3,719,468
Commissions Received from Sodexo	\$ 208,193	\$ 190,930	\$ 205,340
Commissions as a percentage of Total Revenues	5.4%	5.4%	5.5%

Additionally, for the year ended June 30, 2018, Internal Audit compared Sodexo remittance statements and corresponding checks to the commissions received per **Table 3** above, noting no differences. Furthermore, using the commission rates noted previously in this section, Internal Audit recalculated the expected commissions for the year ended June 30, 2018, noting an insignificant difference that was favorable to the University. Finally, Internal Audit reviewed the annual sales and rebate audit report for the year ended June 30, 2018 prepared by an independent certified public accounting firm pursuant to the Sodexo Contract. Internal Audit noted that an unmodified report was issued with no identified differences in the calculation of commissions.

Furthermore, Internal Audit noted that not all UHH food services related expenses are paid for by Sodexo. These expenses consisting of utilities (water and electricity) are the responsibility of UHH and are not included in the analysis in **Table 3**.

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**3. UHM Athletics Sodexo Contract**

The UHM Athletics Sodexo Contract provides Sodexo catering concession rights at the following UHM athletic facilities:

- Stan Sheriff Center
- Les Murakami Stadium
- Rainbow Wahine Softball Stadium
- Clarence T.C. Ching Athletic Complex
- Duke Kahanamoku Aquatic Complex (excluding the Swimming Pool Café)
- UH Tennis Complex

This contract is structured as a concession contract, whereby all food services revenues are recorded/deposited by Sodexo. Similar to the UHH contract, Sodexo incurs and is not reimbursed for the majority of operating expenses (except for certain utility costs that are the responsibility of UHM Athletics). Under the contract, UHM Athletics is compensated (commissions) as follows:

- 35.01% of food and beverage concessions
- 35% for alcoholic beverage concessions
- 12% of catering sales

For non-University events (e.g., National Basketball Association exhibition games), commission rates must be mutually agreed upon on an event by event basis, but cannot be less than 35%. For high school events, Sodexo may waive the requirement to supply concession service by submitting such a request in writing seven calendar days before the event. The UHM Director of Athletics can withdraw Sodexo’s concession rights for up to five events per year provided that Sodexo is notified in writing prior to the event.

Internal Audit also noted that the UHM Athletics Sodexo Contract requires Sodexo to offer a Supplemental Meal Program for student-athletes upon request. The Supplemental Meal Program is subject to mutual agreement between Sodexo and UHM Athletics under a separate written agreement. Internal Audit noted that the Supplemental Meal Program was initially established as part of the 2009 UHM Athletics Sodexo Contract and has been renegotiated annually via a sole source procurement with the following pricing (for fiscal year 2019):

- Breakfast- \$11.00
- Lunch- \$11.00
- Dinner- \$13.50

The Supplemental Meal Program is available for all rostered UHM student-athletes in all sports. The meals are provided on a team basis. On days when a student-athlete attends practice, the student-athlete is eligible for one supplemental meal (breakfast, lunch, or dinner). On average, approximately 35,700 meals (23,600 breakfasts, 1,200 lunches and 10,900 dinners) are served to UHM student-athletes annually.

Commissions under the UHM Athletics Sodexo Contract are paid by Sodexo to UHM Athletics on a monthly basis. For the three years ended June 30, 2018, Internal Audit reviewed financial information (Sodexo Operating Statements, annual budget to actual analyses, revenues and expenses recorded in KFS, etc.) related to the UHM Athletics Sodexo Contract. The following financial results were derived from Sodexo Operating Statements and compared to KFS noting no significant differences:

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**Table 4: Financial Results- UHM Athletics Sodexo Contract (unaudited)**

<b>Sodexo Revenues</b>	<b>For the years ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Food and Beverage (non-alcoholic) Concessions	\$1,569,253	\$1,481,230	\$1,438,093
Alcoholic Beverages Concessions	737,795	725,008	636,415
Catering and Other Sales	424,671	411,603	600,079
Total Revenues	\$2,731,719	\$2,617,841	\$2,674,587
Commissions from Sodexo paid to UHM Athletics	\$ 836,805	\$ 850,185	\$ 813,444
Commissions as a percentage of Total Revenues	30.6%	32.5%	30.4%
Supplemental Meal Program Revenues	\$ 508,200	\$ 548,348	\$ 460,325

For the year ended June 30, 2018, Internal Audit compared Sodexo remittance statements and corresponding checks to the commissions received per **Table 4** above, noting no differences. Furthermore, using the commission rates noted previously in this section, Internal Audit recalculated the expected commissions for the year ended June 30, 2018, noting no differences. Finally, Internal Audit reviewed the annual sales and rebate audit report conducted by an independent certified public accounting firm, and noted that an unmodified report was issued with no differences in the calculation of commissions identified.

**4. UHMC Sodexo Contract**

Under the UHMC Sodexo Contract, Sodexo manages the administrative functions for retail food services operations (in the Pa‘ina Culinary Arts Center) and the Culinary Arts Program at UHMC. Administrative functions managed by Sodexo include inventory purchasing and control, equipment acquisition and maintenance, customer service, receipt and deposit of cash. The contract is structured as a managed services contract (a contract that outsources certain processes and functions intended to improve operations and decrease expenses), whereby UHMC pays an annual fixed management fee (\$100,000) and reimburses Sodexo for any operating deficits resulting from operating expenses exceeding operating revenues (Sodexo pays surpluses, if any, to UHMC). Management fees and surplus/deficits are paid by the respective party on a monthly basis.

For the three years ended June 30, 2018, Internal Audit reviewed financial information (Sodexo Operating Statements, annual budget to actual analyses, revenues and expenses recorded in KFS, etc.) related to the UHMC Sodexo Contract. The following financial results were derived from Sodexo Operating Statements and compared to KFS noting no significant differences:

**Table 5: Financial Results- UHMC Sodexo Contract (unaudited)**

<b>Revenues</b>	<b>For the years ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Retail Sales	\$ 588,461	\$ 504,307	\$ 465,778
Catering and Other Sales	229,437	202,652	122,517
Total Revenues	\$ 817,898	\$ 706,959	\$ 588,295
<b>Expenses</b>			
Operating Expenses	826,187	746,719	631,674
Deficit (reimbursed to Sodexo)	\$ (8,289)	\$ (39,760)	\$ (43,379)
Management Fees (paid to Sodexo)	\$ 100,000	\$ 100,000	\$ 91,209
Total paid to Sodexo	\$(108,289)	\$(139,760)	\$(134,588)

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Internal Audit reviewed the fiscal year 2018 operating budget and noted that actual amounts were less than budgeted amounts by approximately \$1,000. Internal Audit also reviewed the annual Sodexo staffing plan and noted that estimated labor costs were approximately \$14,000 greater than the amount recorded on the budget. Internal Audit was informed that the difference related to an open position that was included in the staffing plan but not included in the budget. Finally, for the year ended June 30, 2018, Internal Audit reviewed copies of checks paid by Sodexo to UHMC (related to monthly surpluses) and paid by UHMC to Sodexo (related to monthly deficits), noting no differences to the amounts recorded in KFS or on the monthly Sodexo operating statements.

***Conclusions:***

Internal Audit noted insignificant differences between KFS and the amounts recorded on the Sodexo Operating Statements or UH-prepared financial reports. Additionally, Internal Audit noted the following:

1. UHH  
UHH’s analysis of the food service program’s operating results and financial success does not include all UHH food services related costs. Thus, Internal Audit believes the UHH Contract Administrators should consider including all UHH food services related costs (e.g., utilities (water and electricity)) in the analysis of the Sodexo Contract’s profitability, as well as during future contract negotiations. The UHH Vice Chancellor of Students and UHH Contract Administrators concurred with the conclusion.
2. UHMC  
The fiscal year 2018 payroll expense estimate per the annual budget was less than the staffing plan leading to payroll expense budget overruns. Internal Audit recommends that the Contract Administrator compare the annual budget to the staffing plan for consistency prior to approval. The UHMC Vice Chancellor of Administration (Contract Administrator) concurred with the conclusion.

**B. Sodexo Contracts Consistency/Favorability to the University**

Internal Audit reviewed each of the Sodexo Contracts and compared contract terms for consistency and favorability to the University. Favorability has been evaluated as follows:

- Financial- contract terms that benefit the University by increasing revenue or decreasing expenses.
- Health and Safety- contract terms that reduce the risk of health and safety issues arising at the University.
- Environmental- contract terms that improve waste management and/or sustainability at the University.

Internal Audit’s review of the Sodexo Contracts noted the following contract terms consistent across all Sodexo Contracts:

- Sodexo shall submit monthly operating statements.
- Sodexo shall submit a proposed annual budget for the upcoming fiscal year for University review/approval.
- Sodexo is responsible for maintaining sanitary working and dining areas and shall comply with all federal, State, and University health and sanitation regulations that apply to food service operations.
- Sodexo shall repair and maintain facilities in compliance with University regulations, as well as all State and local health and sanitation regulations.
- Sodexo shall maintain an insurance policy that provides Combined Single Limited Coverage in the amount of \$5,000,000 per occurrence (UHMC requirement is \$1,000,000 per occurrence and \$2,000,000 annual aggregate).
- Sodexo shall indemnify, defend and hold harmless the University and the State, and their officers, employees, agents, or any person acting on their behalf from and against (summarized) legal claims,

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liabilities and lawsuits. Sodexo shall reimburse all attorneys’ fees, costs and expenses incurred in connection with the defense of any such claims.

- Sodexo shall observe and comply with all federal, State and local laws or ordinances, rules and regulations which in any manner affect those engaged or employed in the performance of the work, the manufacture and sale of materials and equipment required under the contract, and the conduct of the work.

The results of Internal Audit’s comparison of the contract terms in each of the Sodexo Contracts is provided in Appendix A (excluding the contract terms noted above that are consistent across all Sodexo Contracts), and arranged into three categories as follows:

1. **“Must haves”**- Those contract terms Internal Audit believes are essential to each Sodexo Contract (unless not applicable based on the type of contract). NOTE: Internal Audit believes all of the contract terms previously noted that are consistent across all current Sodexo Contracts are “must haves”.
2. **“Nice to haves”**- Those contract terms Internal Audit believes would be beneficial to the University and should be considered for inclusion on a case by case basis if applicable based on the type and requirements of contract.
3. **“Insignificant”**- Those contract terms Internal Audit believes provide minimal, if any, benefit to the University.

Based on the comparison, Internal Audit noted substantial differences between the Sodexo Contracts. Because of these differences, each Sodexo Contract must be managed and monitored individually to ensure compliance. This lack of consistency exposes the University to risks and inefficiencies that could be limited by a more standardized (and potentially centralized/single) contract. Some examples of the “must have” contract terms from Appendix A that would benefit all Sodexo Contracts are as follows:

**“Must haves”**

- The University reserves the right, at its expense, to audit or cause to be audited Sodexo's books and accounts with the University at any time during the term of the contract and for 5 years thereafter.
- Sodexo shall maintain accurate, complete and separate books of accounts according to Generally Accepted Accounting Principles (GAAP) with appropriate supporting data and documents.
- Sodexo agrees to keep a sufficient variety and quantity of food in stock at the premises or a purveyor's warehouse to enable Sodexo to continue the food service concessions operations for at least 7 days in case of cessation of food deliveries to the State of Hawai‘i.
- Sodexo shall be responsible for providing food handler certificates and/or medical examinations as required by law and will make such records available for review upon University request. Any contagious disease such as hepatitis must be reported immediately to the University.
- Sodexo shall maintain an adequate staff at all times.
- Sodexo shall annually submit a schedule of planned major repair and replacement of all facility and equipment assets for discussion with the Contract Administrator.
- Sodexo shall be responsible for maintaining the card readers in compliance with the Payment Card Industry’s Data Security Standard.
- Sodexo shall conduct a food service survey at least once a year. The survey instrument shall be approved by the University and results of the survey submitted to the University.
- Sodexo must obtain written approval for all menu and pricing changes (including catering via the approved catering guides and including the retail program).

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***Conclusions:***

Internal Audit noted significant differences in the terms and conditions included in the various Sodexo Contracts (see Appendix A). Monitoring compliance with the various contract terms and conditions across the four contracts requires substantial effort on the part of University (see *Section D. Evaluation of University Contract Compliance Monitoring*) and Sodexo personnel. Thus, the University should investigate and consider the feasibility of entering into a single food services contract in order to drive efficiencies and ensure consistency of contract terms and conditions.

Internal Audit was informed that a Call For Offers was issued in February 2019 for the UHM food service contract. The current expectation is to prepare the UHM food services contract utilizing terms and conditions similar to the UHH Sodexo Contract (i.e., concessions).

**C. Sodexo Contracts Compliance Testing**

Internal Audit met with the Sodexo Regional Vice President (Sodexo Liaison) to discuss and enhance Internal Audit’s understanding of the various contract terms for each Sodexo Contract. To test contract compliance, Internal Audit reviewed documentation verifying compliance with the following contract terms for each Sodexo Contract.

DOH inspection reports

Sodexo managed food service facilities are to be inspected annually by DOH. Internal Audit reviewed DOH inspection reports and noted no compliance violations that were not resolved on site. All DOH inspection reports reviewed by Internal Audit resulted in green placards (i.e., no more than one critical violation that must be corrected at the time of inspection) being issued.

Health and safety training

Sodexo employees are required to verify that required training materials have been reviewed on an annual basis. Internal Audit reviewed various employee health and safety training checklists noting employee initials acknowledging completion of required training.

Certificates of insurance

Each Sodexo Contract requires a designated level of General Liability insurance. Internal Audit reviewed insurance certificates noting coverage consistent with each respective contract (i.e., \$5,000,000 per occurrence for UHM, UHH and UHM Athletics, and \$1,000,000 per occurrence/\$2,000,000 in aggregate for UHMC).

Internal Audit identified no significant instances of noncompliance with contractual terms and conditions. However, Internal Audit has comments with respect to the following contracts:

1. UHM Sodexo Contract:  
*Sodexo must annually submit a schedule of planned major repair and replacement of all facility and equipment assets to the University.*  
According to the UHM Contract Administrator, the replacement schedule was only recently developed and the initial listing of equipment requiring replacement was too extensive to complete in fiscal year 2018 and thus was deferred until subsequent years. The continued use of aged and outdated equipment can negatively impact food quality and create health and safety issues and should be monitored appropriately.
2. UHH Sodexo Contract:
  - a) *Sodexo must provide an Annual Business Plan including mutually established performance targets to the University.*



Internal Audit noted an Annual Business Plan and mutually established performance targets were not developed. The UHH Contract Administrators should request an Annual Business Plan and related performance targets to track and hold Sodexo accountable in the implementation of strategies to attain agreed upon financial and operational goals.

- b) *Sodexo is responsible for the routine cleaning of the hood exterior and interior surfaces and filters.* Internal Audit noted no hood cleaning was performed for several months when the contracted hood cleaner went out of business. The UHH Contract Administrators should collaborate with Sodexo to ensure service providers are replaced as soon as possible or implement alternative procedures to prevent health and safety issues from arising as a result of the non-performance of routine cleaning.
- c) *Sodexo must provide a preventative maintenance schedule for all equipment to the University.* Internal Audit noted that Sodexo maintains a list of service providers but not a preventative maintenance schedule listing all of the major equipment and when the expected service dates/months will be for the upcoming fiscal year. The non-performance of preventative maintenance service may result in costly repairs and/or inefficient operation of major equipment. The preparation of a preventative maintenance schedule may prevent costly repairs and/or inefficient operation by allowing the University and Sodexo to track and monitor maintenance service. Accordingly, the UHH Contract Administrators should request and review a comprehensive preventative maintenance schedule prepared by Sodexo. The preventative maintenance schedule should be updated by Sodexo periodically and reviewed by the UHH Contract Administrators for completeness and reasonableness of frequency of equipment maintenance.

3. UHM Athletics Sodexo Contract:

No instances of noncompliance with the contract were noted.

4. UHMC Sodexo Contract:

*Sodexo must solicit feedback via a market/customer satisfaction survey.*

Internal Audit was informed that fiscal year 2018 food services survey results were not compiled. Sodexo utilizes a third-party provider to administer its surveys and at least 100 responses must be received in order to generate meaningful results. UHMC’s survey only received 11 responses. Accordingly, meaningful fiscal year 2018 survey results could not be compiled. The UHMC Contract Administrator believes the lack of responsiveness may be due to the length of the survey. Sufficient survey results would provide feedback to UHMC and Sodexo in understanding customer preferences and opinions regarding food selection, service, pricing, etc. Accordingly, the UHMC Contract Administrator should develop a plan to improve response rates to the annual survey or determine an alternative approach to soliciting feedback.

**Conclusions:**

As described throughout this section, Internal Audit noted minimal and insignificant instances of Sodexo noncompliance with the terms and conditions of the Sodexo Contracts (excluding the UHM Athletics Sodexo Contract, for which no instances of noncompliance were noted). Internal Audit believes that UHM, UHH and UHMC Contract Administrators collaborate with Sodexo to review each respective Sodexo Contract and determine the approach to resolve the comments described above.

**D. Evaluation of University Contract Compliance Monitoring**

University Administrative Procedure (AP) 8.275, “Contract Formation and Administration”, requires “the management of all facets of contracts to assure that the Contractor’s total performance is in accordance with its contractual commitments and that the obligations of the University are fulfilled. It includes the monitoring and

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supervision of contract actions from award of the contract to completion of the work required.” The Sodexo Vice President functioning as the University’s main point of contact for all Sodexo Contracts is provided office space at UHM’s Campus Center. As noted earlier, for each of the Sodexo Contracts, the University designates an individual as the Sodexo Contract Administrator. Each Contract Administrator is responsible for monitoring the respective Sodexo Contract and ensuring that Sodexo complies with all terms and conditions. Internal Audit evaluated the University’s monitoring activities for each of the Sodexo Contracts noting the following:

1. UHM Sodexo Contract

Monitoring of the UHM Sodexo Contract is the responsibility of the UHM Director of SLD Business Services (UHM Contract Administrator). Internal Audit met with the UHM Contract Administrator and reviewed documentation to determine the processes, procedures and internal controls performed to monitor Sodexo’s compliance with the UHM Sodexo Contract. Internal Audit noted that the UHM Contract Administrator continues to perform sufficient monitoring of Sodexo’s compliance with the UHM Sodexo Contract, including reviewing financial reports and meeting monthly with Sodexo personnel to discuss financial results, issues, approval of pricing/menu changes, and new initiatives. However, Internal Audit also noted that the University’s annual review and approval of the food services budget does not include a detailed breakdown of the types of expenses (i.e., only total expenses are included in the approved budget). Sodexo does prepare a detailed budget including major categories of revenues and expenses, which could be incorporated in the University’s annual review and approval process. Internal Audit was informed by the UHM Contract Administrator that as of March 2019 the annual review and approval process has been formalized and will include the Contract Administrator reviewing all relevant documents (including the detailed Sodexo food services budget).

2. UHH Sodexo Contract

Monitoring of the UHH Sodexo Contract is a shared responsibility between the Director of Housing (Contract Administrator (campus dining)) and the Director of Special Projects (Contract Administrator (retail)). Sodexo’s onsite UHH representative and other Sodexo staff are provided office space at UHH Campus Center. Internal Audit met with the UHH Vice Chancellor for Student Affairs and Contract Administrator (campus dining) and was informed that minimal contract monitoring has occurred since the retirement of the prior Director of Housing (June 2018). Financial reports are being provided by Sodexo, but not reviewed and analyzed on a timely basis. Regular meetings between the Contract Administrator (campus dining) and Sodexo personnel have not been scheduled or conducted. Furthermore, Internal Audit was informed that the timing and extent of contract monitoring prior to June 2018 is uncertain. This was evident with the uncertainty regarding the performance of an inventory count of expendable and nonexpendable supplies and equipment at the contract’s inception and whether a review of Sodexo’s preventative maintenance schedule is performed on a periodic basis.

From a retail operations standpoint, Internal Audit noted that the Contract Administrator (retail) meets with Sodexo on a regular basis to discuss financial information, new initiatives and any issues requiring resolution. Cash passes (\$10 increments) are provided by Sodexo for the University to evaluate customer service, food quality, food choices and pricing at the various Sodexo retail outlets throughout the year. Internal Audit suggests that Sodexo and the Contract Administrator (retail) shares these cash passes with the Contract Administrator (campus dining) to evaluate food services at Hale Kehau.

In regards to utility costs, Internal Audit was informed that the University monitors Sodexo’s utility usage via utility meters. According to the contract, Sodexo is responsible for 50% of utility costs exceeding total commissions. The Contract Administrator (retail) noted that only electricity costs are currently monitored as water is not separately metered. In both fiscal year 2017 and 2018, malfunctioning electricity monitoring meters caused incorrect usage readings for substantial periods of time (between five and 12 months), which was not detected until the end of the respective fiscal year. Accordingly, the Contract Administrator (retail)

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was unable to accurately determine Sodexo’s usage of electricity. The Contract Administrator (retail) does not believe that electricity costs would have exceeded commissions based on an analysis using historical electricity usage. Internal Audit suggests that utility meters be monitored periodically to ensure there are no technical issues and so that utility costs can be reviewed/analyzed to determine whether any costs may be recovered under the terms of the contract.

On an annual basis, the Contract Administrators, Vice Chancellor for Students and Chancellor review the UHH Sodexo Contract financial results to determine whether a contract modification is required to revise product pricing. Internal Audit reviewed the contract modification for fiscal year 2019 and noted that it was signed by the University in November 2018 with an effective date of August 2018. According to Sodexo personnel, all requested information related to the contract modification was provided to the University in February 2018. Internal Audit believes UHH senior management should finalize contract modifications in advance of the fiscal year for which the modification applies to prevent contract disputes and misunderstandings.

3. UHM Athletics Sodexo Contract

Monitoring of the UHM Athletics Sodexo Contract is the responsibility of the UHM Campus Service University Housing/Food Services/Mail Services Manager (UHM Athletics Contract Administrator). Internal Audit met with the UHM Athletics Contract Administrator and reviewed documentation to determine the processes, procedures and internal controls performed to monitor Sodexo’s compliance with the UHM Athletics Sodexo Contract. Internal Audit noted that the UHM Athletics Contract Administrator performs sufficient monitoring of Sodexo’s compliance with the UHM Athletics Sodexo Contract, including reviewing financial reports and conducting monthly meetings with Sodexo personnel to discuss financial results, issues, approval of pricing/menu changes, and new initiatives.

4. UHMC Sodexo Contract

Monitoring of the UHMC Sodexo Contract is the responsibility of the UHMC Vice Chancellor for Administration (UHMC Contract Administrator). Sodexo’s onsite UHMC representative and other Sodexo staff are provided office space at the UHMC Pa‘ina Culinary Arts Center. Internal Audit met with the UHMC Contract Administrator and reviewed documentation to determine the processes, procedures and internal controls performed to monitor Sodexo’s compliance with the UHMC Sodexo Contract. Internal Audit noted that the UHMC Contract Administrator performs sufficient monitoring of Sodexo’s compliance with the UHMC Sodexo Contract, including reviewing financial reports and conducting meetings at least monthly with Sodexo personnel to discuss financial results, issues, and new initiatives. Furthermore, the UHMC Contract Administrator meets with the overall Sodexo Liaison on a quarterly basis to discuss future food services strategy (e.g., marketing, new initiatives, proposed menu/pricing changes, etc.). Internal Audit was informed that the UHMC Chancellor generally attends two of these meetings each year. Furthermore, Internal Audit was informed that on a periodic basis, the UHMC Contract Administrator’s staff personnel examine supporting documents for a sample of haphazardly selected expenses to verify the accuracy of expenses presented on Sodexo Operating Statements. Internal Audit was informed that no errors or discrepancies were detected.

Finally, Internal Audit noted a term in the UHMC Sodexo Contract whereby “Sodexo shall be solely responsible for the costs incurred for any item in excess of the approved budget, unless prior written approval was obtained from the University.” Internal Audit was informed by the UHMC Contract Administrator that this term has never been analyzed to determine whether Sodexo should be held accountable for budget overruns. Thus, on a periodic basis (at least annually), the UHMC Contract Administrator should compare Sodexo’s actual expenses to budgeted expenses and determine whether Sodexo is responsible for reimbursing the University for unapproved expenses greater than the approved budget.

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**Conclusions:**

Internal Audit noted varying levels of Sodexo Contract monitoring by University Contract Administrators. Overall, the University’s monitoring of the Sodexo Contracts is sufficient, though not always consistent. Internal Audit believes that UHM, UHH and UHMC Contract Administrators review the terms and conditions of each respective Sodexo Contract and determine a consistent approach to monitor compliance with all contract terms and conditions.

In addition, Internal Audit believes that the UHH Contract Administrators should consider the following:

- Share cash passes to evaluate food services at Hale Kehau
- Monitor utility meters periodically to detect technical issues timely
  
- In addition, the UHH Contract Administrator (campus dining) should consider:
  - reestablishing regular periodic (e.g., monthly) meetings with Sodexo personnel. Prior to these meetings, financial information should be reviewed and analyzed so that questions/concerns can be discussed.
  - determining whether an initial inventory count of expendable and nonexpendable supplies and equipment was conducted at the contract’s inception. If so, annual inventory counts should be conducted to ensure inventory levels do not fall below the initial inventory.
  - periodically reviewing the preventative maintenance schedule to ensure equipment is properly maintained.

The UHH Vice Chancellor of Student Affairs and UHH Contract Administrators concurred with these recommendations.

**E. Higher Education Food Services Standards and Guidelines**

The National Association of College & University Food Services (NACUFS) website provides best practices, standards and guidelines developed by the Council for the Advancement of Standards in Higher Education (CAS). A sample of these best practices, standards and guidelines include but are not limited to the following:

- Maintaining safe and secure facilities that are clean, attractive, well-maintained and comfortable
- Providing reasonably priced, quality, safe, diverse, and nutritious food offerings
- Supporting and responding to student dietary and medical requirements, such as vegan diets and food allergies
- Establishing appropriate policies and procedures for responding to emergency situations
- Setting goals and objectives based on the needs of the population served
- Managing financial resources
- Complying with laws, regulations, and policies, with particular attention to health and safety requirements
- Continuously improve programs and services in response to changing needs of students and other constituents and evolving institutional priorities
- Using safe and effective procedures for preparing, presenting, and holding foods
- Limiting the liability exposure of the institution, its officers, employees and agents

Internal Audit compared the CAS standards to the terms and conditions in the University’s Sodexo Contracts, noting that the vast majority of standards have been incorporated, to some degree, in at least one of the Sodexo Contracts. Furthermore, Internal Audit noted that, in most cases, the contract terms deemed by Internal Audit in Appendix A to be “Must haves” or “Nice to haves” are responsive to the CAS standards. In regards to limiting the liability exposure of the University, Internal Audit noted that Sodexo is required to maintain insurance under all contracts, but is only required to obtain a fidelity bond under the UHM Sodexo Contract.

***Conclusions:***

Certain of the Sodexo Contracts substantially incorporate the CAS standards into their terms. If the University adopts the “Must haves” and “Nice to haves” noted in Appendix A across all contracts, the majority, if not all, of the most significant CAS standards will be contractually obligated to be met by Sodexo. However, to further protect the University from liability, the University should also consider requiring Sodexo to bond its cash-handling employees, such as cashiers, for all Sodexo Contracts.

**IV. Overall Conclusions**

Overall, Internal Audit noted significant differences in the terms included in the various Sodexo Contracts (see Appendix A). Monitoring the various contract terms across the four contracts requires substantial effort on the part of the Contract Administrators (see *Section D. Evaluation of University Contract Compliance Monitoring*), as well as Sodexo personnel.

In regards to Sodexo’s compliance with the terms of each contract, Internal Audit did not note any significant instances of noncompliance. As described previously, minimal and insignificant instances of Sodexo noncompliance were noted for three of the four contracts (none noted in regards to the UHM Athletics Sodexo Contract). With respect to Contract Administrator monitoring of each respective Sodexo Contract, Internal Audit noted that generally the processes and procedures were sufficient, but not always consistent (except for monitoring of the UHM Athletics Sodexo Contract). UHM, UHH and UHMC Contract Administrators should consider reviewing the terms and conditions of each respective Sodexo Contract and determine an approach, including collaborating with each other and Sodexo, to effectively and efficiently monitor contract compliance, or, if applicable, which contract terms and conditions both parties agree are no longer deemed to be of value and thus are no longer required.

Internal Audit believes the University should investigate and consider the feasibility of entering into a single food services contract to drive efficiencies in contract management and monitoring.

## Appendix A- Comparison of Contract Terms across the Sodexo Contracts

**Contract Terms deemed to be “Must haves” (excluding contract terms currently included in all four Sodexo Contracts)**

*Note: Not Applicable (N/A): Contract term is not relevant to the campus/department (due to type of contract, contractual requirements specific to a campus/department, etc.).*

Summarized Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
<b>1. Financial</b>				
<b>Accounting and Fiscal Management</b>				
Sodexo shall collect and deposit all food service retail and catering sales transactions in a separate account as directed in writing from the University.	Yes	NA	NA	Yes
The University reserves the right, at its expense, to audit or cause to be audited Sodexo's books and accounts with the University at any time during the term of the contract and for 5 years thereafter.	Yes	NA	NA	Yes
Sodexo shall maintain accurate, complete and separate books of accounts according to GAAP with appropriate supporting data and documents.	No	No	Yes	Yes
<b>Obligations</b>				
Sodexo agrees to keep a sufficient variety and quantity of food in stock at the premises or a purveyor's warehouse to enable Sodexo to continue the food service concessions operations for at least 7 days in case of cessation of food deliveries to the State of Hawai‘i.	No	Yes	Yes	No
Sodexo shall be responsible for providing (at its expense) and maintaining an inventory of paper service adequate to meet emergency needs should the dishwashing facilities become inoperative and paper or other disposable service is required.	No	Yes	No	No
<b>2. Health and Safety</b>				
<b>Sanitation and Cleanliness</b>				
Sodexo shall develop, implement, and update cleaning and sanitation schedules for all equipment and areas.	No	Yes	No	Yes
Sodexo shall be responsible for providing food handler certificates and/or medical examinations as required by law and will make such records available for review upon University request. Any contagious disease such as hepatitis must be reported immediately to the University.	No	Yes	No	Yes
No cooking grease, oils or fats are to be disposed of or dumped into the sewer system, refuse disposal or compactor. A rendering/recycling company or other approved method of disposal must be used.	No	No	No	Yes

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Summarized Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
<b>Personnel</b>				
Sodexo shall maintain an adequate staff at all times.	Yes	Yes	No	Yes
Sodexo will provide health and tuberculosis examinations for all employees as required by law.	Yes	Yes	Yes	No
Sodexo is responsible for the on-campus behavior of its employees. Sodexo's employees will abide by all rules and regulations which govern the University's employees.	No	Yes	Yes	Yes
<b>Equipment/Facilities Management</b>				
Sodexo shall annually submit a schedule of planned major repair and replacement of all facility and equipment assets for discussion with the Contract Administrator.	Yes	No	No	Yes
Sodexo shall be responsible for preventative maintenance of all major equipment and appliances.	No	Yes	No	No
Sodexo, at its cost, shall provide all POS and other retail equipment necessary for the management of the dining and retail service operations (cash registers, card readers, etc.) and any office machines necessary for the management of the dining service operations (computers, printers, etc.)	No	Yes	No	No
Sodexo shall provide a preventative maintenance schedule for all equipment to the University. The installation of permanent Sodexo-owned equipment will require the prior written approval of the University.	No	Yes	No	No
<b>Security</b>				
Sodexo shall be responsible for maintaining the card readers in compliance with the Payment Card Industry's Data Security Standard.	No	No	Yes	No
<b>3. Other Contract Terms</b>				
<b>Insurance/Indemnification</b>				
Sodexo will provide a Third Party Fidelity Bond of a nature designed for food service operations covering all employees of Sodexo in an amount satisfactory to the University. Sodexo may also satisfy this requirement through the provision of third party fidelity coverage and Blanket Crime Insurance, endorsed to cover "Third Party Liability", as part of its corporate insurance for general liability coverage.	Yes	No	No	No
<b>Customer Monitoring</b>				
Sodexo shall conduct a food service survey at least once a year. The survey instrument shall be approved by the University and results of the survey submitted to the University.	No	Yes	Yes	Yes
<b>Meetings</b>				
Sodexo shall regularly meet with the University's food service contract administrator, as well as the Vice Chancellors and Chancellor to discuss a variety of issues	No	Yes	Yes	No

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Summarized Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
including, but not limited to, menus, pricing and portions, hours, trends, and news of the food service industry.				
<b>Menus and Pricing</b>				
Sodexo must obtain written approval for all menu and pricing changes. (including catering via the approved catering guides and including the retail program)	No	Yes	Yes	No
<b>Purchasing/Preparation/Service Standards</b>				
Food purchased by Sodexo must meet or exceed the minimum specifications (i.e., grade) as stated in the contract. The University reserves the right to periodically inspect Sodexo's inventory of food and supplies or review invoices to ensure that purchase standards are maintained.	No	Yes	Yes, with modified terminology	No
Sodexo must meet "Preparation Standards" as stated in the contract. (i.e., limited number of pre-prepared items, standardized recipes, minimum leftover food, refrigeration, vegetable shortening only where possible, etc.)	No	Yes	No	No
<b>Other</b>				
Sodexo shall, at its own expense, obtain all necessary permits, give all necessary notices, pay all license fees, and comply with all laws, rules, ordinances, and regulations applicable to the business carried on under this agreement.	No	No	Yes	Yes
Sodexo shall obtain the necessary licenses to provide for the sale and serving of beer, wine and other alcoholic beverages. Sodexo agrees the sale of all alcoholic beverages shall be in strict conformance with the University's policies and procedures, and relevant County liquor commission rules and regulations.	No	Yes	Yes	NA
Once established, hours of operation may not be changed without the express written permission of the food service contract administrator. During academic recesses and holiday periods, the hours of operation may be adjusted or suspended if approved by the food service contract administrator. The University shall approve in writing Sodexo's proposed hours for retail operations.	No	Yes	Yes	No



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**Contract Terms deemed to be “Nice to haves”**

Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
<b>1. Financial</b>				
<b>Accounting and Fiscal Management</b>				
Sodexo shall conduct an annual sales and rebate audit by an independent certified public accounting firm.	No audits required under the contract	Yes	Yes	No audits required under the contract
Sodexo shall provide to the University on a quarterly basis, a reporting of non-University catering events.	No	Yes	NA	NA
Sodexo shall bill charges to clients/customers for catering and special events to include overdue charges, returned check fees, late payment fees, and any collection and administrative charges. Sodexo shall charge clients for cleaning and repair work in accordance with event agreement when the required work is outside the scope of normal or ordinary wear and tear, provided that such charges shall be consistent with University policy. All such charges shall be receipts to the food service program.	No	No	No	Yes
Sodexo must maintain specific registers, journals, statements and reports as stated in the contract. On a monthly basis, Sodexo must provide a summary of income and cash disbursements statement and journal, and copies of all invoices paid. Sodexo shall also provide a monthly reconciliation report of income and disbursements with copies of bank statements. Sodexo must provide a monthly accounts receivable report including current accounts of Sodexo's receipt of collection reports, outstanding receivables, delinquent receivables, and uncollectible accounts.	No	NA	NA	Yes
The University reserves the right to approve all administrative and operational expenses prior to it being incurred and processed by Sodexo.	Yes	NA	NA	No
Sodexo shall be responsible for all costs and expenses incurred in connection with its management and operation of food services.	Yes	NA	NA	No
Sodexo shall be responsible for all costs (as a part of doing business) for required food, paper, office, janitorial, and chemical supplies for the operation of the dining facilities.	No	Yes	Yes	No
Sodexo shall submit a detailed list of estimated operational expenses to the University for approval, prior to incurring the next month’s expenses.	Yes	NA	NA	No
Sodexo shall administer and improve procurement and inventory management of the food services program. Sodexo shall work with the contract liaison to insure instructional and commercial food materials are ordered and received on a timely basis to support the instructional classes.	No	NA	NA	Yes
Sodexo shall submit a detailed corporate invoice and	Yes	NA	NA	Yes

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	UHM	UHH	UHM Athletics	UHMC
copies of all vendor invoices and receipts to the University Contract Administrator for the review and reconciliation of approved expenditures and reasonable incidental expenses.				
<b>Obligations</b>				
Sodexo shall provide for any and all other expenses incurred in food service operations, including the costs of air freight in obtaining foodstuffs to enable Sodexo to continue operations in the event of a shipping and/or dock strike.	No	Yes	Yes	No
Sodexo shall be responsible for insuring that instructors are consulted for the availability of goods and that an ordering process is established to insure all materials are made readily available to the students and instructors prior to the start of each class session.	NA	NA	NA	Yes
Sodexo shall be expected to have in place policies, procedures, personnel and systems to conduct the following areas of operations in the most efficient manner possible: a. Accounting for expenses of the program; b. cash handling; c. facility and equipment asset management; d. human resource management; e. purchasing & inventory control; f. retail operations; g. catering operations; h. advertising and marketing of services.	No	NA	NA	Yes
<b>Utilities</b>				
In the event that the cost of utilities for the fiscal year exceeds the total commissions to the University under the contract for the same fiscal year, the charges in excess of the total commissions shall be split evenly between Sodexo and the University.	No	Yes	No	No
Sodexo shall assume responsibility for maximum utility/energy conservation.	No	Yes	Yes, with modified terminology	No
<b>2. Health and Safety</b>				
<b>Sanitation and Cleanliness</b>				
Sodexo shall be responsible for maintenance of facilities. Sodexo shall bear the cost of cleaning and maintaining the kitchen ventilation system, including deep cleaning of all exhaust hoods and related duct work, as required by local regulations. Sodexo shall bear the cost of cleaning and maintaining grease traps. Sodexo shall be responsible for cleaning of all concession areas, including wiping the tables on a regular basis.	No	Yes	Yes, with modified terminology	Yes, with modified terminology
Sodexo shall provide its own custodial maintenance for the assigned space including the area fronting all entrances and shall be responsible for removing its own trash.	No	Yes	Yes	Yes

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Sodexo shall provide pest control for the control of insects, rodents and vermin.	No	Yes	No	Yes
Sodexo shall provide daily housekeeping and all major cleaning/janitorial functions along with requisite sanitation services. Sodexo will maintain the dining room throughout the service hours to include wiping down tables, cleaning spills, emptying trash, and keeping the dining rooms neat.	No	Yes	Yes, with modified terminology	Yes, with modified terminology
Sodexo shall be responsible for routine cleaning of the hood exterior and interior surfaces and filters.	No	Yes	No	No
When the Dining Services areas are closed for University holidays, these areas shall be left in a clean and ready-for-inspection condition.	No	Yes	No	No
Sodexo shall be responsible for providing, cleaning, and maintaining an adequate inventory of table linens, employee uniforms, aprons, towels and other dining service linens.	No	Yes	No	No
Sodexo's employees shall be in uniform and wear a visible nametag identification at all times while on duty. Management will be appropriately dressed (but not necessarily in uniform) and wear nametag identification.	No	Yes	Yes, with modified terminology	Yes
When Sodexo uses areas which are not assigned to it pursuant to the contract, or which are not primarily intended for dining service, e.g., meeting rooms and lounges for such purposes (cater meals, receptions, etc.), Sodexo will perform the appropriate setup and cleanup for that area. Facilities will be restored to conditions satisfactory to the University before the next scheduled use of the area. This includes maintenance and sanitation of the area, furniture rearrangement, and equipment and trash removal.	No	Yes	No	No
<b>Personnel</b>				
Sodexo will train its staff in food handling and in courteous, efficient, sanitary service to patrons.	Yes	Yes, with modified terminology	No	Yes
Sodexo is encouraged to utilize University students as part of its workforce wherever feasible and whenever quality can be maintained.	No	Yes	Yes	Yes
Sodexo shall provide corporate management staff to routinely review and inspect operations, personally fill vacancies, consult with the University on current and future food service programs and trends, and to act with full authority on Sodexo's behalf in any and all matters pertaining to the specifications of the contract.	No	No	No	Yes
<b>Equipment/Facilities Management</b>				
Sodexo shall be responsible for the maintenance, repair or replacement of all equipment and appliances for food service premises up to the point of original disconnect.	Yes	No	Yes	No

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The purchase of new and replacement equipment shall be the responsibility of Sodexo and all new equipment shall be energy star rated whenever possible.				
Sodexo shall be required to keep all equipment in good repair and condition, and protect it against loss, pilferage or destruction.	No	Yes	Yes	Yes
Sodexo shall install all equipment in strict compliance with applicable building, electrical, and mechanical regulations and code of the University, State of Hawaii and City and County of Honolulu.	No	Yes	Yes	No
Use of any heavy electrical appliances and equipment must be approved in advance by the University prior to use of the electrical circuit.	No	Yes	Yes	No
All equipment shall be maintained in top working condition at all times to protect against electrical and fire hazards, and to avoid food safety and sanitation hazards.	No	Yes	Yes	No
Any damage to the assigned space or building which is the result of improper installation or maintenance or negligence on Sodexo's part will be Sodexo's financial responsibility.	No	Yes	Yes	No
Sodexo through the life and term of the contract, shall maintain inventory of expendable and nonexpendable supplies and equipment (e.g., china, glassware, flatware, trays and kitchen utensils) at a minimum level with the University's initial inventory.	No	Yes	No	No
Sodexo will be responsible for maintenance of office space provided by the University in good condition. Sodexo shall be required to keep all furniture, fixtures and equipment provided by the University in good condition, and protect it against loss, pilferage or destruction.	No	Yes	Yes	No
Sodexo shall be responsible for all physical plant remodeling, renovations, and improvements to the facilities during the term of this agreement. All remodeling, renovations and improvements shall be approved in advance by the University.	No	No	Yes	No
<b>Security</b>				
Sodexo shall be responsible for control of keys obtained from the University and be responsible for accounting for the locations of any keys or locking devices. Sodexo shall be responsible for immediately reporting to the University any break-ins or unauthorized entries into the food service areas and all property losses associated therewith.	No	Yes	Yes	Yes
Sodexo shall immediately report fires, unsafe conditions, thefts, and security hazards to the University. Sodexo will immediately fix and report to the University any conditions cited in any citations by local, state or federal agencies or those identified by the University's food service contract administrator for unsafe conditions to the	No	Yes	No	No

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	UHM	UHH	UHM Athletics	UHMC
University.				
Sodexo shall be responsible for reporting to the University all accidents involving its staff or customers and all disputes or behavioral incidents involving staff, students or patrons that occur in or around the premises. The University shall not be responsible for the criminal acts of third parties.	No	Yes	No	No
<b>3. Other Contract Terms</b>				
<b>Children’s Center Food Service</b>				
The food service for the Children’s Center is subject to the USDA (U.S. Department of Agriculture)/NSLP (National School Lunch Program) regulations.	Yes	NA	NA	NA
<b>Laws to be Observed</b>				
Sodexo shall have the capability of and be financially responsible for complying with all applicable federal, state, and local laws and regulations regarding the employment, compensation and payment of personnel.	No	Yes	No	No
<b>Subcontracting and Assigning</b>				
Sodexo is not allowed to subcontract, convey, transfer or assign any of the work to be performed under its contract with the University.	Yes	No	Yes, with modified terminology	Yes
<b>Customer Monitoring</b>				
The University reserves the right to periodically conduct announced or unannounced inspections or evaluations and request changes in the operation and condition of the concession service and facilities at any time to bring operations to levels satisfactory to the University. A copy of the inspection report shall be transmitted by Sodexo to the University within 24 hours of receipt. Within five working days, Sodexo shall provide the University with a written report of corrective action.	No	Yes	Yes, with modified terminology	Yes, with modified terminology
<b>Marketing</b>				
Sodexo shall partner and cooperate with the University to regularly develop and implement advertising and promotional efforts to increase the visibility and image of the Food Services program to the faculty, staff, and students. Sodexo is encouraged to use social media and other electronic resources to promote Sodexo's services and products to attract more customers. All advertising and promotional efforts shall be coordinated through, and reviewed by, the University prior to publication and distribution, and shall be limited to campus media intended for students, staff, guests and faculty of the University.	No	Yes	No	Yes, with modified terminology
<b>Nutrition Awareness</b>				
Sodexo shall plan and execute a nutrition awareness	No	Yes	No	No

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	UHM	UHH	UHM Athletics	UHMC
program including a nutritional analysis, by portion, of each menu item to indicate calories, fat, sodium, sugar, carbohydrates, etc. This information must be posted for customer review. Sodexo's site management should have the ability to alter recipes for reduction of certain ingredients especially salt, fat and sugar.				
<b>Menus and Pricing</b>				
Menu selections shall be planned to enable the University community clientele to meet appropriate recommended dietary allowances set by the Food and Nutrition Board of the National Research Council.	No	Yes	No	No
Menus must be available in both print and electronic mediums at least 72 hours before they go into effect.	No	Yes	No	No
Sodexo shall provide special diets for students when approved in writing by the designated University representative and food service contract administrator. Sodexo's corporate dietitian shall assist the resident assistant general manager in providing the diets as approved.	No	Yes	No	No
<b>Purchasing/Preparation/Service Standards</b>				
Sodexo shall establish a local purchasing program with vendors. There are currently 38 local purveyors that provide produce, meat, dairy, breads, beverages and more to Sodexo. This local program shall be marketed and promoted to the Campus Community.	No	Yes	No	No
Sodexo must meet "Service Standards" as stated in the contract. (i.e., well stocked stations, appropriate condiments/utensils, cleanliness of serving areas, temperature of food, attractive presentation, appropriate wrappings for "to-go" items, etc.)	No	Yes	Yes	No
<b>Catering</b>				
Sodexo shall notify the University within seven days of a reservation. Sodexo schedules directly with the catering customer for use of on campus facilities.	No	Yes	NA	No
Sodexo shall establish and maintain a regular process for evaluating event food and service quality.	No	Yes	No	No
Sodexo shall establish a procedure whereby all catering orders (to include, but not limited to, not-to-exceed per-person and total price, permissible substitutions, service and room/table set-up requirements, special orders, etc.) are approved no less than 48 hours in advance.	No	Yes	No	No
<b>Environment/Sustainability</b>				
Sodexo is encouraged to promote and follow sustainable practices in line with industry standards. These sustainable practices should be geared towards reducing utility cost for the University and promoting good environmental stewardship. (including within the retail	No	Yes	Yes, with modified terminology	No

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	UHM	UHH	UHM Athletics	UHMC
program with minimized packaging).				
Sodexo shall comply with both present and future recycling programs as adopted by the University.	No	Yes	No	Yes
Sodexo shall not use expanded polystyrene (EPS) foam food-service products, including but not limited to trays, plates, bowls and cups.	No	No	Yes	No
Sodexo shall not use single-use, plastic take-out bags for its operations.	No	No	Yes	No
<b>Other</b>				
All signage installed by Sodexo shall be approved in advance by the University.	No	Yes	Yes	No
Annually, upon request, Sodexo shall provide proposed rates for summer camps/conferences to the University by September 15th for the ensuing year.	No	Yes	NA	No
Sodexo's personnel shall comply with established University policy prohibiting smoking in any form on all property owned or operated by the University.	No	No	Yes	Yes
Sodexo shall open a minimum of one main stand for all events occurring in the Stan Sheriff Center or the Les Murakami Stadium. Additional stands should be added accordingly to meet attendance expectations. The University's Contract Liaison reserves the right to dictate the minimum amount of stands that open for events in the Stan Sheriff Center and Les Murakami Stadium based on expected attendance.	NA	NA	Yes	NA
Sodexo must supply concession services for all events in the Rainbow Wahine Softball Stadium and the Clarence T.C. Ching Athletics Complex.	NA	NA	Yes	NA
If requested by the University, Sodexo shall offer a Supplemental Meal Program for University Student-Athletes within the Athletic Facilities as permitted under applicable NCAA rules and regulations. The meal schedule, menu items and pricing, and other operating details of the program shall be subject to mutual agreement between Sodexo and the UHM Athletics Department under a separate written agreement.	NA	NA	Yes	NA

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**Contract Terms deemed to be “Insignificant”**

Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
<b>1. Financial</b>				
<b>Accounting and Fiscal Management</b>				
Supporting documentation for purchases of equipment shall be recorded at the time of purchase. Purchases shall not be used or recorded as depreciation expense.	No	NA	NA	Yes
<b>Operating Expenses</b>				
Sodexo shall provide all office supplies and equipment	No	Yes	Yes	No
<b>Utilities</b>				
Within the first six months of the contract, Sodexo will provide the University with a written operations energy plan to reduce energy consumption.	No	Yes	No	No
Sodexo shall use the University telephone system and shall pay all monthly phone charges. The University will pay all monthly phone charges after the telephone system is converted to the VOIP system.	NA	Yes	NA	NA
Sodexo shall accept credit card payments and cash payments. All costs associated with the credit card readers shall be the sole responsibility of Sodexo. Monthly internet connectivity fees will be the responsibility of Sodexo.	NA	No	Yes	NA
<b>2. Health and Safety</b>				
<b>Equipment/Facilities Management</b>				
Sodexo shall provide all vehicles for servicing the contract. All vehicles shall be the property of Sodexo and shall be identified with Sodexo's logo. All vehicles shall be maintained in accordance with the State of Hawaii's DOH standards for transporting food.	No	Yes	Yes, with modified terminology	No
Sodexo shall bear all cost with the start up of the food services including, but is not limited to, providing all necessary equipment to run the operation.	No	No	Yes	No
<b>3. Other Contract Terms</b>				
<b>Parking</b>				
Sodexo and its employees shall pay the prevailing parking fees for all Sodexo and Sodexo employees' vehicles parked on campus.	No	Yes	Yes	No, but Sodexo employees must adhere to all University parking regulations
<b>Marketing</b>				
Sodexo shall be responsible for all costs associated with advertising and promotional efforts through printed or other media vehicles.	No	Yes	No	Yes
<b>Catering</b>				



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Contract Terms	Sodexo Contracts			
	UHM	UHH	UHM Athletics	UHMC
Sodexo may use the kitchen facilities to cater University related events off campus provided the following: a. The University related event is subject to the same commissions as other catering functions. All food prepared in the Campus Center facility sold off campus is considered catered food. b. Off-campus events shall not negatively impact the service to the campus.	No	Yes	No	No
A deposit of \$150.00 shall be collected from the catering clients when they book their event. This deposit shall be applied to their event upon final billing.	No	Yes	No	No
<b>Environment/Sustainability</b>				
Sodexo shall work with the University to implement programs that promote sustainable practices.	No	Yes	Yes	Yes, with modified terminology
<b>Other</b>				
At events where Sodexo is serving draft beer, Sodexo shall serve draft beer in both sixteen ounce and twenty four ounce cups.	NA	NA	Yes	NA
Sodexo shall install digital menu boards within the various concessions facilities.	No	Yes	No	No

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March 2019



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University of Hawai'i  
Office of Internal Audit



UNIVERSITY  
of HAWAI'I®  
SYSTEM

March 29, 2019

To the University of Hawai'i Board of Regents  
and  
University of Hawai'i Vice President for Budget and Finance/CFO

The Consolidating Statements of Cash Flows included in the University of Hawai'i (University) Consolidated Financial Statements as of and for the years ended June 30, 2018 and 2017 disclose that the University's cash balance approximated \$100 million and \$54 million, respectively. From an audit and business perspective, cash is a highly liquid asset and thus has a high risk of misappropriation. Accordingly, the objective of this audit was to evaluate the adequacy of internal controls and compliance with University policy with respect to the initiation, authorization, processing and recordation of University related cash receipts.

A significant matter associated with the cash receipts process and more specifically the security of credit/debit (or payment) card transactions, is the development of the Payment Card Industry's (PCI) Data Security Standard (DSS). PCI DSS applies to all organizations that accept, process, store and/or transmit cardholder data and/or sensitive authentication data. PCI DSS requires organizations to develop policies and implement business processes to handle payment cardholder data in a secure manner to protect against electronic security breaches and theft of payment card data.

Internal Audit interviews of select University personnel indicated a general awareness of the importance of securing credit card information and the PCI DSS requirements. However, the absence of consistent and formal training coupled with University policies lacking specificity regarding the PCI DSS requirements negatively impacted University personnel from fully understanding the complex and extensive PCI DSS requirements. Accordingly, Internal Audit recommends that the University consider developing a robust and comprehensive PCI DSS process supplemented with written policies, procedures and training to mitigate the risk of a cardholder data breach and the accompanying results (loss of reputation and trust, enrollment decrease, fraud losses, fines and penalties, termination of ability to accept certain payment cards, etc.).

Internal Audit believes the University has sufficient processes, procedures and internal controls with respect to the initiation, authorization, processing and recordation of University related cash receipts. However, Internal Audit noted recurring instances of University personnel not recording cash receipts to the University general ledger on a timely basis. Given that the University is evaluating and in the process of revising Administrative Procedures impacting the cash receipts process, Internal Audit recommends that the University consider drafting policy revisions enforcing the timely recordation of Cash receipts

Sincerely,

Glenn Shizumura  
Director

## **I. Background**

Each University of Hawai‘i (UH or University) campus has various cash collection locations (business office, school, department, dining center, etc.) that are responsible for the collection and depositing of cash. For purposes of this report, Cash is defined as United States currency, checks, money orders, electronic funds transfers, negotiable instruments and credit/debit card transactions. Sources of Cash include tuition and fees, housing and meals, parking, graduate school application fees, athletic event tickets, etc. The modes of collecting Cash include on premise (e.g., Cash collected in person), through the mail, over the phone, or electronically (internet, wire transfers, etc.).

The Consolidating Statements of Cash Flows included in the University’s Consolidated Financial Statements, as of and for the years ended June 30, 2018 and 2017 disclose that the University’s Cash balance approximated \$100 million and \$54 million, respectively. Pursuant to functional statements dated July 1, 2018, the University’s cash management function is the responsibility of the University’s Treasury Office. The July 1, 2018 functional statements also note that the University’s Bursar’s Office manages the University’s cashiering function in addition to the collection of student accounts and loans receivables. Accordingly, the management and administration of the University’s Cash is a shared responsibility of the Treasury Office and the Bursar’s Office.

Internal Audit was informed that the University’s Administrative Policy (AP) 8.701, *Receipting and Depositing of Funds Received by the University*, is the primary policy regarding the University’s Cash receipts process. Additional policies applicable to the Cash receipts process including credit/debit card information security are as follows:

- AP 8.702 – *Establishment of Electronic Funds Transfer Agreements and Receipt of Funds*
- AP 8.710 – *Credit Card Program*
- AP 8.711 – *Electronic Payments via University Websites*
- EP 2.214 – *Institutional Data Classification Categories and Information Security Guidelines*
- EP 2.215 – *Institutional Data Governance*

A University campus or department may also establish internal policies and procedures to enhance and supplement the above noted policies. These policies and procedures may be either written or verbal.

## **II. Objectives and Methodology**

From an audit and business perspective, Cash is a highly liquid asset and thus has a high risk of misappropriation. In addition, almost all business transactions are ultimately settled in Cash. Accordingly, the objective of this audit was to determine and evaluate the following with respect to the initiation, authorization, processing and recordation of University related Cash receipts:

- the adequacy of internal controls
- compliance with select written University policies.

The Office of Internal Audit (Internal Audit) commenced this audit by meeting with the University’s Bursar and Treasury Officer to discuss the University’s policies, procedures and practices applicable to the Cash receipts process. In addition, Internal Audit collaborated with the Bursar and Treasury Officer in establishing quantitative and qualitative attributes for the purposes of selecting a sample of Cash receipts locations to evaluate the primary audit objectives listed above. The quantitative and qualitative attributes established consisted of the following:

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- Amount of gross cash receipts/deposits.
- Cash receipts recorded to KFS in excess of or equal to five days from the date of receipt.
- Cash receipts deposited to the bank more than a day after the date of receipt.
- Implementation of an information system with financial components impacting the recordation of Cash receipts.

In collaboration with the Bursar and Treasury Officer, it was determined that Internal Audit would evaluate the Cash receipts process of the following Cash Collection Locations (CCL), based on a combination of the quantitative and qualitative attributes noted above:

1. Kapi‘olani Community College – Office of Continuing Education and Training
2. Kapi‘olani Community College – Culinary Program
3. Leeward Community College – Office of Continuing Education and Workforce Development
4. Honolulu Community College – Continuing Education and Lifelong Learning
5. Shidler College of Business
6. UH Mānoa Hawai‘i English Language Program (HELP)
7. UH at Mānoa (UHM) Conference and Event Services
8. UHM Athletics Ticket Office
9. UH Bookstores

Pursuant to discussions with the Bursar and Treasury Officer, Internal Audit was informed that the Cashier’s Offices at the Community Colleges perform significant functions in connection with the Cash receipts process for the various programs and departments of the respective Community College campus. Accordingly, Internal Audit determined that the Cash receipts process of the following Community College Cashier’s Offices would also be evaluated.

1. Kapi‘olani Community College – Cashier’s Office
2. Leeward Community College – Cashier’s Office
3. Honolulu Community College – Cashier’s Office

For purposes of obtaining a preliminary understanding of the Cash receipts process and compliance with applicable University policies at the respective CCL, Internal Audit prepared and distributed a questionnaire. The questionnaire was formatted with yes or no questions (or N/A, if not applicable) to indicate the existence of an internal control and/or policy compliance with respect to the Cash receipts process.

Internal Audit evaluated the questionnaire responses then held meetings with applicable financial management personnel of the selected CCLs. For each CCL, Internal Audit’s documentation resulting from the questionnaire and meetings included:

- A narrative of the Cash receipts process
- Matrix evaluating segregation of duties
- Matrix identifying the existence and adequacy of internal controls

An outcome related to the internal controls associated with the Cash receipts process and more specifically the security of credit/debit (or payment) card transactions, is the development of the Payment Card Industry’s (PCI) Data Security Standard (DSS) in 2004 by the major credit card companies consisting of American Express, Discover Financial Services (Discover), JCB International (JCB), MasterCard Worldwide (MasterCard) and Visa Inc. (Visa). PCI DSS is a set of security standards designed to ensure that organizations accepting, processing, storing and/or transmitting credit card information maintain a secure environment. During 2006, these major

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credit card companies formed the Payment Card Industry Security Standards Council (PCI SSC) to oversee the further development, enhancement and dissemination of PCI DSS.

Pursuant to the Treasury Office’s functional statement, the Treasury Office is responsible for managing University compliance with PCI DSS. Accordingly, Internal Audit will review the Treasury Office’s process to assess the University’s compliance with PCI DSS.

Noncompliance with PCI DSS may result in contractual penalties, sanctions from members of the payment card industry and potential costs to the University including the following:

- Notification and response to cardholders who may have had their data stolen
- Loss of reputation and trust
- Enrollment decrease
- Fraud losses
- Higher subsequent cost of compliance
- Legal, investigative, administrative, settlement and judgment costs
- Fines and penalties
- Termination of ability to accept certain payment cards
- Additional expenses related to customer support such as information hotlines and credit monitoring

Notable recent credit/debit card breaches include Target and Home Depot. The 2013 Target breach affected approximately 40 million customers. Targets’ 2016 Annual Report disclosed the cumulative cost of breach approximated \$292 million. The 2014 Home Depot breach affected approximately 56 million customers. Home Depot’s 2016 Annual Report disclosed the cumulative cost of breach approximated \$298 million. These costs primarily consist of 1) settlement payments to Payment Card Networks (e.g., MasterCard, Visa, American Express, etc.), financial institutions and customers, 2) credit card monitoring to customers and 3) legal fees.

As a result of this potential noncompliance exposure and significance of the PCI DSS, Internal Audit will present the PCI DSS requirements and review the Treasury Office’s process to assess the University’s compliance prior to Internal Audit’s review of the Cash receipts process.

### **III. PCI DSS**

#### **A. Description and requirements**

PCI DSS applies to all organizations that accept, process, store and/or transmit cardholder data and/or sensitive authentication data. It is a set of technical and operational requirements designed to protect cardholder data and applies to all system components (e.g., network devices, servers, computing devices, applications, etc.) that are included in or connected to an organization’s cardholder data environment. PCI DSS thus requires organizations to develop policies and implement business processes to handle payment cardholder data in a secure manner to protect against electronic security breaches and theft of payment card data. The most current version of the PCI DSS requirements and security assessment procedures is Version 3.2.1. Prior to the development of PCI DSS, each Payment Card Network had their own security standards for safeguarding credit card information. The Bursar and Treasury Officer stated that the University accepts Visa, MasterCard, Discover and JCB credit/debit cards.

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1. PCI DSS overview

The goal of PCI DSS is to protect cardholder data and sensitive authentication data wherever it is processed, stored or transmitted. The security controls and processes required by PCI DSS are vital for protecting all payment card account data. The following table summarizes the goals and general requirements of PCI DSS.

**Table 1**

<b>Goals</b>	<b>General Requirements</b>
Build and maintain a secure network and systems	1. Install and maintain a firewall configuration to protect cardholder data
	2. Do not use vendor-supplied defaults for system passwords and other security parameters
Protect cardholder data	3. Protect stored cardholder data
	4. Encrypt transmission of cardholder data across open, public networks
Maintain a vulnerability management program	5. Protect all systems against malware and regularly update anti-virus software or programs
	6. Develop and maintain secure systems and applications
Implement strong access control measures	7. Restrict access to cardholder data by business need to know
	8. Identify and authenticate access to system components
	9. Restrict physical access to cardholder data
Regularly monitor and test networks	10. Track and monitor all access to network resources and cardholder data
	11. Regularly test security systems and processes
Maintain an information security policy	12. Maintain a policy that addresses information security for all personnel

According to AP 8.710, *Credit Card Program*, CCLs must submit a request and receive written approval from the Treasury Officer prior to accepting credit/debit cards as a form of payment. Once approved, the Treasury Office works with the CCL and Bank of Hawai‘i (BOH) to obtain payment card terminals that electronically link the credit/debit card receipts to the University’s bank account.

PCI SSC requires each merchant that processes credit/debit cards to prepare a PCI Self-Assessment Questionnaire (SAQ). The Treasury Officer informed Internal Audit that the University is considered a merchant for this purpose. The requirements for a particular SAQ is based on the merchant’s process for receiving, processing, and transmitting credit card information to complete a credit card transaction. There are eight different SAQs:

**Table 2**

<b>SAQ Type</b>	<b>Type of Payment System</b>	<b># of Questions</b>
SAQ A	Card not present merchants that have fully outsourced all cardholder data functions to PCI DSS compliant third-party service providers with no electronic storage, processing, or transmission of any cardholder data on the merchant’s systems or premise. This SAQ is applicable for University merchants utilizing Touchnet.	22
SAQ A-EP	E-commerce merchants who outsource all payment processing to PCI DSS validated third parties, and who have a website(s) that doesn’t directly receive cardholder data but that can impact the security of the payment transaction. No electronic storage, processing, or transmission of cardholder data on merchant’s systems or premises.	191

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SAQ B	Merchants using only: <ul style="list-style-type: none"> <li>• Imprint machines with no electronic cardholder data storage, and/or</li> <li>• Standalone, dial-out terminals with no electronic cardholder data storage.</li> </ul>	41
SAQ B-IP	Merchants using only standalone, PIN Transaction Security (PTS)-approved payment terminals with an Internet Protocol (IP) connection to the payment processor with no electronic cardholder data storage.	82
SAQ C	Merchants with payment application systems connected to the Internet, no electronic cardholder data storage.	160
SAQ C-VT	Merchants who manually enter a single transaction at a time via a keyboard into an Internet-based, virtual payment terminal solution that is provided and hosted by a PCI DSS validated third-party service provider. No electronic cardholder data storage.	79
SAQ P2PE	Merchants using only hardware payment terminals included in and managed via a validated, PCI SSC-listed Point-to-Point Encryption (P2PE) solution, with no electronic cardholder data storage.	33
SAQ D	All merchants not included in descriptions for the above SAQ types.	329

2. University PCI DSS process

In accordance with the University’s credit card agreement with BOH, the Treasury Office is responsible for preparing a University wide SAQ. Internal Audit was informed that the Treasury Officer prepares and submits the required SAQ to Security Metrics every January. Security Metrics is a data security company engaged by BOH to provide PCI DSS compliance services (See Section D, *Credit card agreement with BOH*, for additional information.).

The University’s PCI DSS assessment process commences every October when the Treasury Office e-mails a link to the eight SAQs described above to each CCL approved to accept credit/debit card payments. Each CCL must select and prepare the proper SAQ based upon their respective process for receiving, processing, and transmitting credit card information. Approximately 120 CCLs prepare an annual SAQ for submission to the Treasury Officer. Each CCL is expected to complete and submit the applicable SAQ by the end of December. The Treasury Officer utilizes CCL SAQ responses to prepare the University’s SAQ for submission during January of the following year. For purposes of including responses obtained from all CCLs, the Treasury Officer prepares and submits SAQ D, which is the most comprehensive SAQ.

Internal Audit was informed that the Treasury Office receives emails from BOH and Security Metrics throughout the year and reviews the PCI website to stay current with PCI DSS updates and emerging trends. The Treasury Officer forwards such emails to fiscal personnel at each CCL. Internal Audit was also informed that the Treasury Officer periodically attends PCI training conferences.

Historically, PCI training at the CCL level has been intermittent. Initial training (PCI Compliance 3.1) was performed by Security Metrics in November 2015. The next training session was performed by BOH in October 2018 (See Section D, *Credit card agreement with BOH*). This training session was titled “Preparing PCI DSS Self-Assessment Questionnaires” and included the following topics:

- General PCI compliance information
- Types of SAQs
- Determining the proper SAQ to complete
- Attestation requirements



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Internal Audit’s review of the attendance sheets noted that 23 personnel were in attendance across the University’s eight campuses, ranging between one and eleven personnel in attendance at each campus. Subsequently, a link to a video of the training was disseminated by the Treasury Officer to relevant personnel and the ITS Chief Information Security Officer. Internal Audit was informed that additional PCI compliance guidance during 2018 consisted of the following:

- BOH participated in informal PCI compliance meetings to respond to questions from five CCLs,
- the ITS Chief Information Security Officer held a SAQ C question and answer workshop attended by 15 University personnel.

*Observations*

Internal Audit’s review of 2017 SAQs noted that three of 12 CCLs submitted SAQs that lacked responses for numerous questions. The Treasury Office noted the incomplete SAQs but did not perform follow-up procedures with the three CCLs. As a result of Internal Audit’s observations, the Treasury Officer informed Internal Audit that a more detailed review in connection with the 2018 SAQs was performed and that no incomplete SAQs were detected.

Internal Audit performed inquiries with personnel of the 12 CCLs to gain an understanding of their knowledge in completing their SAQs. Internal Audit was informed that the majority of CCL personnel did not understand a substantial number of their respective SAQ’s requirements and responded “Yes” or “N/A” to all questions that they did not understand to signify PCI DSS compliance. Per discussion with the Treasury Officer, each SAQ is reviewed to determine that responses were consistent with the prior year’s SAQ. However, the validity of each response is not evaluated

Internal Audit was informed that the Treasury Officer historically did not monitor any changes to the CCLs’ credit/debit card payment processes. As a result of Internal Audit’s observation and prior to distributing the 2018 SAQs, the Treasury Officer requested each CCL to complete a matrix designed to assist the Treasury Officer identify changes to credit/debit card payment processes that may result in the CCL preparing a different SAQ.

From an overall review perspective, Internal Audit was informed that there is no secondary review of the SAQ prepared by the Treasury Officer prior to submission to Security Metrics to ensure accuracy and completeness.

*Conclusions*

Through inquiry and observation, Internal Audit noted that CCL personnel were generally aware of the importance of securing credit card information and the PCI DSS requirements. However, the lack of consistent and formal training limited their understanding of the complex and extensive PCI DSS requirements. This limited understanding was confirmed through inquiry and review of a sample of SAQs. In addition, inquiry with CCL personnel indicated uncertainty regarding whether or not the correct SAQ was completed.

Currently, the Treasury Officer has the considerable task of assessing the University’s compliance with the PCI DSS requirements. Other University personnel (ITS, financial management, etc.) do not review CCL submitted SAQs to the Treasury Office or the University SAQ submitted to Security Metrics for accuracy, completeness or potential areas of risk.

*Recommendations*

Internal Audit believes that the University should develop a robust and comprehensive PCI DSS process supplemented with written policies and procedures. This process should include increased training and a process to ensure the quality, accuracy and completeness of the CCL prepared SAQs. Internal Audit also believes that ITS and FMO should collaborate with and support Treasury’s PCI DSS compliance efforts. This support should

include appropriate ITS and FMO personnel reviewing the University wide SAQ prepared by the Treasury Officer prior to submission to Security Metrics.

## **B. PCI DSS specific requirements**

Section III.A.1. PCI DSS “Description and requirements” provides an overview of the goals and general requirements associated with PCI DSS. This section is organized by the 12 PCI DSS general requirements listed in Table 1. A description of each general requirement is presented below in addition to certain specific requirements associated with each general requirement. Internal Audit’s high level preliminary assessment of the University’s compliance with these PCI DSS requirements is also presented. This assessment was based on interviews and observations with the Treasury Officer and CCL personnel as well as Internal Audit’s review of the 2018 overall University SAQ D (2018 SAQ) submitted to Security Metrics.

### **1. Install and maintain a firewall configuration to protect cardholder data**

#### *Description*

Firewalls protect valuable sensitive data by controlling computer traffic between an organization’s networks (internal) and untrusted networks (external). A firewall examines all network traffic and blocks those transmissions that do not meet the specified security criteria. All systems must be protected from unauthorized access from untrusted networks. PCI DSS general requirement #1 contains 22 specific requirements a sample of which are as follows:

- Establish and implement firewall and router configuration standards that formalize testing whenever configurations change, that identify all connections between the cardholder data environment and other networks (including wireless) with documentation and diagrams, etc. and stipulate a review of configuration rule sets at least every six months.
- Build firewall and router configurations that restrict all traffic, inbound and outbound, from “untrusted” networks (including wireless) and hosts.
- Prohibit direct public access between the Internet and any system component in the cardholder data environment.
- Install personal firewall software or equivalent functionality on any devices that connect to the Internet when outside the network (for example, laptops used by employees), and which are also used to access the cardholder data environment.

#### *Observations*

The 2018 SAQ indicated N/A (Not Applicable) regarding the establishment and implementation of firewall and router configuration standards as well as documented firewall management policies and operational procedures.

#### *Conclusions*

Given the significance and importance of firewalls, Internal Audit believes the N/A responses should be evaluated and identified as an area for improvement.

### **2. Do not use vendor-supplied defaults for system passwords and other security parameters**

#### *Description*

Routers and POS systems are usually delivered with default usernames and passwords. Default settings make device installation and support easier. The easiest way for a hacker to access an internal network is to try default passwords or exploits based on default system software settings in a payment card infrastructure. Default passwords and settings for most network devices are widely known. PCI DSS general requirement #2 contains 12 specific requirements a sample of which are as follows:

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- Always change all vendor-supplied defaults and remove or disable unnecessary default accounts before installing a system on the network. This includes wireless devices that are connected to the cardholder data environment or are used to transmit cardholder data.
- Develop configuration standards for all system components that address all known security vulnerabilities and are consistent with industry-accepted definitions.
- Maintain an inventory of system components that are in scope for PCI DSS.

*Observations*

CCL personnel informed Internal Audit that CCL personnel are required to maintain unique usernames and passwords to access their respective computer, cash register or POS system and Touchnet. Internal Audit also observed a sample of CCL personnel access their respective computer, POS system or Touchnet terminal using their unique username and password.

The 2018 SAQ indicated “Yes” for all specific requirements but N/A with respect to maintaining an inventory of system components that are in scope for PCI DSS.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes N/A represents an inappropriate response with respect to maintaining an inventory of PCI DSS system components.

**3. Protect stored cardholder data**

*Description*

Cardholder data should not be stored unless it’s necessary to meet the needs of the business. Sensitive data on the magnetic stripe or chip must never be stored after authorization. Protection methods such as encryption, truncation, masking, and hashing are critical components of cardholder data protection. Other methods for minimizing risk include truncating cardholder data (including only last 4 digits) and not sending unprotected primary account numbers (PANs) using end-user messaging technologies, such as e-mail and instant messaging. PCI DSS general requirement #3 contains 23 specific requirements a sample of which are as follows:

- Limit cardholder data storage and retention time to that which is required for business, legal, and/or regulatory purposes. Purge unnecessary stored data at least quarterly.
- Do not store sensitive authentication data after authorization (even if it is encrypted). Render all sensitive authentication data unrecoverable upon completion of the authorization process.
- Mask PAN when displayed (the first six and last four digits are the maximum number of digits you may display), so that only authorized people with a legitimate business need can see more than the first six/last four digits of the PAN.
- Render PAN unreadable anywhere it is stored – including on portable digital media, backup media, in logs, and data received from or stored by wireless networks.

*Observations*

CCL personnel informed Internal Audit that credit card information is generally not stored. The 2018 SAQ indicated “Yes” for all specific requirements and N/A for rendering PAN unreadable when stored.

Internal Audit noted that the Bookstores and Shidler College of Business physically stored truncated cardholder data (stored the last four digits). Information Technology (IT) personnel at a Bookstore informed Internal Audit that the credit card information was secured with a firewall with credit card information encrypted. Internal Audit was also informed and observed that the credit card information was changed to 0s from the electronic database

following the processing of the credit card data. However, the Shidler College of Business retains credit card information electronically including the cardholder’s name and credit card number.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. However, Treasury must address this matter with the Shidler College of Business and ensure that University personnel are informed of the requirement to render PAN unreadable when stored.

**4. Encrypt transmission of cardholder data across open, public networks**

*Description*

Cyber criminals may be able to intercept transmissions of cardholder data over open, public networks. Encryption is one technology that can be used to render transmitted data unreadable by any unauthorized person. PCI DSS general requirement #4 contains 4 specific requirements a sample of which are as follows:

- Use strong cryptography and security protocols to safeguard sensitive cardholder data during transmission over open, public networks (e.g., Internet, wireless technologies, cellular technologies, General Packet Radio Service [GPRS], satellite communications).
- Never send unprotected PANs by end user messaging technologies (e.g., e-mail, instant messaging, SMS, chat, etc.).

*Observations*

CCL personnel informed Internal Audit that credit card transmissions are properly protected via encryption. The 2018 SAQ indicated “Yes” for all specific requirements and N/A for sending unprotected PANs by end user messaging technologies.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes that the University must prohibit sending unprotected PANs by end user messaging technologies.

**5. Protect all systems against malware and regularly update anti-virus software or programs**

*Description*

Malicious software (a.k.a. “malware”) exploits system vulnerabilities after entering the network via users’ e-mail and other online business activities. Anti-virus software must be used on all systems commonly affected by malware to protect systems from current and evolving malicious software threats. Additional anti-malware solutions may supplement (but not replace) anti-virus software. PCI DSS general requirement #5 contains 6 specific requirements a sample of which are as follows:

- Deploy anti-virus software on all systems commonly affected by malicious software (particularly personal computers and servers).
- Ensure that all anti-virus mechanisms are kept current, perform periodic scans and generate audit logs.
- Ensure that anti-virus mechanisms are actively running and cannot be disabled or altered by users.

*Observations*

Site visits to CCLs noted the installation of anti-virus and anti-malware programs. Internal Audit observed that the anti-virus and anti-malware programs were running at their most recent version. The 2018 SAQ indicated “Yes” for all specific requirements.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with this requirement.

## **6. Develop and maintain secure systems and applications**

### *Description*

Hackers use security vulnerabilities to gain privileged access to systems. Many of these vulnerabilities are eliminated by installing vendor-provided security patches. All critical systems must have the most recently released software patches to prevent exploitation. PCI DSS general requirement #6 contains 29 specific requirements a sample of which are as follows:

- Establish a process to identify security vulnerabilities, using reputable outside sources, and assign a risk ranking (e.g., “high,” “medium,” or “low”) to newly discovered security vulnerabilities.
- Protect all system components and software from known vulnerabilities by installing applicable vendor-supplied security patches.
- Develop internal and external software applications including web-based administrative access to applications in accordance with PCI DSS and based on industry best practices.

### *Observations*

The 2018 SAQ indicated “Yes” for all requirements except for the specific requirements associated with the University’s process for developing software affecting credit card information. The Treasury Officer informed Internal Audit that the University has not developed software affecting credit card information. Internal Audit noted that University policy requires risk assessments but does not address assigning a risk ranking (i.e., Ranking as “low”, “medium”, or “high”) for identified security vulnerabilities.

### *Conclusions*

Based on the procedures performed, the University appears to be in compliance with this requirement but should consider enhancing its policies requiring the risk ranking of identified security vulnerabilities.

## **7. Restrict access to cardholder data by business need to know**

### *Description*

To ensure critical data can only be accessed by authorized personnel, systems and processes must be in place to limit access based on need to know and according to job responsibilities. Need to know is when access rights are granted to only the least amount of data and privileges needed to perform a job. More people having access to cardholder data increase the risk that a cardholder’s account will be used maliciously. PCI DSS general requirement #7 contains 10 specific requirements a sample of which are as follows:

- Limit access to system components and cardholder data to only those individuals whose job requires such access.
- Establish an access control system(s) for systems components that restricts access based on a user’s need to know.

### *Observations*

The 2018 SAQ indicated N/A for 8 of the 10 specific requirements including a written policy defining the access privileges of personnel, documented approval authorizing access privileges, and whether access controls systems are configured to enforce privileges based on job classification and function.

### *Conclusions*

Given the significance and importance of restricted access to cardholder information, Internal Audit believes the N/A responses should be evaluated and identified as an area for improvement.

## 8. Identify and authenticate access to system components

### *Description*

Strong passwords/passphrases are the first line of defense into a network. PCI DSS specifies that a minimum of seven characters and both numeric and alphabetic characters should be used for passwords/passphrases. Assigning a unique identification (ID) to each person with access ensures that each individual is uniquely accountable for their actions. By ensuring each user is uniquely identified—instead of using one ID for several employees—an organization can maintain individual responsibility for actions and an effective audit trail per employee. PCI DSS general requirement #8 contains 25 specific requirements a sample of which are as follows:

- Define and implement policies and procedures to ensure proper user identification management for users and administrators on all system components.
- Use strong authentication methods and render all passwords/passphrases unreadable during transmission and storage using strong cryptography.
- Secure all individual administrative access and all remote access to the cardholder data environment using multi-factor authentication.
- Do not use group, shared, or generic IDs, or other authentication methods.
- All access to any database containing cardholder data must be restricted.

### *Observations*

Internal Audit was informed that each CCL requires their personnel to have unique credentials to access sensitive data. The 2018 SAQ indicated “Yes” for the majority of specific requirements and N/A for several specific requirements including restricting access to any database containing cardholder data.

### *Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes N/A responses should be evaluated with all specific requirements continually monitored to ensure access is restricted to any database containing cardholder data.

## 9. Restrict physical access to cardholder data

### *Description*

Any physical access to data or systems that house cardholder data provides the opportunity for persons to access and/or remove devices, data, systems or hardcopies, and should be appropriately restricted. Physical access controls minimizes the risk of unauthorized persons gaining access to systems to steal, disable, disrupt, or destroy critical systems and cardholder data. PCI DSS general requirement #9 contains 27 specific requirements a sample of which are as follows:

- Use appropriate facility entry controls to limit and monitor physical access to systems in the cardholder data environment.
- Develop procedures to easily distinguish between onsite personnel and visitors, such as assigning ID badges.
- Ensure all visitors are authorized before entering areas where cardholder data is processed or maintained, given a physical badge or other identification that expires and identifies visitors as not onsite personnel, and are asked to surrender the physical badge before leaving the facility or at the date of expiration.
- Physically secure all media; store media back-ups in a secure location, preferably off site.
- Maintain strict control over the internal or external distribution, storage and accessibility of any kind of media.
- Protect devices that capture payment card data via direct physical interaction with the card from tampering and substitution. This includes periodic inspections of POS device surfaces to detect tampering, and training personnel to be aware of suspicious activity.

*Observations*

Internal Audit was informed by CCL personnel that physical access to computers and cash registers are limited to personnel who were authorized/granted access by their respective departments to process credit cards. The 2018 SAQ indicated “Yes” for the majority of specific requirements and N/A for several specific requirements including developing procedures to distinguish between onsite personnel and visitors and ensuring that all visitors are authorized before entering areas where cardholder data is processed or maintained.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes the University must develop procedures to distinguish between onsite personnel and visitors and ensuring that all visitors are authorized before entering areas where cardholder data is processed or maintained.

**10. Track and monitor all access to network resources and cardholder data**

*Description*

Logging mechanisms and the ability to track user activities are critical for effective forensics and vulnerability management. The presence of logs in all environments allows thorough tracking and analysis if something goes wrong. Checking logs daily minimizes the amount of time and exposure of a potential breach. PCI DSS general requirement #10 contains 34 specific requirements a sample of which are as follows:

- Implement audit trails to link all access to system components to each individual user.
- Record audit trail entries for all system components for each event, including at a minimum: user identification, type of event, date and time, success or failure indication, origination of event, and identity or name of affected data, system component or resource.
- Secure audit trails so they cannot be altered.
- Review logs and security events for all system components to identify anomalies or suspicious activity. Perform critical log reviews at least daily.
- Retain audit trail history for at least one year; at least three months of history must be immediately available for analysis.

*Observations*

The University’s Information Technology Services (ITS) website contains instructions requiring University personnel to possess unique credentials to access sensitive information. Unique usernames are used as identifiers to log and track the activities of individuals. Although the ITS website requires a review of the system logs for unusual activities, the frequency requirement differs from PCI DSS requiring the monitoring of logs on a daily basis. The ITS website requires log monitoring on a “frequent” basis.

The 2018 SAQ indicated “Yes” for the majority of specific requirements and N/A for several specific requirements including implementing audit trails linking all access to system components to individual users, securing audit trails so they cannot be altered, and policies requiring the review of system logs daily.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes the University must develop procedures and technical guidelines to require the monitoring of system logs on a daily basis in addition to evaluating the other specific requirements identified as N/A in the prior paragraph.

## **11. Regularly test security systems and processes**

### *Description*

Vulnerabilities are being discovered continually by malicious individuals and researchers, and being introduced by new software. A vulnerability scan is a combination of automated or manual tools, techniques, and/or methods run against external and internal network devices and servers, designed to expose potential vulnerabilities that could be found and exploited by malicious individuals. There are three types of vulnerability scanning required for PCI DSS:

- Internal quarterly vulnerability scanning by qualified personnel (use of a PCI SSC Approved Scanning Vendor (ASV) is not required)
- External quarterly vulnerability scanning, which must be performed by an ASV
- Internal and external scanning as needed after significant changes

A penetration test differs from a vulnerability scan. The intent of a penetration test is to simulate a real-world attack situation with a goal of identifying how far an attacker would be able to penetrate into an environment. This allows an entity to gain a better understanding of their potential exposure and develop a strategy to defend against attacks. PCI DSS general requirement #11 contains 17 specific requirements a sample of which are as follows:

- Implement processes to test for the presence of wireless access points and detect and identify all authorized and unauthorized wireless access points on a quarterly basis. Maintain an inventory of authorized wireless access points and implement incident response procedures in the event unauthorized wireless access points are detected.
- Run internal and external network vulnerability scans at least quarterly and after any significant change in the network. Address vulnerabilities and perform rescans as needed, until passing scans are achieved. After passing a scan for initial PCI DSS compliance, an entity must, in subsequent years, complete four consecutive quarters of passing scans. Quarterly external scans must be performed by an ASV. Scans conducted after network changes and internal scans may be performed by internal staff.
- Develop and implement a methodology for penetration testing that includes external and internal penetration testing at least annually and after any significant upgrade or modification.

### *Observations*

PCI DSS requires that internal vulnerability scans be performed on a quarterly basis. AP 8.710 does not define the frequency of internal scans. Internal Audit was informed that certain CCLs are subject to internal vulnerability scans on a periodic basis. However, these internal scans are not performed quarterly. Internal Audit was also informed that the University’s ITS department performed penetration testing on CCL’s (four) that completed a SAQ C or SAQ C-VT. Security Metrics (an external ASV) performs quarterly network vulnerability scans of University CCL’s.

### *Conclusions*

The University is complying with the external network vulnerability scan and internal penetration testing requirements but must evaluate the applicability of performing other specific requirements including internal quarterly vulnerability scanning and the annual external penetration testing.

## **12. Maintain a policy that addresses information security for all personnel**

### *Description*

A strong security policy sets the tone for security affecting an organization’s entire company, and it informs employees of their expected duties related to security. If personnel are not educated about their security responsibilities, security safeguards and processes that have been implemented may become ineffective through



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errors or intentional actions. If the security awareness program does not include periodic refresher sessions, key security processes and procedures may be forgotten or bypassed, resulting in exposed critical resources and cardholder data. Requiring an acknowledgement by personnel in writing or electronically helps ensure that they have read and understood the security policies/procedures, and that they have made and will continue to make a commitment to comply with these policies. PCI DSS general requirement #12 contains 42 specific requirements a sample of which are as follows:

- Establish, publish, maintain, and disseminate a security policy; review the security policy at least annually and update when the environment changes.
- Implement a risk assessment process that is performed at least annually and upon significant changes to the environment that identifies critical assets, threats, and vulnerabilities, and results in a formal assessment.
- Develop usage policies for critical technologies to define their proper use by all personnel. These include remote access, wireless, removable electronic media, laptops, tablets, handheld devices, email and Internet.
- Ensure that the security policy and procedures clearly define information security responsibilities for all personnel. Service providers must also establish responsibility for their executive management for the protection of cardholder data and a PCI DSS compliance program.
- Implement a formal security awareness program to make all personnel aware of the cardholder data security policy and procedures.
- Screen potential personnel prior to hire to minimize the risk of attacks from internal sources. Example screening includes previous employment history, criminal record, credit history, and reference checks.
- Service providers acknowledge in writing to customers that they are responsible for the security of cardholder data that they possess or otherwise store, process, or transmit on behalf of the customer, or to the extent they could impact the security of the customer’s cardholder data environment.
- Implement an incident response plan.

*Observations*

The 2018 SAQ indicated “Yes” for the majority of specific requirements. However, the 2018 SAQ also indicated N/A for several specific requirements including a security policy defining information security responsibilities for all personnel, a formal security awareness program communicating to all personnel the cardholder data security policy and procedures, and screening of potential personnel prior to hire to minimize the risk of cardholder data security attacks from internal sources.

*Conclusions*

Based on the procedures performed, the University appears to be in compliance with the majority of this requirement. Internal Audit believes N/A responses should be evaluated and identified as an area for improvement by developing policies to address the specific requirements mentioned in the prior paragraph.

**Overall observations, conclusions and recommendations**

As previously noted and as presented above, the PCI DSS requirements are a complex and extensive collection of technical and operational requirements designed to protect cardholder data. Internal Audit identified non-compliance with certain PCI DSS requirements (retention of cardholder information, policy requiring daily review of access logs, performance of internal vulnerability scans quarterly, etc.) in addition to identifying N/A responses that Internal Audit believes must be evaluated and should be considered best practices in connection with various PCI DSS specific requirements. Internal Audit was informed by the Treasury Officer that the N/A responses resulted from SAQ D requirements that had no similar requirements in the CCL prepared and submitted SAQs and are thus deemed out-of-scope but acceptable by both BOH and Security Metrics.

Internal Audit believes these non-compliance matters and N/A responses should be evaluated by Treasury, FMO and ITS personnel with corrective action implemented if deemed appropriate. An evaluation of the N/A responses

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is supported by the following guidance provided by the PCI Security Standards Council information supplement *Guidance for PCI DSS Scoping and Network Segmentation*:

- “Just because a system is not in scope for PCI DSS does not mean the entity should leave that system unprotected as it could still pose a risk to the entity’s network and business. A common pattern seen in data breaches is where the attacker targets systems deemed by the entity to be out-of-scope for PCI DSS, then leverages those systems to gain access to more systems, which eventually provide a path to systems where cardholder data can be found.”
- Implementation of PCI DSS controls on out-of-scope systems is strongly recommended as a best practice to prevent out-of-scope systems from being used for malicious purposes.

Internal Audit noted that all PCI DSS general requirements include a specific requirement of a documented security policy and operational procedures that should be known and understood by all University personnel with access to cardholder data. Accordingly, including relevant PCI DSS requirements into University policy with appropriate training should be considered (see next section).

### **C. University policies**

The following University policies address compliance with PCI DSS.

1. AP 8.710, *Credit Card Program*

The stated purpose of this policy is to provide procedures for the processing of credit card transactions in accordance with University policies, banking and PCI requirements, the terms of the University credit card contract and all subsequent amendments. Guidelines specific to PCI DSS compliance are as follows:

- campuses/departments shall comply with security requirements and safeguard cardholder data as set forth by PCI,
- securely dispose of and do not store (except for last four digits of card number) cardholder data,
- use security features including, but not limited to firewalls, encryption of cardholder data, system passwords, assignment of unique ID’s to personnel with computer access, anti-virus software, restricted physical access to cardholder data, track and monitor all access to network resources and cardholder data and regular security system scanning/testing.

A brief discussion of a Security Incident Response Plan is also included in this policy.

2. EP 2.214, *Institutional Data Classification Categories and Information Security Guidelines*

This policy contains general guidelines with respect to the privacy and security of the University’s Institutional Data that is defined as data that is created, received, maintained and/or transmitted in the course of meeting the University’s administrative and academic requirements. This policy references PCI DSS as well as the procedures following the detection of the exposure or disclosure of protected data. This policy also provides ITS with the authority to conduct network and device scanning to identify security weaknesses in any University information system, device, or network.

3. EP 2.215, *Institutional Data Governance*

This policy governs the management and use of University data and information with a goal of protecting the privacy and security of this data and information. Similar to EP 2.214, PCI DSS is referenced in this policy but is not specific to credit card data. Additionally, this policy requires the University to establish an information security program.

#### *Observations*

The University’s policies with respect to PCI DSS compliance is interspersed throughout several APs and EPs.

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Although University policies AP 8.710, EP 2.214, EP 2.215 and the ITS website addresses information security, Internal Audit identified multiple PCI DSS requirements (see prior section) that were not addressed by any policy or the ITS website.

*Conclusions*

The University must enhance its policies to mitigate the risk of PCI DSS non-compliance. Current PCI DSS policies lack specificity regarding the PCI DSS requirements and are interspersed throughout various University policies. Accordingly, the University may be exposed to an increased risk of non-compliance and the accompanying results previously noted (loss of reputation and trust, enrollment decrease, fraud losses, fines and penalties, termination of ability to accept certain payment cards, etc.).

*Recommendations*

The University must develop robust, comprehensive and easily understood PCI DSS policies to mitigate the risk of a cardholder data breach. The policies should include training requirements (applicable personnel, content, frequency, etc.) and roles and responsibilities of UH personnel in ensuring PCI DSS compliance.

**D. Credit card agreement with BOH**

BOH provides authorization, processing, settlement and reporting of credit/debit card transaction services to the University pursuant to a three-year agreement commencing on August 1, 2018 and expiring on July 31, 2021 (may be renewed for an additional two years). The agreement requires BOH to provide the University with vulnerability scanning services as required by PCI DSS at no cost to the University in addition to PCI DSS compliance training.

Security Metrics has been engaged by BOH to provide the vulnerability scanning services. Security Metrics is an ASV that performs quarterly external vulnerability scans of the University's (including CCLs) network and/or website from the outside looking inward using data security tools to determine compliance with PCI DSS. Section E, *Payment Card Network requirements*, discusses the external vulnerability scan results.

Other provisions noted in the agreement related to PCI DSS are as follows:

- The University shall comply with all by-laws, regulations, and rules of Payment Card Networks including the implementation and verification of card data security in conformity with PCI DSS
- BOH agrees to maintain network security that conforms to generally recognized industry standards and best practices
- BOH agrees to protect and maintain the security of data with protection security measures that include maintaining secure environments that are patched and up to date with all appropriate security updates
- BOH agrees to demonstrate PCI DSS compliance and shall provide upon request, a current attestation of compliance (AOC) signed by a PCI QSA (Qualified Security Assessor)
- BOH and the University each agree to comply with all applicable laws that require the notification of individuals in the event of a data breach
- BOH shall pass assessments and cost reimbursements imposed by Payment Card Networks through to the University as a result of University activities that violate the by-laws, rules and regulations of the Payment Card Networks

*Observations*

Conformance with the PCI DSS specific requirements (see Section III.B.) would support compliance with the PCI DSS requirements of the BOH agreement. As noted in Section III.B, Internal Audit identified non-compliance with certain PCI DSS requirements in addition to identifying possible inappropriate N/A responses in connection

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with various PCI DSS specific requirements. Section III. E. below evaluates the University’s compliance with the by-laws, regulations and rules of the Payment Card Networks.

PCI DSS general requirement #12, *Maintain a policy that addresses information security for all personnel*, includes a specific requirement that “Service providers acknowledge in writing to customers that they are responsible for the security of cardholder data that they possess or otherwise store, process, or transmit on behalf of the customer, or to the extent they could impact the security of the customer’s cardholder data environment”. For purposes of evidencing BOH’s PCI DSS compliance, Section 14 G. of Appendix A of the BOH agreement states that “the Contractor shall provide upon request a current attestation of compliance signed by a PCI QSA”. The Treasury Officer requested and received an abbreviated (pages 12 through 15 were provided) attestation of compliance dated October 12, 2018 from BOH.

*Conclusions and recommendations*

Internal Audit believes that the University and BOH may not be complying with certain terms and conditions of this agreement. The University must evaluate this agreement and implement corrective action for any identified non-compliance matters. Consultation and collaboration with BOH to ensure compliance by both entities may be necessary.

**E. Payment Card Network requirements**

As noted previously, the total number of transactions (by card type) determines the PCI compliance reporting and documentation requirements to each Payment Card Network. Reporting requirements vary based on the number of transactions processed through that merchant by Payment Card Network. Payment Card Networks have more robust requirements for merchants that process a million transactions as opposed to a merchant that may process 10,000 transactions or fewer.

According to the websites of these Payment Card Networks, the reporting requirements to be PCI DSS compliant is dependent on the number of payment card transactions per card brand. Internal Audit reviewed and aggregated the University’s monthly Bank of Hawai‘i Card Processing report (provided by the Treasury Office) and noted that in total, the University processed less than a million payment card transactions annually.

The University processed between 700,000 and 800,000 total credit/debit card transactions during each of the fiscal years ended 2018 and 2017. The highest total number of annual transactions by a single Payment Card Network during this period was approximately 377,000. The University is defined as a level 3 merchant (merchants processing between 20,000 - 1,000,000 annual transactions) based on the volume of transactions. The following table presents the different reporting and documentation requirements for a level 3 merchant.

**Table 3**

	<b>VISA</b>	<b>MC</b>	<b>Discover</b>	<b>JCB</b>
Submission of an annual SAQ	Yes	Yes	Yes	Yes
Quarterly network scan by an ASV	Yes	Yes	Yes	Yes
Complete an AOC Form	Yes	No	No	No

*Observations*

1. Annual SAQ

The Treasury Officer submitted the University’s 2018 SAQ and 2017 SAQ to Security Metrics in January 2019 and January 2018, respectively.

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2. External scans

Security Metrics performed quarterly network scans of 28 and 24 University CCLs during 2018 and 2017, respectively. Each CCL’s IP address scanned either “Passes” or “Fails” based on whether any “failing” vulnerabilities are detected. Security Metrics assigns a score to each detected vulnerability. Higher scores indicate greater vulnerability. Security Metrics deems a score of 4.0 or higher as a “Fail” of the PCI DSS compliance requirements.

Internal Audit’s review of the February 2019 and April 2018 scanning results noted the following:

- The April 2018 scan detected 45 vulnerabilities, of which several were scored at 3.9, and one scored at 5.0 as follows: The IP address’s version of TLS (Transport Layer Security) was outdated. TLS is standard technology for keeping an Internet connection secure and safeguarding any sensitive data that is being sent between two systems. TLS version 1.0 was detected. The requirement was that TLS version 1.1 or greater be implemented. Internal Audit noted this vulnerability did not reoccur during the February 2019 scan.
- The February 2019 scan detected 24 vulnerabilities, of which two were scored at 3.9 and none 4.0 or greater. However, Internal Audit noted two recurring (i.e., the same vulnerability detected for the same IP address scanned) vulnerabilities (the two scored at 3.9) related to the detection of a Trojan Horse (a destructive program disguised as a benign application).

The Treasury Officer stated that the detected vulnerabilities were not communicated to the respective CCLs as these CCLs obtained an overall Pass rating. Accordingly, no additional work is performed on detected vulnerabilities unless a Fail rating is assigned to a CCL.

3. Attestation of compliance

The University may not be complying with the VISA requirement to prepare and submit an AOC. Although a VISA requirement and given that the BOH agreement requires compliance with all by-laws, regulations, and rules of Payment Card Networks, the Treasury Office believes this requirement is not applicable pursuant to discussion with BOH.

*Conclusions*

The University is complying with the annual SAQ and external scan requirements. However, Internal Audit believes the University may not be complying with the VISA requirement to prepare and submit an AOC. The Treasury Officer stated that BOH believes this requirement is not applicable to the University.

*Recommendations*

The Treasury Office should communicate all detected vulnerabilities to the respective CCL to minimize the risk of a breach of cardholder information. The Treasury Office should also consult with BOH and/or Security Metrics regarding the applicability of VISA’s AOC requirement. If deemed not applicable, obtain written correspondence signed by appropriate BOH and/or Security Metrics personnel. If deemed applicable, prepare and submit the required AOC.

**F. Overall conclusions**

The PCI DSS requirements are a complex and extensive collection of technical and operational requirements designed to protect cardholder data. Internal Audit noted that CCL personnel were generally aware of the PCI DSS requirements. However, the lack of consistent and formal training limited their overall understanding of the PCI DSS requirements. In addition, current University PCI DSS policies lack specificity and are interspersed

throughout various University policies creating challenges for University personnel to enhance their knowledge and understanding of the PCI DSS requirements.

Internal Audit identified non-compliance with certain PCI DSS requirements (retention of cardholder information, policy requiring daily review of access logs, performance of internal vulnerability scans quarterly, etc.) in addition to identifying N/A responses that Internal Audit believes should be considered best practices in connection with various PCI DSS requirements. In addition, Internal Audit believes the University may not be complying with certain VISA requirements and certain terms and conditions of the BOH credit card agreement.

### **G. Overall recommendations**

Internal Audit recommends that the University consider developing a robust and comprehensive PCI DSS process supplemented with written policies and procedures to mitigate the risk of a cardholder data breach and the accompanying results (loss of reputation and trust, enrollment decrease, fraud losses, fines and penalties, termination of ability to accept certain payment cards, etc.). The process must include procedures that ensure the accuracy and completeness of the CCL prepared SAQs submitted to Treasury as well as the Treasury prepared SAQ submitted to Security Metrics. The policies must be comprehensive and easily understood and should include training requirements (applicable personnel, content, frequency, etc.) and roles and responsibilities of UH personnel in ensuring PCI DSS compliance. Internal Audit also believes that ITS and FMO should collaborate with and support Treasury’s PCI DSS compliance efforts.

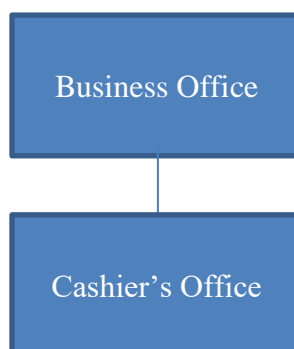
Accordingly, Internal Audit believes the non-compliance matters and N/A responses identified in the SAQs should be evaluated by Treasury, FMO and ITS personnel with appropriate corrective action implemented if appropriate. Consultation and collaboration with BOH and/or Security Metrics may be necessary with respect to the identified SAQ matters in addition to the applicability of VISA’s AOC requirement and potential non-compliance with the BOH credit card agreement.

## **IV. Cash Receipts Process**

### **A. Summary description**

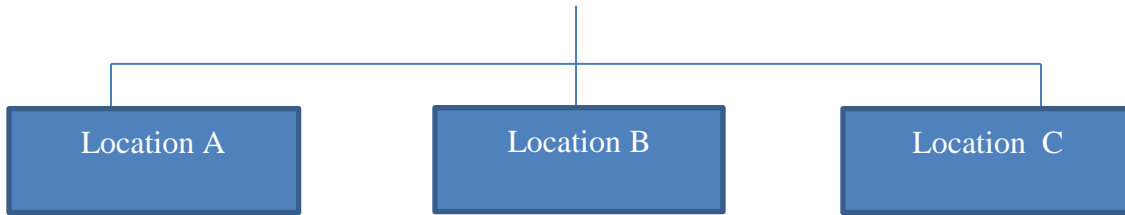
The Cashier’s Office of a University campus generally receives Cash receipts from CCLs throughout their respective campus. Each CCL (A, B, and C in Figure 1 below) receives and secures Cash receipts throughout the workday until delivery to their Cashier’s Office. Cash receipts are collected daily at the Cashier’s Office by armored car personnel (barring weekends and holidays) for deposit to the University’s general bank account. The campus Business Office (Cashier’s Office at UHM only) performs procedures to detect errors in the recordation of Cash receipts into KFS that were undetected by the Cashier’s Office or CCL.

**Figure 1:**



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The following describes the University’s general Cash receipts process. Internal controls and processes that were determined to be significant to the Cash receipts process are noted in **bold** below.

The Cash receipts process is initiated with the customer, student, or other 3<sup>rd</sup> party payer (Customer) providing cash in exchange for goods or services. Each CCL utilizes a Subsidiary System (such as a Point of Sale (POS) system) to record the Cash receipt transaction. A pre-numbered receipt is generally provided to the Customer evidencing the transaction. Checks received are restrictively endorsed (stamped) upon receipt for deposit into the University’s bank account. At the end of each shift or the end of the day, the employee collecting the Cash (e.g., cashier, etc.) generates a report from the Subsidiary System (e.g., daily sales report, cash register z-tape, etc.), counts the Cash by type (currency and coin, checks, etc.) (**Daily Cash Count**) and compares the Cash count and the Cash receipts recorded to the Subsidiary System with reconciling transactions investigated and explained (**Daily Cash Comparison**). On a daily basis, a CCL supervisor reviews the Daily Cash Count and Daily Cash Reconciliation and verifies that all reconciling transactions, if any, have been investigated and resolved. All Cash receipts are secured within a locked drawer, cabinet or safe until ready for transfer to the Cashier’s Office or collected by armored car service.

In addition to Cash receipts collected at CCL’s, Cash is also collected at the Cashier’s Office. Unless a CCL obtains written approval from the Treasury Office to have armored car service pick up Cash at the CCL, the CCL must deliver Cash to the Cashier’s Office within the next business day. The Cashier’s Office prepares a daily deposit slip that accompanies the deposit bag picked up by armored car service. The deposit bags are sealed and secured in a locked drawer or safe prior to collection by armored car service. All documentation supporting the Cash receipts (e.g., deposit slip copy, Subsidiary System report, reconciliation between Cash receipts and the Subsidiary System, etc.) are provided to the campus Business Office for the purposes of verifying Cash receipts recorded to KFS (**Cash Deposit/Recordation**).

Each CCL has one or more fiscal personnel and a FA responsible for the CCL’s KFS accounts. CCL fiscal personnel review reports from the Subsidiary System and compare Cash receipts recorded to KFS to the Subsidiary System monthly (**Monthly Cash Reconciliation**). A monthly comparison is performed by CCL fiscal personnel comparing Cash receipts per the Subsidiary System and monthly credit card statement from the bank to KFS to ensure the proper recordation of Cash receipts. This reconciliation is reviewed by the CCL FA (**Monthly Credit Card Reconciliation**).

The Business Office prepares and distributes a monthly schedule to each CCL comparing year to date budgeted to actual revenues and expenses. Each CCL FA is responsible for analyzing this schedule for large and/or unusual differences indicating a possible error in the recordation of transactions to KFS (**Budget to Actual Comparison**).

The Financial Management Office prepares the monthly cash reconciliation between the bank statement and the University’s General Cash account in KFS. Internal Audit consulted with the Treasury Officer and reviewed the results of historical financial statement audits of the University’s consolidated financial statements including the

related management letters and noted no accounting issues or internal accounting control deficiencies associated with the performance of the monthly general bank account reconciliation.

## **B. Evaluation of Internal Controls and Policy Compliance**

The United States Government Accountability Office (GAO) in its September 2014 publication *Standards for Internal Control in the Federal Government* defines internal control as follows:

Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations

As previously discussed in this report, an objective of this audit was to evaluate the University’s internal controls in connection with the Cash receipts process. This evaluation commenced with Internal Audit distributing and evaluating responses to a Cash receipts process questionnaire to the 12 CCLs. Internal Audit then met with applicable financial management personnel of the 12 CCLs and prepared the following:

- A narrative of the Cash receipts process
- Matrix identifying the existence and adequacy of internal controls
- Matrix evaluating segregation of duties

As noted in Section A above, the preparation of these documents resulted in Internal Audit identifying the following internal controls and processes that were determined to be significant to the Cash receipts process.

1. Daily Cash Count- daily physical counting of Cash
2. Daily Cash Comparison- comparison of Daily Cash Count to Subsidiary Systems (e.g., POS system)
3. Cash Deposits/Recordation- cash receipts deposited to the bank and recorded to KFS daily
4. Monthly Credit Card Reconciliation- monthly reconciliation of the daily credit card batch settlement report to the monthly credit card statement from the bank
5. Monthly Cash Reconciliation- monthly reconciliations between the Cash receipts per the Subsidiary System to KFS
6. Budget to Actual Comparison- preparation and review of monthly revenue and expense budget to actual schedules.

Internal Audit also identified University policies that are consistent with these internal controls. These policies were identified previously in Section C of *III. PCI DSS*.

Internal Audit also reviewed documentation and performed inquiries with Community College personnel for seven of the 12 CCLs in regards to compliance with University of Hawai‘i Community Colleges Policy (UHCCP) 8.200 requirements that have a direct effect on the Cash receipts process including:

- Preparation and review of annual revenue and expense projections and the monitoring and comparison of monthly financial results to the revenue and expense projections
- Preparation and review of reconciliations between the Subsidiary Systems to KFS



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1. Internal controls and policy compliance

This section summarizes the significant Cash receipts internal controls and corresponding University policy. In addition, Internal Audit's observations regarding the performance of these internal controls and policy compliance by the 12 CCLs are described below.

- a. Daily Cash count and reconciliation of the daily Cash count to the Subsidiary Systems- AP 8.701.III.B. requires Cash receipts to be safeguarded (safe, locked drawer, etc.) and includes the following daily requirements:
- counting and summarizing Cash collections
  - Cash receipts should be deposited and recorded to financial systems
  - the settlement of credit card terminals and recordation of credit card transactions to financial systems

*Observations*

Internal Audit noted that all 12 CCL's performed a daily count of Cash receipts. The counted Cash receipts were then compared to Cash receipts recorded in the CCL Subsidiary Systems on a daily basis with reconciling differences identified and resolved.

- b. Cash receipts deposited to the bank and recorded to KFS daily- AP 8.701.III.B. requires daily bank deposits and recordation of these deposits to KFS. AP 8.701.III.B. allows the Treasury Office to make exceptions to this frequency. Accordingly, Treasury Office practice is to provide a grace period and does not deem the CCL to be noncompliant unless the Cash receipt is recorded to KFS in excess of five days from receipt.

*Observations*

Internal Audit noted inconsistent compliance with this policy. The Community College Continuing Education programs and University Bookstores generally deposited and recorded Cash receipts to KFS daily. However, all other CCLs reviewed did not comply with this policy including the Treasury Office's five day grace period.

In connection with Internal Audit's review of the Shidler College of Business (Shidler), it was noted that the Vietnam Executive Masters of Business Administration (VEMBA) program application fees collected in Vietnam were transported by Shidler personnel to Hawai'i and deposited several months subsequent to collection. Internal Audit was informed that the wiring of VEMBA program application fees to the University commenced in late 2018.

- c. Monthly comparison between the daily credit card batch settlement report and monthly credit card statement from the bank to KFS- AP 8.701.III.B. requires a comparison of daily credit card settlement reports to the monthly credit card merchant statement received from BOH to KFS.

*Observations*

Internal Audit noted that all CCLs reconciled their daily credit card settlement reports to the monthly credit card merchant statement received from BOH except for KCC's Cashier's Office and Culinary program. Internal Audit was informed that beginning in November 2018, the KCC Cashier's Office began comparing the BOH credit card merchant statement to the daily credit card settlement reports on a monthly basis.

- d. Monthly reconciliations of Cash receipts to KFS-  
AP 8.701.III.B. requires a monthly reconciliation of Cash receipts to KFS.

*Observations*

Internal Audit noted that all CCLs performed a monthly reconciliation of Cash receipts recorded in their respective Subsidiary Systems to KFS except for the Shidler College of Business and KCC’s Cashier’s Office and Culinary program. Internal Audit was informed that beginning in December 2018, the KCC Business Office began comparing Cash receipts recorded in their respective Subsidiary Systems to KFS on a monthly basis.

- e. Preparation and review of monthly revenue and expense budget to actual schedules-  
In addition to an excellent management tool, periodic analysis of budgeted to actual operating results is an internal control that should be performed by all CCL’s for detecting possible financial reporting errors and irregularities. UHCCP 8.200 requires Community College revenue generating programs to perform this analysis monthly.

*Observations*

Internal Audit noted that UHM Athletics, Bookstores and LCC were performing budget to actual analysis of operating results on a monthly basis. HELP commenced this analysis during Spring 2019.

2. Segregation of duties

Pursuant to AP 8.701.III.B, personnel that collect Cash should not deposit Cash and reconcile the Cash accounts.

*Observations*

Internal Audit’s evaluation of personnel to their Cash receipts responsibilities noted appropriate segregation of duties at all CCLs except for HELP. Historically, an individual at HELP receives and records the cash receipts to a subsidiary ledger. This individual also prepares a batch settlement report and forwards this report and the Cash receipts to fiscal personnel at the Language, Linguistics and Literature department for recordation into KFS. Internal Audit noted that HELP plans to remediate this issue beginning Fall 2019 by increasing staffing and revising roles and responsibilities of HELP personnel to segregate incompatible duties.

**C. Conclusions**

Internal controls and policy compliance

The University has sufficient processes, procedures and internal controls with respect to the initiation, authorization, processing and recordation of University related Cash receipts. Many of these procedures and controls are documented in University policy. As described above, Internal Audit noted instances of policy non-compliance with the most frequent exception relating to the untimely recordation of Cash receipts to KFS. The Treasury Office monitors and notifies CCLs via e-mail when untimely recordation of Cash receipts is detected. Despite the notifications, Internal Audit was informed that untimely recordation of Cash receipts continues to occur throughout the University.

Internal Audit believes periodic and consistent monitoring of financial results is a significant control from both an operational and financial standpoint. Monitoring periodic financial results allows management to analyze financial performance and trends to assist management decision making. Of the 12 CCL’s reviewed, Internal Audit noted that only UHM Athletics, Bookstores, LCC and HELP are performing this control.

Segregation of duties

Internal Audit believes duties are appropriately segregated in connection with the Cash receipts process at the 12 CCLs.


**D. Recommendations**


Internal Audit was informed that the University is evaluating and in the process of revising AP 8.701 as well as other AP's impacting the Cash receipts process. Accordingly, Internal Audit recommends that the University consider drafting policy revisions enforcing the timely recordation of Cash receipts. The revisions could include notification of policy non-compliance to CCL senior management for repeated and persistent instances of non-compliance. Internal Audit also recommends that the University consider including a policy revision requiring the periodic preparation and review of monthly revenue and expense budget to actual schedules to monitor financial results by University department. CCL senior management review of budget to actual comparisons may assist in the detection of the untimely recordation of Cash receipts in addition to providing management with a tool to analyze financial performance and trends to assist decision making.




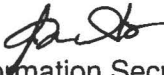
April 22, 2019

TO: Michael McEnerney  
Chair, Committee on Independent Audit

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

VIA: Susan Lin   
Director of Financial Management and Controller

FROM: Joanne Yama   
Treasury Officer

Jodi Ito   
Chief Information Security Officer

SUBJECT: Response to March 2019 Office of Internal Audit Review of Cash Receipts Process

The following are responses to the Office of Internal Audit's March 2019 Review of Cash Receipts Process Report.

### **Section III - Payment Card Industry Data Security Standard (PCI DSS)**

#### **University PCI DSS Process**

##### **From Internal Audit Report:**

Internal Audit believes that the University should develop a robust and comprehensive PCI DSS process supplemented with written policies and procedures. This process should include increased training and a process to ensure the quality, accuracy and completeness of the Cash Collection Location (CCL) prepared Self-Assessment Questionnaires (SAQs). Internal Audit also believes that Information Technology Services (ITS) and Financial Management Office (FMO) should collaborate with and support Treasury's PCI DSS compliance efforts. This support should include appropriate ITS and FMO personnel reviewing the University wide SAQ prepared by the Treasury Officer prior to submission to Security Metrics.

##### **Response:**

The Treasury Office concurs that the University's PCI DSS process should be reviewed to identify opportunities to broaden and strengthen the University's PCI DSS process to ensure

PCI DSS compliance among the merchant departments. The Treasury Office has already begun the process to review and evaluate current policies and procedures and will expand efforts to:

- Develop a comprehensive PCI DSS requirements document to assist merchant staff
- Plan for additional training sessions for University merchant staff, including evaluating the feasibility of utilizing external training resources, to strengthen the knowledge of PCI DSS by applicable University merchant department staff
- Work in collaboration with ITS to organize training and develop a comprehensive PCI DSS requirements document to facilitate and improve the quality, completeness and accuracy of the SAQs submitted by merchant departments
- Identify process and method to test and validate merchant responses to SAQ filings
- Coordinate the review of the University's overall annual SAQ filing with ITS and applicable FMO staff prior to submission to Security Metrics/Bank of Hawai'i

### **PCI DSS Specific Requirements**

From Internal Audit Report:

#### **Overall observations, conclusions and recommendations**

As previously noted and as presented above, the PCI DSS requirements are a complex and extensive collection of technical and operational requirements designed to protect cardholder data. Internal Audit identified non-compliance with certain PCI DSS requirements (retention of card holder information, policy requiring daily review of access logs, performance of internal vulnerability scans quarterly, etc.) in addition to identifying N/A responses that Internal Audit believes must be evaluated and should be considered best practices in connection with various PCI DSS specific requirements. Internal Audit was informed by the Treasury Officer that the N/A responses resulted from SAQ D requirements that had no similar requirements in the CCL prepared and submitted SAQs and are thus deemed out-of-scope but acceptable by both BOH and Security Metrics.

Internal Audit believes these non-compliance matters and N/A responses should be evaluated by Treasury, FMO and ITS personnel with appropriate corrective action implemented if appropriate. An evaluation of the N/A responses is supported by the following guidance provided by the PCI Security Standards Council information supplement *Guidance for PCI DSS Scoping and Network Segmentation*:

- "Just because a system is not in scope for PCI DSS does not mean the entity should leave that system unprotected as it could still pose a risk to the entity's network and business. A common pattern seen in data breaches is where the attacker targets systems deemed by the entity to be out-of-scope for PCI DSS, then leverages those systems to gain access to more systems, which eventually provide a path to systems where cardholder data can be found."
- Implementation of PCI DSS controls on out-of-scope systems is strongly recommended as a best practice to prevent out-of-scope systems from being used for malicious purposes.

Internal Audit noted that all PCI DSS general requirements include a specific requirement of a documented security policy and operational procedures that should be known and understood by all University personnel with access to cardholder data. Accordingly, including relevant PCI DSS requirements into University policy with appropriate training should be considered.

Response:

As noted above in the response to the University PCI DSS Process, the Treasury Office has begun the process to review current policies and procedures to identify areas for improvement and will work to develop a comprehensive PCI DSS requirements document. With the assistance of ITS, the Treasury Office will evaluate PCI DSS requirements, that while not specifically required by PCI DSS for applicable University SAQ filing types, may be best practices that should be implemented. The Treasury Office will work with ITS to determine policies and procedures already in place within existing University ITS policies that should be incorporated into the University's PCI DSS requirements document.

**University Policies**

From Internal Auditor Report:

The University must develop robust, comprehensive and easily understood PCI DSS policies to mitigate the risk of a cardholder data breach. The policies should include training requirements (applicable personnel, content, frequency, etc.) and roles and responsibilities of UH personnel in ensuring PCI DSS compliance.

Response:

As noted in the above response to the University PCI DSS Process, Treasury has begun the process to review and evaluate current policies and procedures and will work to develop a comprehensive PCI DSS requirements document for the University, including identifying training requirements. The Treasury Office will work to expand training opportunities to strengthen the University merchant personnel's understanding of the PCI DSS requirements to provide complete and accurate SAQ filings submitted by University merchant departments.

**Credit Card Agreement with Bank of Hawaii (BOH)**

From Internal Auditor Report:

Internal Audit believes that the University and BOH may not be complying with certain terms and conditions of this agreement. The University must evaluate this agreement and implement corrective action for any identified non-compliance matters. Consultation and collaboration with BOH to ensure compliance by both entities may be necessary.

Response:

On April 17, 2019, BOH provided an extract from the Attestation of Compliance for Onsite Assessments – Service Providers for First Data Merchant Services, the processor for BOH. In addition, the Treasury Office believes that the University and BOH are complying with the terms and conditions of the Credit Card Agreement with Bank of Hawai'i, however, will consult and collaborate with BOH to review terms and conditions for confirmation.

**Payment Card Network Requirements**

From Internal Auditor Report:

The Treasury Office should communicate all detected vulnerabilities to the respective CCL to minimize the risk of a breach of cardholder information. The Treasury Office should also consult with BOH and/or Security Metrics regarding the applicability of VISA's Attestation of Compliance (AOC) requirement. If deemed not applicable, obtain written correspondence signed by appropriate BOH and/or Security Metrics personnel. If deemed applicable, prepare and submit the required AOC.

Response:

The Treasury Office concurs that all detected vulnerabilities identified in the Security Metrics external scanning should be communicated to the applicable merchant IT staff for review and resolution. Beginning in April 2019, the Treasury Office began routing a copy of the quarterly scan report that detected any vulnerability to the merchant IT staff, even if the scan received an overall passing score.

The Treasury Office has consulted with BOH regarding the VISA requirement for AOC and BOH provided the following response:

*Bank of Hawaii produces PCI DSS Compliance reporting to the card brands for our entire merchant portfolio. UH is included in these reports and there is no other independent PCI Compliance reporting requirement UH must complete or provide to the card brands. Bank of Hawaii can provide redacted copies of these reports on request.*

*It is the acquirer's (Bank of Hawaii) responsibility to report the status of compliance for all merchants within its portfolio.*

The Treasury Office will seek to obtain signed documentation from BOH regarding the above response.

#### **Section IV - Cash Receipts Process**

##### **From Internal Auditor Report:**

Internal Audit was informed that the University is evaluating and in the process of revising AP 8.701 (Receipting and Depositing Funds Received by the University) as well as other AP's impacting the cash receipts process. Accordingly, Internal Audit recommends that the University consider drafting policy revisions enforcing the timely recordation of Cash Receipts. The revisions could include notification of policy non-compliance to CCL senior management for repeated and persistent instances of non-compliance. Internal Audit also recommends that the University consider including a policy revision requiring the periodic review of monthly revenue and expense budget to actual schedules to monitor financial results by University department. CCL senior management review of budget to actual comparisons may assist in the detection of the untimely recordation of cash receipt in addition to providing management with a tool to analyze financial performance and trends to assist decision making.

##### **Response:**

As noted in the recommendation, the Treasury Office is already in the process of revising AP 8.701 to include a role and responsibility of department heads (includes Administrative Services Managers, Deans, Directors, Associate Vice Chancellors, Vice Chancellors, Associate Vice Presidents and Vice Presidents) to assist in resolving issues of non-compliance by department staff with policies and procedures outlined in the AP. AP 8701 also includes a reconciliation procedure to review deposit variances relative to budgeted amounts to identify any receipt issues that may need further investigation.



**UNIVERSITY OF HAWAI'I**  
**TRAVEL POLICY COMPLIANCE and**  
**EMPLOYEE CELL PHONE CHARGES**

**Status of Corrective Action**

March 2019

DRAFT



University of Hawai'i  
Office of Internal Audit

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UNIVERSITY  
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SYSTEM

March 12, 2019

To the University of Hawai'i Board of Regents  
and

University of Hawai'i Vice President of Budget and Finance / Chief Financial Officer (CFO)

The purpose of this report is to evaluate the status of corrective actions to address improvement opportunities and mitigate risks documented in the following Office of Internal Audit (Internal Audit) reports:

1. The University of Hawai'i Review of Employee Cell Phone Charges (report dated December 15, 2017)
2. The University of Hawai'i Review of Travel Policy Compliance (report dated September 15, 2017)

These reports reviewed processes and controls in addition to evaluating financial, operational and compliance risks and opportunities. Internal Audit noted all corrective actions related to employee cell phone charges have been implemented. In regards to travel policy compliance, the majority of corrective actions have been implemented with corrective actions in process with respect to the implementation of alternative travel payment methods (travel credit cards, reloadable debit cards, University purchasing cards (PCards), etc.) and collaboration with the Research Corporation of the University of Hawai'i (RCUH) to develop an audit approach/testing strategy for RCUH processed travel disbursements for University personnel to comply with Hawai'i Revised Statute §40-1.

In regards to the alternative travel payment methods, Internal Audit was informed that the PCard Administrator is finalizing a Request for Proposal (RFP) that will include both travel credit cards and declining balance debit cards (also known as reloadable debit cards). In regards to RCUH processed travel disbursements, Internal Audit was informed that the University's Vice President of Budget and Finance/Chief Financial Officer (CFO) is in consultation with the RCUH Executive Director.

Sincerely,

Glenn Shizumura  
Director

## **I. BACKGROUND**

During the year ended June 30, 2018, the Office of Internal Audit (Internal Audit) issued reports for the following audits: 1) Review of Travel Policy Compliance (report dated September 15, 2017) and 2) Review of Employee Cell Phone Charges (report dated December 15, 2017).

### Travel Policy Compliance

For the three years ended June 30, 2017, the University of Hawai‘i (University) incurred approximately \$30 million in travel expenses annually. During this period, the University’s external auditor identified instances of noncompliance specifically in regards to University travelers not submitting travel request and travel completion documentation within the required timeframe pursuant to University policy. Accordingly, the objective of this audit was to:

- 1) evaluate the frequency and severity of noncompliance with travel policies, laws, rules and regulations (University, State of Hawai‘i and federal) and
- 2) identify trends in noncompliance and determine the impact of noncompliance on University operations and financial results.

Internal Audit reviewed University travel policies, tested a sample of travel disbursements and select internal controls, and performed analytics to evaluate policy compliance. Internal Audit’s report dated September 15, 2017 identified opportunities for improvement, including the following:

- Revising the travel policy to be more specific as to certain requirements (e.g., how travel approval must be obtained/documented, clarify the verbiage regarding the timing of travel advance repayments, etc.)
- Enhance the eTravel system to include a data field to document the repayment of travel advances
- Implementing escalating consequences for frequent noncomplying travelers
- For purposes of complying with Hawai‘i Revised Statute (HRS) §40-1, expand the pre-audit group’s testing population to include University travel processed by the Research Corporation of the University of Hawai‘i (RCUH)
- Due to instances of delinquent repayment of unused travel advances identified during the audit, minimizing the need for travel advances by offering alternative methods of advance payments

Both Internal Audit’s report and management’s response (dated September 22, 2017) were reviewed and accepted by the Audit Committee on October 5, 2017.

### Employee Cell Phone Charges

For the year ended June 30, 2017, payments recorded in the University’s general ledger associated with employee cell phone use approximated \$198,000. 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. The objective of this audit was to:

- 1) evaluate the adequacy and consistency of University procedures and practices in regards to employee cell phone payments and
- 2) identify risks with respect to such procedures and practices in connection with federal and State of Hawai‘i tax matters.

**University of Hawai‘i**  
**Travel Policy Compliance and Employee Cell Phone Charges**  
**March 2019**

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Internal Audit surveyed Fiscal Administrators (FAs), reviewed purchasing policies, analyzed documents supporting employee cell phone payments, and researched cell phone policies at other universities. Internal Audit’s report dated December 15, 2017 identified opportunities for improvement, including the following:

- Preparing and implementing a cell phone policy (including suggestions for policy content)
- Consulting with the University’s Tax Manager as to the potential tax impact of employee cell phone payments
- Consider implementing a University-wide program so that all eligible employees receive cell phone service with the same “preferred” provider to increase cost efficiencies

Both Internal Audit’s report and management’s response (dated January 22, 2018) were reviewed and accepted by the Audit Committee on February 7, 2018.

**A. Objective**

The purpose of this report is to evaluate the implementation status of Internal Audit’s recommendations. The report is organized by each of the above-noted reports, with each section including an 1) overview of the auditee, 2) a summary of observations and recommendations presented in Internal Audit’s originally issued reports, 3) a condensed overview of management’s response, and 4) an evaluation of the implementation status of corrective action (some or all of these items may be included as an attachment to this report).

**B. Work performed**

Commencing in February 2019 and throughout the course of the audit, Internal Audit met with relevant personnel at the Financial Management Office (FMO) to determine the implementation status of Internal Audit’s recommendations. For purposes of assessing implementation status, Internal Audit examined relevant policies, procedures, system enhancements and other documents.

## **II. TRAVEL POLICY COMPLIANCE**

### **Overview**

The Disbursing and Payroll Office (Disbursing) is the University’s Systemwide office responsible for establishing and enforcing Administrative Policy (AP) 8.851, *Employee Out-of-State and Intra-State Travel*, which establishes detailed policies and procedures related to travel. Additionally, Disbursing processes all University payments, including those required for travel. Disbursing’s pre-audit group performs compliance audits on travel related transactions, in addition to other expense related transactions (i.e., contract and purchase order payments, scholarship and fellowship payments, etc.), prior to processing payment. As of December 31, 2018, the pre-audit group consisted of seven personnel under the supervision of the Director of Disbursing. The automated system monitored by Disbursing to initiate, complete, approve, record, and audit University travel is eTravel.

### **Procedures performed**

In early February 2019, Internal Audit met with the Vice President of Budget and Finance/Chief Financial Officer (CFO) and Director of Payroll and Disbursing to discuss the status of corrective action and Internal Audit’s tentative workplan to evaluate the represented status. It was agreed that Disbursing would prepare a written update to their September 22, 2017 corrective action plan. It was also agreed that Internal Audit would perform audit procedures that they deemed necessary to evaluate and corroborate the written update.

**University of Hawai‘i**  
**Travel Policy Compliance and Employee Cell Phone Charges**  
**March 2019**

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Disbursing provided Attachment A with the current corrective action status highlighted in yellow. Internal Audit performed inquiries and examined relevant documents supporting and corroborating the represented corrective action status.

**Conclusion**

Internal Audit concludes that Attachment A accurately describes the status of Disbursing’s corrective action plan. Based on the procedures performed, Internal Audit noted all corrective actions were implemented, except for the following that are “in process”:

- 1) Implementing alternative travel payment methods (travel credit cards, reloadable debit cards, University purchasing cards (PCards), etc.) -

*Internal Audit was informed that the PCard Administrator is in the process of finalizing a Request for Proposal (RFP) that will include both travel credit cards and declining balance debit cards (also known as reloadable debit cards).*

- 2) Collaborate with RCUH to develop an audit approach/testing strategy for RCUH processed travel disbursements for University personnel -

*Internal Audit was informed that University and RCUH senior management continue to have on-going discussions to reach an amicable solution.*

**III. EMPLOYEE CELL PHONE CHARGES**

**Overview**

Disbursing is the University’s Systemwide office responsible for processing all University payments, including employee cell phone (also referred to as “mobile devices” in this report) payments. Prior to January 2019, the University lacked an employee cell policy.

**A. Implementation of a University Cell Phone Policy**

Prior Internal Audit Observation and Recommendation:

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

Management Response (January 2018):

An executive policy or administrative procedure and applicable forms will be developed regarding cell phone expenditures.

**University of Hawai‘i**  
**Travel Policy Compliance and Employee Cell Phone Charges**  
**March 2019**

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Status

In January 2019, the University established and implemented AP 8.853, *Mobile Devices and Related Communications Services Program*. Internal Audit read this policy noting that eligible employees may either receive a \$30/month allowance for use of their own personal mobile device or be granted a University-provided mobile device and related communications service plan (service plan). Furthermore, Internal Audit noted that AP 8.853 includes policies consistent with Internal Audit’s recommendation as follows:

- Eligibility- Employees that may be eligible for a University-provided mobile device and related service plan or monthly allowance include employees who are required to be on call 24 hours a day, seven days a week, employees who work in the field and must communicate with their office, frequent travelers (at least 60 days per year), and other approved business cases. Continued eligibility should be reviewed on an annual basis.
- Documentation- Employees may request an allowance or a University-provided mobile device and service plan by completing the Employee Mobile Device Program Form and obtaining approval from the appropriate Executive (President, Vice Presidents, Associate Vice Presidents and Vice Chancellors).
- Types of payments- As noted previously, eligible employees may either receive a \$30/month allowance for use of their own personal mobile device or be granted a University-provided mobile device and related service plan.
- Limitations- For eligible employees receiving the \$30/month allowance, reimbursement for additional excess charges (i.e., charges exceeding the limits on their personal service plan) related to the use of their personal mobile device may be sought through the normal expense reimbursement process. Internal Audit did not note any policy for the treatment of excess charges on University-provided service plans.
- Phones- Employees receiving the \$30/month allowance are responsible for the cost of their mobile device.

Conclusion

Corrective action implemented. However, Internal Audit recommends that management enhance AP 8.853 to address the treatment of excess charges on University-provided service plans.

**B. Tax Considerations**

Prior Internal Audit Observation and Recommendation:

Consult with the University’s Tax Manager in regards to potential tax impacts of employee cell phone payments.

Management Response (January 2018):

No management response was provided for this recommendation.

Status

Internal Audit noted that AP 8.853 states that the aforementioned \$30/month allowance represents taxable compensation as wages-in-kind. Internal Audit was informed that the University’s Tax Manager was consulted and concurred with this policy revision.

Conclusion

Corrective action implemented.

**University of Hawai‘i**  
**Travel Policy Compliance and Employee Cell Phone Charges**  
**March 2019**

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**C. Preferred Cell Phone Provider**

Prior Internal Audit Observation and Recommendation:

In consultation with the Office of Procurement and Real Property Management (OPRPM), management should consider implementing a University-wide program so that all eligible employees receive cell phone service with the same “preferred” provider to increase cost efficiencies.

Management Response (January 2018):

No management response was provided for this recommendation.

Status

Internal Audit noted that AP 8.853 encourages supervisors to use the State of Hawai‘i’s list of preferred cell phone providers. Internal Audit was informed by FMO personnel that a University preferred cell phone provider may be procured in the future, but that it was deemed more efficient in the short term to utilize the State of Hawai‘i’s preferred list.

Conclusion

Corrective action implemented.

DRAFT



February 28, 2019

**TO:** Mr. Michael McEnerney  
Chair, Committee on Independent Audit

**VIA:** Kalbert K. Young  
Vice President for Budget and Finance/Chief Financial Officer

**VIA:** Susan Lin  
Director of Financial Management and Controller

**FROM:** James R. Kashiwamura  
Director of Disbursing and Payroll

**SUBJECT:** Updates to the September 2017 Office of Internal Audit Review of Travel Policy  
Compliance Report

The following are updates to the Office of Internal Audit's September 2017 Review of Travel Policy Compliance Report. Our updates are highlighted in yellow.

**Travel Initiation- Potential Changes to Policy**

From Internal Audit Report:

The Director of Disbursing believes AP 8.851 should be modified to incorporate verbiage from RCUH travel policy 2.601 that does not require travel to be approved prior to departure and before expenses are incurred. In addition, RCUH travel policy 2.601 includes a caveat that any travel expense that is not approved in advance is incurred at the risk of the traveler and may become the traveler's personal expense. Internal Audit believes this change is reasonable.

With respect to the method of evidencing travel approval, Disbursing management should consider specifying in AP 8.851 the manner in which travel approval should be documented.

Response:

Disbursing concurs with Internal Audit on modifying the verbiage in Section III, E (Travel Requests) of AP 8.851 to address other manners in obtaining approval to travel such as electronic and written approvals. In addition, Disbursing will look into adding a caveat that any travel expense that is not approved in advance is at the risk of the traveler and may become the traveler's personal expense.



Update:

Section III, E (Travel Requests) of AP 8.851 was modified to: *All travel must be approved in writing. Any travel expense that is not approved in advance is at the risk of the traveler and may become the traveler's personal expense. Individual departments are allowed to use their discretion in the establishment of internal control requirements.*

### **Travel Advances- Alternative Methods of Payment**

From Internal Audit Report:

University personnel should consider researching the feasibility of providing other optional travel payment methods as an alternative to travel advances (i.e. reloadable debit cards, University travel credit cards and PCards.

Response:

Disbursing will look into the feasibility of travel credit cards to reduce the number of travel advances. Disbursing believes that reloadable debit cards will not reduce financial exposure for excess of cash advances and administrative processing cost. However, Disbursing will look into the feasibility of reloadable debt cards for travelers, like athletics coaches, who have to carry significant amount of cash for business trips. Disbursing will also consult with the Office of Procurement and Real Property Management for their recommendation on unblocking travel-related MCC codes on PCards.

Update:

The Disbursing Office is working with the Office of Procurement and Real Property Management on including reloadable debit cards and travel credit cards in the new PCard request for proposal.

### **Travel Advances- Potential Changes to Policy**

From Internal Audit Report:

Disbursing management should consider revising the travel policy section on Travel Advance Eligibility as follows:

- Change the number of days an advance can be outstanding to 21 days from 30 days to be consistent with submission of Travel Completion Reports.
- Clarify the meaning of “no other travel advances outstanding”. Suggested verbiage may consist of “excess advance amounts not repaid in full”.

Response:

Disbursing agrees that a revision is needed in the travel policy. We will change the language in Section III, O in the policy to allow travelers to submit payments on excess advances to 21 days from 30 days. Travel completion reports are required to be submitted within 21 days from the end of the trip, and business offices need additional time to audit travel completion reports for compliance and accuracy in order to determine the actual amount of the excess advance. In addition, travelers may need additional time to submit repayments after the excess advances are determined by business offices.

Update:

Section III, O in the policy currently reads: *If the amount of an advance exceeds the reimbursable expenses, payment from the traveler for the amount due shall be submitted with the Travel Completion report to the traveler's business office within 21 calendar days from the end date of the trip.*

### **Travel Advances- Monitoring Compliance and Consequences**

From Internal Audit Report:

Disbursing management should consider enhancing their travel advance request review process to include manually validating that Travel Completion Reports and repayment of excess advance amounts are submitted prior to processing additional travel advances.

Additionally, Disbursing management should consider implementing a series of escalating consequences for noncompliance (i.e. written violation notice, temporary/permanent moratorium on travel advances, etc.).

Response:

Disbursing will look at enhancing their travel advance request review process to include manually validating that Travel Completion Reports and repayment of excess advance amounts are submitted prior to processing additional travel advances. However, Disbursing believes implementing consequences on non-compliant travelers should not rest solely with the Disbursing Office to administer and determine consequences. Disbursing will collaborate with the respective departments/campuses as needed on a case-by-case basis since departments/campuses work directly with the travelers and are able to determine those travelers with a series of non-compliance issues for which consequences may be applied.

Update:

eTravel has been modified to disallow travelers with outstanding advances (i.e. not "Submitted" in eTravel) more than 21 days after the return from their trip from being eligible for another travel advance. In addition, any traveler with an outstanding advance over 21 days will be added to the "Delinquent Travel Advance" list on eTravel for monitoring by departments/campuses and the Disbursing Office. The Disbursing Office will collaborate with the respective departments/campuses to address travelers on the "Delinquent Travel Advance" list to determine the appropriate action to be taken.

### **Travel Compliance Reviews- Travel Processed by RCUH**

From Internal Audit Report:

Disbursing's pre-audit group should consider collaborating with RCUH to develop an audit approach and testing strategy such that RCUH processed travel disbursements (including those over \$10,000) are included in the testing population to comply with HRS §40-1. Alternatively, AP 8.851 can be revised to explicitly state that all travel transactions, including extramurally funded travel for University travelers, must also be processed through eTravel.

Response:

As the audit report points out, Disbursing's travel compliance audit process is effective. Therefore Disbursing will collaborate with RCUH to implement a similar audit approach and testing strategy.

Update:

After consulting with RCUH on implementing an audit approach and testing strategy similar to the Disbursing Office, RCUH still maintains the stance that the campus/department Fiscal Administrator's approval is the pre-audit for travel processed via RCUH thus complying with HRS §40-1.

### **eTravel System Functionality- Enhancements**

From Internal Audit Report:

Disbursing management should consider adding a data field in eTravel to document the repayment date of excess advances, as well as a data field to record the document/reference number for each repayment. This will allow management to track and monitor unpaid excess advances by traveler. In addition, this data field will allow Disbursing management to monitor an additional metric regarding compliance with the excess advance repayment policy.

In regards to the automated control designed to restrict future travel requests for noncompliant travelers, management should consider enhancing eTravel to validate the travel request at multiple points in the process rather than only at the beginning, thereby reducing circumvention of the control as well as increasing travel advance policy compliance.

Response:

Disbursing will continue update and enhance eTravel including adding data fields to capture the repayment of excess advances by travelers. As for travelers circumventing eTravel's automated controls, Disbursing implemented additional validations in eTravel in early September 2017 that addressed this issue.

Update:

Enhancements to eTravel have been implemented in order to capture information on the repayment of excess advances by Travelers.

**UNIVERSITY OF HAWAI‘I AT MĀNOA**  
**ATHLETICS DEPARTMENT EQUIPMENT/APPAREL and COMMUTER**  
**SERVICES**

**Status of Corrective Action**

March 2019

DRAFT



University of Hawai'i  
Office of Internal Audit

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UNIVERSITY  
of HAWAII®  
SYSTEM

March 21, 2019

To the University of Hawai'i Board of Regents  
and  
University of Hawai'i at Mānoa Director of Athletics  
and  
University of Hawai'i at Mānoa Director of Campus Services

The purpose of this report is to evaluate the status of corrective actions to address improvement opportunities and mitigate risks documented in the following Office of Internal Audit (Internal Audit) reports:

1. The University of Hawai'i at Mānoa Athletics Department (UHMAD) Equipment and Apparel (report dated September 24, 2015) and Evaluation of Corrective Action Status - UHMAD Equipment and Apparel dated January 31, 2017
2. The University of Hawai'i at Mānoa (UHM) Commuter Services (report dated March 16, 2016) and Evaluation of Corrective Action Status - Commuter Services dated March 29, 2017.

These reports noted that while progress had been made in implementing corrective actions, corrective actions remained in process. Thus, the purpose of this report is to evaluate the current implementation status of corrective actions.

As a result of our review of the status of corrective actions, Internal Audit noted that UHMAD has implemented the majority of corrective actions. However, Internal Audit was informed that UHMAD is currently assessing the functionality of the current inventory management software with respect to tracking, updating and monitoring equipment and inventory. Additionally, Internal Audit was informed that policies and procedures requiring equipment manager participation in the receiving, distribution and recordkeeping for all equipment/apparel to be distributed to student-athletes are in the development stage.

In regards to UHM Commuter Services, Internal Audit noted that corrective actions have been implemented. However, corrective action with respect to collections of citations has regressed. Internal Audit noted an increase in outstanding citations from approximately \$10,000 as of June 30, 2017 to approximately \$180,000 as of December 31, 2018. Thus, UHM Commuter Services management should continue to monitor and analyze citation information and collection rates, including performing a periodic assessment of the collection agency's effectiveness in collecting outstanding citations.

Sincerely,

Glenn Shizumura  
Director

## I. BACKGROUND AND WORK PERFORMED

During the year ended June 30, 2016, the Office of Internal Audit (Internal Audit) issued reports for: 1) the University of Hawai‘i at Mānoa Athletics Department (UHMAD) Equipment and Apparel (report dated September 24, 2015), and 2) the University of Hawai‘i at Mānoa (UHM) Commuter Services (Commuter Services) (report dated March 16, 2016). Internal Audit issued Evaluation of Corrective Action Status reports in connection with the aforementioned reports for UHMAD Equipment and Apparel and Commuter Services dated January 31, 2017 and March 29, 2017, respectively. These reports noted that while progress had been made in implementing corrective actions, the majority of corrective actions remained in process. Thus, the purpose of this report is to evaluate the current implementation status of Internal Audit’s recommendations.

The following summarizes the purpose and identified improvement opportunities for each audit.

### UHMAD Equipment and Apparel

UHM fields 21 intercollegiate sports teams with more than 400 student athletes. The UHMAD acquires significant quantities of equipment/apparel annually in connection with these teams and student athletes. Given the quantity and value associated with this equipment/apparel, Internal Audit performed procedures to determine compliance with the *Mānoa Athletics Department Manual* (UHMAD Manual) policies regarding equipment and apparel. In addition, Internal Audit reviewed the process and controls regarding the distribution, tracking and collection of athletic equipment/apparel and evaluated financial and operational risks and opportunities associated with athletic equipment/apparel. Internal Audit’s report dated September 24, 2015 identified opportunities for improvement, including the following:

- Filling the open equipment manager position
- Maintaining perpetual inventory records
- Enhancing policies and procedures, including requiring an annual inventory count and requiring equipment managers to participate in the receiving, distribution and recordkeeping of all equipment/apparel
- Developing an equipment maintenance schedule, including the maintenance and replacement of laundry equipment

Both Internal Audit’s report and the UHMAD management response (dated November 12, 2015) were reviewed and approved by the University of Hawai‘i (University) Board of Regents’ Committee on Independent Audit (Audit Committee) at their meeting on December 9, 2015.

### Commuter Services

Commuter Services is responsible for all parking operations at UHM. During each of the three years ended June 30, 2015, Commuter Services generated annual revenues in excess of \$6 million. Internal Audit reviewed historical Commuter Services financial statements and the related processes and controls in addition to evaluating financial and operational risks and opportunities. Internal Audit’s report dated March 16, 2016 identified opportunities for improvement, including the following:

- Calculating expected annual parking permit revenue and comparing to actual parking permit revenue recorded in the Kualii Financial System (KFS), the University’s general ledger
- Obtaining and analyzing financial information with respect to the dollar value of citations issued, waived, forwarded for collection and outstanding
- Continuing to reflect unpaid citation balances in the student information system, Banner, for current and former students

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- With respect to repairs and maintenance projects, updating the cost estimates, identify funding source(s) and prioritizing projects based on risk, cost and value to UHM constituents

Both Internal Audit’s report and Commuter Services’ management response (dated May 9, 2016) were reviewed and approved by the Audit Committee on April 7, 2016.

The report is organized by each of the above-noted reports, with each section including an 1) overview of the auditee, 2) a summary of observations and recommendations presented in Internal Audit’s originally issued reports, 3) a condensed overview of management’s updated response, and 4) an evaluation of the implementation status of corrective action (some or all of these items may be included as an attachment to this report).

During January and February 2019, Internal Audit met with relevant personnel at UHMAD and Commuter Services to determine the implementation status of Internal Audit’s recommendations. For purposes of assessing implementation status, Internal Audit examined relevant financial schedules, policies and procedures and contracts.

## **II. UHM Athletics Department Equipment and Apparel**

### **Overview of UHMAD Equipment and Apparel**

UHMAD provides athletic equipment/apparel to Student Athletes (SAs). Personnel of the UHMAD Equipment Department have different roles and responsibilities that may include the acquisition, distribution, collection and maintenance of UHMAD equipment/apparel. The primary source of athletic equipment/apparel is contracts with sports manufacturers. In July 2017, the University announced a five-year all sports apparel and equipment contract with Under Armour worth approximately \$10.27 million (comprised of cash, marketing, equipment/apparel allowances, coaches’ apparel and other considerations) over the life of the contract, which also includes the potential for additional payments based on the performance of the University’s sports teams (including \$10,000 for any conference championship team). Equipment/apparel are also purchased pursuant to the procurement policies of the University or acquired with funds donated to the UHMAD and maintained by the University of Hawai‘i Foundation (UHF).

### **Procedures performed**

In late February 2019, Internal Audit met with the Associate Athletics Director for Administrative Services and Head Equipment Manager to discuss the status of corrective action and Internal Audit’s tentative workplan to evaluate the represented status. It was agreed that UHMAD would prepare a written update to their November 12, 2015 corrective action plan. It was also agreed that Internal Audit would perform audit procedures deemed necessary to evaluate and corroborate the written update.

UHMAD provided Attachment A with the current corrective action status highlighted in blue (prior corrective action status is highlighted in yellow). Internal Audit performed inquiries and examined relevant documents supporting and corroborating the represented corrective action status.

### **Conclusion**

Internal Audit concludes that Attachment A accurately describes the updated status of UHMAD’s corrective action plan. Based on the procedures performed, Internal Audit noted all corrective actions were implemented, except for:

- 1) Maintenance of perpetual inventory records for equipment/apparel and providing such records to the Athletics Director and Associate/Assistant Athletics Directors at the end of each academic semester-

UHMAD has installed an inventory management software system. However, UHMAD equipment personnel continue to perform certain inventory procedures manually due to lack of software functionality, including:

- a. Limited reporting functionality
- b. Inability to scan equipment “out” of inventory (instead, manual records are kept which are then inputted into the inventory software)

Internal Audit was informed that UHMAD is currently assessing the appropriateness of the current inventory management software meeting their needs.

- 2) Development and implementation of policies and procedures requiring equipment manager participation in the receiving, distribution and recordkeeping for all equipment/apparel to be distributed to SAs-

Internal Audit was informed that policies and procedures are in the development stage.

### **III. UHM Commuter Services**

#### **Overview of Commuter Services**

Parking at UHM is available to all employees, students and visitors. Availability is on a first-come, first-served basis. Commuter Services is responsible for all parking operations including parking permit sales, special events, traffic control enforcement and the maintenance of parking facilities. Commuter Services has prepared written Standard Operating Procedures (SOPs) to assist employees in the performance of their daily parking operation duties and responsibilities.

#### **A. Parking Permit Revenue Validation**

##### Prior Internal Audit Observation and Recommendation:

Due to the significance of parking permit revenue, calculate expected annual parking permit revenue recorded in KFS. Information that should be considered in calculating expected parking permit revenue includes parking fee based on permit type, parking permit duration, count of parking permits sold, and historical year-end accrual adjustments. Validating annual parking permit revenue will also support the accuracy and completeness of annual parking permit revenue projections.

##### Updated Management Response (March 2017):

T2 Systems was contracted in February 2017 to provide a reporting solution that will assist Commuter Services and more readily calculate expected annual parking permit revenue. The calculated expected annual parking permit revenue will be compared to actual parking permit revenue to assess the accuracy and completeness of parking permit revenue recorded in KFS.

##### Status

Internal Audit was informed by Commuter Services personnel that T2 Systems finalized a reporting solution to assist Commuter Services calculate expected annual parking permit revenue in September 2018. However, this timing (i.e., after the start of fiscal year 2019) precluded Commuter Services from implementing the reporting solution to estimate parking permit revenue for fiscal year 2019. Thus, the reporting solution will be utilized by Commuter Services to calculate and compare fiscal year 2020 expected annual parking permit revenue to actual parking permit revenue to assess the accuracy and completeness of parking permit revenue recorded in KFS. Internal Audit reviewed an example T2 report illustrating the reporting solution noting the inclusion of total expected parking permit revenue.



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Conclusion

Commuter Services appears to have developed a solution to address Internal Audit’s recommendation with full implementation anticipated for fiscal year 2020.

**B. Budget to Actual Analysis by Fund Source**

Prior Internal Audit Observation and Recommendation:

With respect to revenues, compare monthly budget to actual revenues by source (permit, daily, passes, etc.) rather than on an aggregate basis to increase the precision in identifying significant and unexpected revenue fluctuations warranting further investigation.

Updated Management Response (March 2017):

In October 2016, the Campus Services IT department finished creating an automated report comparing monthly budgeted revenues to actual revenues. This new report breaks down revenue sources by line item rather than in aggregate.

Status

Although the corrective action was implemented during the prior (March 2017) follow up, Internal Audit reviewed the December 2018 automated report comparing monthly budgeted revenues to actual revenues (including revenue sources by line item rather than in aggregate), noting no changes from the previous assessment.

Conclusion

Commuter Services has previously implemented corrective action, and Internal Audit confirmed that the corrective action has continued to be implemented.

**C. Special Events**

Prior Internal Audit Observation and Recommendation:

Quantify additional expenses incurred for special events organized by external parties and compare the additional expenses to an estimate of incremental revenue earned. To the extent that the additional expenses do not substantially cover the incremental revenue earned, consider requesting that “Facility Use Agreements” include a provision allowing Commuter Services to recover additional expenses that exceed the incremental revenue.

Updated Management Response (March 2017):

In October 2016, the “Facility Use Agreement” was revised to include language regarding the responsibility of the external party to cover any additional expenses related to special events. Additionally, starting in fiscal year 2017 Commuter Services began charging the external party to cover the actual cost of any services(s).

Status

No additional procedures required as corrective action was deemed to be implemented during the prior follow up. However, Internal Audit noted that University Administrative Procedure (AP) 1.200, *Mānoa Facilities Use Practices & Procedures*, was revised in April 2018. This AP assigns the University’s Scheduling Officers (University personnel assigned responsibilities for authorizing the use of facilities) the responsibility for determining the amount and types of expenses (including parking, security, utilities, custodial services, etc.) to be charged to external parties for special events.

Conclusion

Commuter Services has previously implemented corrective action, and revisions to AP 1.200 make the University’s Scheduling Officers responsible for determining the amount and types of expenses to be charged to external parties for special events.

#### **D. Collection of Citations**

##### Prior Internal Audit Observation and Recommendation:

Obtain and analyze financial information with respect to the dollar value of citations issued, waived, forwarded for collection, and outstanding. This information should assist in assessing the collection agency’s effectiveness in settling outstanding citations as well as assisting in the overall management of citations.

##### Updated Management Response (March 2017):

T2 Systems is contracted to create a report containing citation information to assist in assessing the collection agency’s effectiveness in settling outstanding citations as well as assisting in the overall management of citations.

##### Status

Internal Audit noted that a report was developed by T2 Systems containing citation information (number of citations issued, waived on appeal, outstanding, etc.). However, Internal Audit noted that the report did not include financial information. Furthermore, from discussions with Commuter Services personnel, Internal Audit noted that outstanding aged (i.e., greater than 90 days outstanding) citations were not sent to the collections agency for approximately one year, as Commuter Services focused on more significant matters including the repairs and maintenance concerns discussed in more detail in section *F. Repairs and Maintenance*. In December 2018, aged outstanding citations were sent to the collection agency. Thus, Commuter Services management has not yet conducted an assessment of collection agency effectiveness, but plan to in 2019. To assess whether collections of outstanding citations have improved, Internal Audit analyzed outstanding citations as of June 30, 2016, 2017 and 2018, and December 31, 2018, noting the following:

As of:	Outstanding Citations
June 30, 2016	\$15,137
June 30, 2017	\$8,908
June 30, 2018	\$152,379
December 31, 2018	\$181,867

According to Commuter Services personnel, the increase in citations outstanding from June 30, 2017 to June 30, 2018 and December 31, 2018 was due primarily to:

- An increase in citation fines (effective March 18, 2018), which increased the standard fine (i.e., parking without a permit) from \$15 to \$40 (or from \$25 to \$50 for fines not paid within 15 days).
- The aforementioned approximately one year period in which aged outstanding citations were not sent to the collection agency.

##### Conclusion

A report containing citation information has been developed. Given the increase in outstanding citations, Commuter Services management should continue to monitor and analyze citation information and collection rates, including performing a periodic assessment of the collection agency’s effectiveness in collecting outstanding citations.

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**E. Unpaid Citation Balances**

Prior Internal Audit Observation and Recommendation:

Continue to reflect unpaid citation balances in Banner for current and former students. Unpaid amounts recorded in Banner preclude current students from registering for classes in a subsequent semester and former students from receiving certified transcripts.

Updated Management Response (March 2017):

T2 Systems is contracted to reprogram the T2 database to reflect the unpaid balances (after the citation has been sent to collections) so that Banner holds will remain in place.

Status

Internal Audit obtained a listing of outstanding citations sent to the collection agency during December 2018 and selected a sample of students for testing, noting that in all cases a financial hold was placed on the student’s account in the Banner Student Information System due to a “Parking obligation.”

Conclusion

Commuter Services has implemented corrective action.

**F. Repairs and Maintenance**

Prior Internal Audit Observation and Recommendation:

With respect to repairs and maintenance projects, update cost estimates, identify the funding source(s) and prioritize projects based on risk (legal, health and safety, compliance, etc.), cost and value to UHM constituents.

Updated Management Response (March 2017):

SP+ was selected as the consultant to perform an analysis on the Commuter Services program (contract finalized in January 2017). The facilities evaluation will include all campus parking facilities (two parking structures and 33 surface lots) and provide updated cost estimates that will enable Commuter Services and the UHM Office of Planning and Facilities to develop a comprehensive short- and long-term capital improvement plan. The Commuter Services program analysis, facilities evaluation and technology review will be used to help assess the appropriateness of Commuter Services’ current parking rate fee schedule.

Status

Internal Audit reviewed the SP+ “Parking Capital Improvement Plan Summary” and noted approximately \$97 million in recommended repairs and maintenance to UHM parking facilities, of which approximately \$52 million was determined by SP+ to be of “Immediate” concern due to safety issues. On October 18, 2018, the University Board of Regents approved Commuter Services’ proposal to increase parking rates commencing with the Fall 2019 semester. One reason provided for the parking rate increase was funding the cost of repairs and maintenance to parking facilities to address health/safety issues. The proposal included a listing of approximately \$35 million in high priority repairs and maintenance projects which will be overseen by the University’s Office of Planning and Facilities and that are expected to be funded by the issuance of revenue bonds.

Conclusion

Commuter Services has implemented corrective action.



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

March 21, 2019

**TO:** Glenn Shizumura  
Internal Auditor

**FROM:** Carl Clapp *Clapp*  
Associate Director of Athletics for Administrative Services

Teri Chang *Teri Chang*  
Assistant Athletics Director for Facilities/Events

**SUBJECT:** Response to September 2015 University of Hawai'i at Mānoa Equipment and Apparel Audit – Update March 21, 2019

The following are responses to the Internal Auditor's September 2015 University of Hawai'i at Mānoa Equipment and Apparel Audit Comments and Observations.

**Equipment Department – Human Resource Allocation:**

From Internal Audit Report: UHMAD should consider and analyze if filling the open equipment manager position while reducing the number of student employees would increase the effectiveness of the Equipment Department resulting from a more consistent workforce. However, the impact on the effectiveness of the Equipment Department with the additional equipment manager should also be evaluated against the potential increase to annual payroll expense as payroll related benefits for the open equipment manager position are not covered by the State of Hawai'i.

Comments/Corrective Action:

UHMAD will evaluate our fiscal opportunity to hire a third full-time equipment manager thus returning to a staffing level that existed prior to 2010.

Update November 12, 2015: UHMAD has recruited, interviewed and selected a candidate for the Head Equipment Manager's position. As of January 13, 2017, a recommendation has been forwarded to the Athletics Director for final approval.

Update March 1, 2019: COMPLETED - UHMAD Athletics Director approved the hire of the Head Equipment Manager and the third position was hired on or about October of 2017

Responsible People: Athletics Director, Assistant Athletics Director for Facilities/Events and Equipment Managers

Corrective Action Completion Date: June 30, 2016 for FY 2017

### **Equipment Department – Inventory Records and Record Keeping:**

From Internal Audit Report: In order to properly safeguard University assets, equipment managers should maintain perpetual inventory records of all athletic equipment/apparel. The perpetual inventory records should be provided to the UHM Athletics Director and Associate/Assistant Athletics Directors at the end of each academic semester.

#### Comments/Corrective Action:

UHMAD will maintain perpetual inventory records of all athletic equipment/apparel and reports will be provided to the UHM Athletics Director and Associate/Assistant Athletics Directors.

Update November 12, 2015: UHMAD has procured an inventory software program as of December 2016. We are awaiting training in the next two weeks. Once training is completed, we will be able to maintain perpetual inventory records of all athletic equipment/apparel and be able to provide reports to the UHM Athletics Director and Associate/Assistant Athletics Directors.

Update March 1, 2019: In Progress - In January 2017, UHMAD procured an inventory program and is currently utilizing the Jump Forward Software System. This program works in conjunction with the UHMAD Compliance Office using official student-athlete rosters for each program. Football was the first program inputted into the system and several others have been input (Spring 2017). Several other sport programs have been added to the system. The Jump Forward Software System has not met all of our needs and we are currently exploring other available software.

Responsible People: Assistant Athletics Director for Facilities/Events and Equipment Managers

Corrective Action Completion Date: June 30, 2016

### **Equipment and Apparel – Improve Equipment/Apparel Recordkeeping:**

From Internal Audit Report: Internal Audit believes that the UHMAD should develop policies and procedures requiring equipment manager participation in the receiving, distribution and recordkeeping of all equipment/apparel to be distributed to SAs.

Additionally, UHMAD should require the performance of a physical inventory by sport immediately after each sport's season ends. Inventory records of on-hand equipment/apparel, acquisitions, issuance to SAs and collection from SAs should be tracked and monitored to assist in future orders of equipment/apparel as well as to control misplaced and/or stolen equipment/apparel. At a minimum, manual procedures with the assistance of automated software such as Microsoft excel should be incorporated to track and monitor equipment/apparel. Consideration should be given to evaluate the acquisition of an automated athletic equipment management system, whereby equipment/apparel may be tracked and monitored with barcode data and inventory scanners. An automated athletic equipment management system may also support Title IX compliance as reports may be generated documenting the equipment/apparel issued to male and female SAs. Additionally, an automated athletic equipment management system should allow for improved management and oversight of sports manufacturer contracts.

Comments/Corrective Action:

UHMAD will develop policies and procedures requiring equipment manager participation in the receiving, distribution and recordkeeping of all equipment/apparel to be distributed to student-athletes. Additionally, UHMAD will require the performance of a physical inventory by sport immediately after each sport's season ends.

Update November 12, 2015: As soon as the vacant position is officially hired (Head Equipment Manager) we will work with the individual to develop these policies and procedures.

Update March 1, 2019: UHMAD is still in the development stages of finalizing policies and procedures requiring the equipment manager's participation in receiving, distribution and recordkeeping equipment/apparel to be distributed to SA's. We are going to have each sport program appoint a liaison to the Equipment Staff to further our progress in this area.

Responsible People: Athletics Director, Assistant Athletics Director for Facilities/Events and Equipment Managers

Corrective Action Completion Date: June 30, 2016

**Equipment and Apparel – Monitoring of UHF Funds:**

From Internal Audit Report: UHMAD management should consider reviewing all expendable UHMAD UHF accounts by sport on a periodic basis to determine whether UHMAD expenses paid with UHF monies are reasonable and appropriate. Additionally, copies of documentation (e.g., payment processing documents and invoices) supporting acquisitions utilizing UHF funds should be maintained by UHMAD.

Comments/Corrective Action:

UHMAD will work with `Ahahui Koa Ānuenuē (AKA) to implement a review and approval system for purchases from UHMAD UHF accounts ensuring a consistent review and approval process. UHMAD will develop and implement a system to ensure that all documentation for UHF account purchases is maintained by UHMAD.

Update November 12, 2015: Guidelines to ensure a consistent review have been available in the Department Manual. The guidelines will be reviewed with the Executive Team in Athletics in January of 2017 and shared with the entire Department. It has been a practice for the office initiating a request for payment from the Foundation to keep a record of all documentation on file. Each of the individual purchase records that were not provided to the auditors upon request were researched. An additional statement was added to the guidelines referred to above stating that "A record of all documentation used to substantiate expenditures from the UH Foundation accounts must be maintained in the Department Office that requested the expenditure." The Associate Athletics Director for Administrative Services met with each of the offices required to maintain this documentation.

Update March 1, 2019: Completed.

Responsible People: Athletics Director, Associate Athletics Director for Administrative Services, Assistant Athletics Director for Facilities and Events, Assistant Athletics Director for Business Operations, Equipment Managers, Director of Booster Clubs.

Corrective Action Completion Date: June 30, 2016

**Equipment and Apparel – Enhance and Formalize Existing Equipment/Apparel Policies:**

From Internal Audit Report: Although the UHMAD Manual includes a "Uniform Replacement Schedule" and a schedule listing supplies (towels, certain apparel, laundry bag, travel bag) to be issued to SA's of each sports team, Internal Audit believes that the UHMAD should consider enhancing its manual to include policies identifying the type and quantity of equipment/apparel issued to SAs by sport as well as identifying the apparel that can be kept by the SA and those that must be returned.

Internal Audit also believes the UHMAD should consider supplementing its "Uniform Replacement Schedule" with a maintenance schedule for equipment. A comprehensive maintenance and replacement schedule for equipment and uniforms should assist in determining prospective budgetary commitments and enhance the safety of protective equipment utilized by SAs, as well as assisting with Title IX compliance.

Comments/Corrective Action:

UHMAD will review our policies related to the type and quantity of equipment/apparel issued to student-athletes and develop and implement a policy related to what equipment/apparel can be kept by the student-athlete and what must be returned.

Update November 12, 2015: As soon as the vacant position is officially hired (Head Equipment Manager) we will work with the individual to develop these policies and procedures.

Update March 1, 2019: COMPLETED - Section 14.7 of the Department Manual

Responsible Person: Assistant Athletics Director for Facilities and Events, Equipment Managers

Corrective Action Completion Date: March 1, 2016

**Equipment and Apparel – Disposition of obsolete equipment and uniforms:**

From Internal Audit Report: Finally, the UHMAD should develop policies and procedures regarding obsolete equipment and uniforms. A listing of obsolete equipment and uniforms should be prepared and UHMAD management should assess disposition options, including options that could benefit the UHMAD (e.g., auctioned by booster clubs, donated to local schools and organizations, etc.). Consultation with the Office of General Counsel and Financial Management Office should be considered to ensure compliance with State of Hawai'i, University and NCAA rules and regulations.

Comments/Corrective Action:

UHMAD, after appropriate consultation, will develop and implement comprehensive policies and procedures regarding disposition options for obsolete equipment and uniforms.

Update November 12, 2015: The following policy was developed and added to our Department Manual – “All equipment and apparel is the property of the Department regardless of how the equipment was purchased or obtained. The Department may

dispose of used equipment and apparel by selling it at market value as determined by the Fiscal Authority in consultation with the Equipment staff. All proceeds from the sale of equipment and apparel are to be deposited with the Fiscal Authority to a Department account. Individual sport programs or Foundation accounts may not receive the proceeds from the sale of equipment or apparel. The Director of Athletics must approve exceptions.”

Update March 1, 2019: Completed - Section 14.8 of Department Manual



Glenn Shizimura  
March 1, 2019  
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Responsible People: Assistant Athletics Director for Facilities and Events and Equipment Managers

Corrective Action Completion Date: March 1, 2016

**Laundry:**

From Internal Audit Report: UHMAD should consider developing a maintenance and replacement schedule for all washers and dryers to assist with future budgeting and to prevent an extended disruption in laundry service for student-athletes.

Comments/Corrective Action:

UHMAD will develop a maintenance and replacement schedule for all washers and dryers to assist with future budgeting and to prevent an extended disruption in laundry service for SAs.

Update November 12, 2015: A maintenance and replacement schedule will be developed as soon as the vacant position is officially hired (Head Equipment Manager).

Update March 1, 2019: Completed - UHMAD determined a replacement schedule for all washers and dryers in the Fall of 2015. It was determined that one item would be replaced per fiscal year. Presently, we have received and installed four (4) new dryers and two (2) new washers in the Main Equipment Room and the Les Murakami Stadium. Furthermore, it has been determined that new laundry machines need to be replaced every 5-10 years depending on condition of each machine.

Responsible Person: Associate Athletics Director for Administrative Services, Assistant Athletics Director for Business Operations, Equipment Managers

Corrective Action Completion Date: June 30, 2016

# University of Hawaii

## Whistleblower Summary Report

### As of April 22, 2019

Unit	June 15, 2016 (inception) - April 22, 2019			July 1, 2018 - April 22, 2019		
	Total	Open	Closed	Total	Open	Closed
System	27	1	26	9	1	8
UH Manoa	143	8	135	40	8	32
UH Hilo	93	8	85	46	8	38
UH West Oahu	6	0	6	2	0	2
Maui College	10	0	10	4	0	4
Kapiolani CC	50	3	47	7	3	4
Leeward CC	5	0	5	2	0	2
Honolulu CC	10	0	10	1	0	1
Windward CC	13	4	9	4	3	1
Hawaii CC	23	2	21	7	2	5
Kauai CC	4	1	3	1	1	0
	<u>384</u>	<u>27</u>	<u>357</u>	<u>123</u>	<u>26</u>	<u>97</u>

Unit	July 1, 2017 - June 30, 2018			June 15, 2016 (inception) - June 30, 2017		
	Total	Open	Closed	Total	Open	Closed
System	12	0	12	6	0	6
UH Manoa	49	0	49	54	0	54
UH Hilo	28	0	28	19	0	19
UH West Oahu	2	0	2	2	0	2
Maui College	1	0	1	5	0	5
Kapiolani CC	10	0	10	33	0	33
Leeward CC	1	0	1	2	0	2
Honolulu CC	3	0	3	6	0	6
Windward CC	8	1	7	1	0	1
Hawaii CC	10	0	10	6	0	6
Kauai CC	0	0	0	3	0	3
	<u>124</u>	<u>1</u>	<u>123</u>	<u>137</u>	<u>0</u>	<u>137</u>

**University of Hawaii**  
**Whistleblower Tracking Report**  
**June 15, 2016 - April 22, 2019**

<b>Case #</b>	<b>Campus</b>	<b>Classification</b>	<b>Submitted by</b>	<b>Date Opened</b>	<b>Date Closed</b>	<b>Description</b>
<b>Days open: less than 30 days</b>						
392	UH - Manoa	Employment and HR	Non-employee	04/04/19	-	Identical to case #390.
391	Windward CC	Health and Safety	Non-employee	04/03/19	-	Smoking on campus.
390	UH - Manoa	Employment and HR	Non-employee	04/03/19	-	Inappropriate comments by faculty. Addtl info. requested.
389	UH - Hilo	Employment and HR	Employee	03/29/19	-	Favortism exhibited by supervisor.
387	UH - Manoa	Employment and HR	Employee	03/27/19	-	Service animal.
386	UH - Hilo	Property/Facilities	Employee	03/25/19	-	Frequency of work related text messages on personal cell phone
385	UH - Hilo	Employment and HR	Non-employee	03/22/19	-	Inadequate leadership
<b>Days open: 31 - 60 days</b>						
379	System	Employment and HR	Employee	03/05/19	-	Employee performing the functions of two separate positions.
378	Kauai CC	Employment and HR	Non-employee	02/28/19	-	Faculty unresponsive to e-mails.
377	UH - Hilo	Employment and HR	Employee	02/28/19	-	Poor computer support
376	UH - Hilo	Employment and HR	Employee	02/28/19	-	Employee not working 8 hrs
373	Kapiolani CC	Employment and HR	Non-employee	02/25/19	-	Employee working on personal projects.
<b>Days open: 61 - 90 days</b>						
372	UH - Manoa	Student affairs	Employee	02/15/19	-	Inappropriate actions by student. Addtl info requested.
367	Windward CC	Employment and HR	Non-employee	02/08/19	-	Workplace complaints.
<b>Days open: Over 3 months</b>						
360	UH - Hilo	Property/Facilities	Non-employee	01/18/19	-	Facility use form no longer available on-line.
357	UH - Hilo	Employment and HR	Non-employee	01/16/19	-	Faculty treatment of student.
355	Hawaii CC	Employment and HR	Non-employee	01/08/19	-	Service animal
352	UH - Hilo	Employment and HR	Non-employee	12/24/18	-	Office closing early
350	UH - Manoa	Health and Safety	Employee	12/07/18	-	Unsafe behavior toward employee.
349	UH - Manoa	Employment and HR	Employee	12/06/18	-	Employee discrimination
344	Kapiolani CC	Employment and HR	Employee	11/30/18	-	Identical to case #343
343	Kapiolani CC	Employment and HR	Employee	11/30/18	-	Employee discrimination
341	Hawaii CC	Student affairs	Non-employee	11/29/18	-	Student reprimanded
<b>Days open: Over 6 months</b>						
303	UH - Manoa	Financial	Employee	09/11/18	-	Improper fees
296	Windward CC	Research	Employee	09/10/18	-	Use of grant funds.
294	UH - Manoa	Research	Non-employee	09/07/18	-	Use of grant funds.
<b>Days open: Over 9 months</b>						
192	Windward CC	Employment & HR	Non-employee	11/23/17	-	Title IX. Investigation ongoing.

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<b>Closed cases</b>						
393	UH - Manoa	Health and Safety	Employee	04/08/19	04/10/19	Smoking on campus.
388	UH - Manoa	Health and Safety	Non-employee	03/28/19	04/04/19	Smoking on campus.
384	Honolulu CC	Employment and HR	Employee	03/19/19	03/28/19	Faculty complaint.
383	UH - Manoa	Employment and HR	Employee	03/18/19	04/13/19	Employee not working 8 hrs. Investigated and resolved.
382	System	Information Technology	Employee	03/14/19	03/21/19	Inappropriate University e-mails.
381	UH - Manoa	Employment and HR	Employee	03/07/19	04/01/19	Employee absent from work
380	UH - Manoa	Other	Non-employee	03/06/19	03/19/19	Calls to UH Alumni requesting donations. No violation.
375	UH - Hilo	Student affairs	Non-employee	02/27/19	04/11/19	False allegations against student. Forwarded to Office of EEO.
374	UH - Manoa	Other	Employee	02/25/19	02/26/19	Non-payment of scholarship check. Resolved with check prep.
371	UH - Manoa	Student affairs	Employee	02/14/19	02/19/19	Unfair sanctions. No violation
370	UH - Manoa	Other	Employee	02/14/19	02/19/19	Property confiscated. No violation.
369	UH - Manoa	Information Technology	Employee	02/13/19	02/19/19	Technology equipment compromised
368	UH - Manoa	Health and Safety	Non-employee	02/08/19	02/11/19	Smoking on campus. Resolved
366	UH - Hilo	Other	Non-employee	02/07/19	03/07/19	Inappropriate Facebook post. Resolved.
365	Maui College	Student affairs	Non-employee	02/06/19	02/13/19	Identical to Case #363.
364	UH - Hilo	Employment and HR	Employee	02/06/19	04/11/19	Inappropriate faculty behavior. Investigated and action taken.
363	Maui College	Student affairs	Non-employee	02/04/19	02/13/19	Treatment of student. No violation.
362	UH - West Oahu	Student affairs	Non-employee	01/26/19	02/25/19	Revocation of financial aid. Resolved.
361	UH - Manoa	Student affairs	Employee	01/23/19	02/26/19	Inappropriate faculty behavior. Resolved.
359	UH - Hilo	Health and Safety	Employee	01/17/19	01/23/19	Security personnel not performing duties. Resolved.
358	Kapiolani CC	Employment and HR	Employee	01/17/19	04/17/19	Faculty working at another job. No violation.
356	UH - Hilo	Employment and HR	Non-employee	01/15/19	02/20/19	Lack of classes. Rolved.
354	Kapiolani CC	Employment and HR	Employee	01/07/19	01/09/19	Unfair faculty course assignments. No policy violation.
353	Kapiolani CC	Employment and HR	Employee	01/07/19	02/28/19	Poor behavior by employee. No violation.
351	UH - Hilo	Athletics	Non-employee	12/12/18	04/11/19	Sports camps. Investigated and resolved.
348	UH - Hilo	Research	Employee	12/04/18	01/23/19	Research integrity. Investigated and action taken.
347	UH - Hilo	Other	Non-employee	12/03/18	01/14/19	Signage not displayed. Addtl informaton requested but not received.
346	UH - Hilo	Health and Safety	Non-employee	12/02/18	12/27/18	Inappropriate advice from Health Services employee.
345	UH - Hilo	Property/Facilities	Non-employee	12/01/18	01/14/19	Inadequate facilities. Investigated and resolved.
342	Kapiolani CC	Employment and HR	Employee	11/29/18	12/10/18	Outdated personnel policies to be updated.
340	UH - Hilo	Property/Facilities	Non-employee	11/28/18	01/14/19	Change in facility rental fee. Investigated and resolved.
339	UH - Manoa	Financial	Non-employee	11/27/18	01/07/19	Non-payment of invoice. Payment made and case closed.
338	UH - Hilo	Employment and HR	Non-employee	11/21/18	01/14/19	Employees not working. Investigated and action taken.
337	UH - Hilo	Health and Safety	Non-employee	11/18/18	12/27/18	Improperly located smoke detectors and students smoking.
336	UH - Hilo	Health and Safety	Non-employee	11/17/18	12/27/18	Inappropriate advice from Health Services employee.
335	UH - Manoa	Property/Facilities	Employee	11/16/18	11/30/18	Dump truck parked inappropriately. Addtl info requested.
334	UH - Manoa	Other	Non-employee	11/12/18	02/16/19	Inappropriate use of internet. Investigated and resolved.

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333	UH - Hilo	Athletics	Non-employee	11/12/18	04/11/19	Mgt of sports camps, meal allowances. Investigated and resolved.
332	UH - Hilo	Other	Non-employee	11/11/18	11/27/18	Poor program management reviewed and resolved.
331	UH - Hilo	Property/Facilities	Non-employee	11/09/18	01/14/19	Change in facility rental fee. Resolved
330	UH - Hilo	Property/Facilities	Non-employee	11/06/18	11/27/18	Signage not displayed. Plan for displaying sign in development stage.
329	UH - Hilo	Property/Facilities	Non-employee	11/04/18	01/14/19	Lack of response for facility rental. Resolved.
328	UH - Manoa	Health and Safety	Non-employee	10/26/18	11/19/18	Smoking on campus. Contacted Office of Public Safety. Resolved.
327	UH - Hilo	Student Affairs	Non-employee	10/18/18	11/26/18	Faculty was unprofessional to student. Reviewed and action taken.
326	UH - Manoa	Employment and HR	Non-employee	10/17/18	02/16/19	Faculty complaint. Investigated and resolved.
325	UH - Manoa	Student Affairs	Non-employee	10/12/18	10/12/18	Confidentiality of student homework. Referred to Dept Chair.
324	Maui College	Employment and HR	Employee	10/11/18	-	Staff vacation. Investigated and resolved.
323	UH - Hilo	Employment and HR	Employee	10/09/18	12/04/18	Management decisions. Reviewed and action taken.
322	Windward CC	Employment and HR	Employee	09/30/18	11/14/18	Lack of privacy. Reviewed and action taken.
321	System	Employment and HR	Non-employee	09/26/18	10/25/18	Inappropriate hiring of employee. Investigated and no violation.
320	UH - Manoa	Other	Employee	09/25/18	09/27/18	Health of Waikiki Aquarium marine animals
319	UH - Hilo	Health and Safety	Employee	09/19/18	10/23/18	Employees riding in bed of truck.
318	System	Employment and HR	Employee	09/19/18	09/25/18	Identical to case #312.
317	Maui College	Employment and HR	Employee	09/18/18	11/29/18	Supervisor is unprofessional. No violation.
316	System	Employment and HR	Employee	09/18/18	09/25/18	Identical to case #312.
315	UH - Manoa	Other	Non-employee	09/18/18	09/18/18	Receiving e-mails from unknown hawaii.edu address.
314	System	Employment and HR	Employee	09/17/18	09/25/18	Identical to case #312.
313	Hawaii CC	Employment and HR	Employee	09/15/18	12/11/18	Lack of confidentiality. No violation.
312	System	Employment and HR	Employee	09/14/18	09/25/18	Lack of transparency in hiring of personnel. No violation.
311	UH - Manoa	Employment and HR	Employee	09/14/18	02/15/19	Employee accountability/competence. Addtl info requested, not recd
310	UH - Hilo	Health and Safety	Non-employee	09/13/18	10/23/18	Identical to case #298.
309	UH - Hilo	Health and Safety	Non-employee	09/12/18	10/23/18	Identical to case #298.
308	UH - Hilo	Health and Safety	Non-employee	09/12/18	10/23/18	Identical to case #298.
307	UH - Hilo	Health and Safety	Non-employee	09/12/18	10/23/18	Identical to case #298.
306	UH - Hilo	Health and Safety	Non-employee	09/12/18	10/23/18	Identical to case #298.
305	Hawaii CC	Employment and HR	Employee	09/12/18	09/14/18	Conflict of interest. Investigated and no conflict.
304	Hawaii CC	Employment and HR	Employee	09/12/18	04/22/19	Conflict of interest. Investigated and no conflict.
302	UH - Hilo	Health and Safety	Non-employee	09/10/18	10/23/18	Identical to case #298.
301	UH - Hilo	Health and Safety	Non-employee	09/10/18	10/23/18	Identical to case #298.
300	UH - Hilo	Health and Safety	Non-employee	09/10/18	10/23/18	Identical to case #298.
299	UH - Hilo	Health and Safety	Non-employee	09/10/18	10/23/18	Identical to case #298.
298	UH - Hilo	Health and Safety	Non-employee	09/10/18	10/23/18	Door not opened during campus lockdown.
297	UH - Hilo	Health and Safety	Employee	09/10/18	09/11/18	Locking of doors during campus lockdown
295	UH - Hilo	Employment and HR	Employee	09/09/18	09/11/18	Employee promotion
293	UH - Manoa	Employment and HR	Employee	09/06/18	03/01/19	Improper doc. of vacation/sick leave. Investigated and resolved.
292	Hawaii CC	Employment and HR	Employee	09/05/18	09/07/18	Alleged conflict of interest. Investigated and no conflict.
291	UH - Hilo	Employment and HR	Employee	09/05/18	10/10/18	Inappropriate hiring of employee

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290	UH - Manoa	Employment and HR	Non-employee	09/04/18	03/01/19	Faculty behavior. Investigated and resolved.
289	UH - West Oahu	Employment and HR	Employee	09/04/18	10/31/18	Distribution of cultural information. No violation.
288	System	Health and Safety	Employee	08/30/18	09/06/18	Smoking on campus
287	Leeward CC	Employment and HR	Non-employee	08/27/18	11/14/18	Faculty behavior. No violation by faculty.
286	UH - Manoa	Health and Safety	Non-employee	08/27/18	09/04/18	Student providing possibly tainted food.
285	Leeward CC	Health and Safety	Non-employee	08/27/18	09/17/18	Smoking on campus
284	UH - Manoa	Other	Non-employee	08/27/18	11/13/18	Videotaping student. Reviewed and action taken.
283	UH - Hilo	Property/Facilities	Non-employee	08/23/18	01/14/19	Facility rental quote not provided. Investigated and resolved
282	UH - Manoa	Health and Safety	Non-employee	08/21/18	08/27/18	Smoking on campus
281	Hawaii CC	Other	Employee	08/20/18	09/04/18	Campus club requesting donations
280	System	Other	Employee	08/20/18	09/25/18	Faculty policy inquiry. Addtl info requested but not provided.
279	UH - Manoa	Other	Employee	08/10/18	08/13/18	Disposition of cancelled meal plan. Investigated and no violation.
278	UH - Hilo	Property/Facilities	Non-employee	07/28/18	09/12/18	Sharing of student facility.
277	UH - Manoa	Employment & HR	Employee	07/24/18	09/07/18	Lack of confidentiality
276	UH - Manoa	Other	Employee	07/23/18	08/10/18	Unfair treatment of vendors. Addtl info requested but not provided
275	UH - Manoa	Employment & HR	Employee	07/21/18	08/09/18	Falsifying information. Office of VC AA resolved matter.
274	UH - Manoa	Employment & HR	Employee	07/21/18	07/28/18	Conflict of interest. Office of VCAA resolved matter.
273	UH - Manoa	Employment & HR	Employee	07/20/18	11/13/18	Staff not working 8 hr days. Addtl info requested but not provided
272	UH - Manoa	Health and Safety	Employee	07/18/18	08/03/18	Inappropriate and untimely vacuuming.
271	UH - Hilo	Employment & HR	Employee	07/13/18	09/12/18	Identical to case #263.
270	Hawaii CC	Employment & HR	Employee	06/22/18	08/02/18	Title IX. Complaint withdrawn by reporter.
269	Hawaii CC	Student Affairs	Employee	06/22/18	07/11/18	Students sharing hotel room. No violation.
268	UH - Hilo	Other	Non-employee	06/19/18	11/27/18	Signage not displayed. Plan for displaying sign in development stage.
267	UH - Hilo	Employment & HR	Employee	06/12/18	07/22/18	Inappropriate travel investigated and action taken.
266	System	Employment & HR	Employee	06/08/18	07/27/18	Treatment of subordinates.
265	UH - Hilo	Student Affairs	Non-employee	06/05/18	10/15/18	Treatment of students. Appropriate action taken.
264	UH - Manoa	Employment & HR	Employee	05/22/18	07/14/18	Employees working inefficiently. Internal procedures revised.
263	UH - Hilo	Employment & HR	Non-employee	05/21/18	09/12/18	Office periodically opens late.
262	UH - Hilo	Employment & HR	Non-employee	05/19/18	07/22/18	Poor behavior of staff. Action taken.
261	Leeward CC	Employment & HR	Employee	05/18/18	06/27/18	Conflict of interest investigated and action taken.
260	UH - Manoa	Student Affairs	Non-employee	05/17/18	05/18/18	Social media postings by student not enrolled at UH.
259	UH - Manoa	Employment & HR	Non-employee	05/15/18	07/21/18	Inappropriate travel investigated and action taken.
258	UH - Hilo	Other	Employee	05/14/18	06/19/18	Untimely e-mail responses. Reviewed and action taken.
257	Windward CC	Employment & HR	Employee	05/09/18	04/17/19	Staff behavior. No violation.
256	UH - Hilo	Employment & HR	Employee	05/02/18	06/19/18	Faculty behavior. Action taken.
255	Kapiolani CC	Employment & HR	Employee	04/30/18	05/01/18	Lack of confidentiality. No violation.
254	Kapiolani CC	Employment & HR	Employee	04/30/18	06/27/18	Staff competency investigated. No violation.
253	System	Health and Safety	Non-employee	04/29/18	05/10/18	Soil issue. No violation.
252	UH - Hilo	Employment & HR	Non-employee	04/26/18	04/30/18	Inappropriate letter of recommendation. No violation.

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251	System	Employment & HR	Employee	04/24/18	07/30/18	Poor behavior of staff. Action taken.
250	Hawaii CC	Health and Safety	Employee	04/20/18	05/15/18	Alcohol complaint investigated and action taken.
249	UH - Manoa	Employment & HR	Employee	04/19/18	06/06/18	Poor behavior of staff. Addtl info. requested but not provided.
248	UH - Manoa	Employment & HR	Employee	04/18/18	06/06/18	Staff utilizing UH resources. Action taken.
247	System	Information Technology	Non-employee	04/16/18	04/18/18	Inappropriate use of UH network investigated. No violation.
246	UH - Manoa	Employment & HR	Employee	04/08/18	05/16/18	Faculty not performing job investigated and action taken.
245	UH - Manoa	Employment & HR	Employee	04/02/18	06/06/18	Employee service awards complaint reviewed and resolved.
244	UH - Manoa	Health and Safety	Employee	03/31/18	07/02/18	Alcohol complaint investigated and resolved.
243	System	Employment & HR	Employee	03/22/18	06/13/18	Compensation inquiry. Addtl info. requested but not provided.
242	UH - Manoa	Health and Safety	Non-employee	03/21/18	04/02/18	Complaint against volunteer investigated. No violation.
241	Kapiolani CC	Employment & HR	Employee	03/20/18	04/02/18	Faculty textbook purchase. No violation.
240	Windward CC	Employment & HR	Employee	03/18/18	03/22/18	Outside employment. No violation.
239	UH - West Oahu	Employment & HR	Employee	03/16/18	04/26/18	Staff disagreement. Action taken.
238	UH - Hilo	Other	Non-employee	03/16/18	04/11/18	Costs for faculty living off island investigated and action taken.
237	UH - Hilo	Employment & HR	Non-employee	03/16/18	04/11/18	Faculty competency.
236	UH - Manoa	Employment & HR	Employee	03/14/18	03/27/18	Faculty complaint. Addtl info. requested but not provided.
235	UH - Hilo	Employment & HR	Employee	03/09/18	04/12/18	Against the appointment of an interim dean.
234	UH - Manoa	Employment & HR	Non-employee	03/02/18	03/20/18	Faculty complaint. Action taken.
233	UH - Manoa	Employment & HR	Employee	03/02/18	04/05/18	Hiring practice. Addtl info. requested but not provided.
232	UH - Manoa	Other	Employee	03/01/18	03/01/18	Process to distribute documents.
231	UH - Manoa	Health and Safety	Employee	02/23/18	02/23/18	Identical to case #230.
230	UH - Manoa	Health and Safety	Employee	02/23/18	02/23/18	Individual smoking on campus. Forwarded to Public Safety.
229	Hawaii CC	Employment & HR	Employee	02/22/18	04/22/19	Inappropriate employee communication. No violation.
228	UH - Manoa	Other	Employee	02/22/18	03/12/18	Flag presentation at facility.
227	UH - Manoa	Employment & HR	Employee	02/20/18	02/24/18	No report submitted.
226	UH - Manoa	Other	Employee	02/14/18	03/08/18	Protocol non-compliance at the Warrior Rec Center.
225	UH - Manoa	Employment & HR	Employee	02/10/18	03/30/18	Faculty not performing job duties investigated and action taken.
224	UH - Hilo	Employment & HR	Non-employee	02/01/18	02/12/18	Untimely meeting notification.
223	UH - Hilo	Student Affairs	Non-employee	01/31/18	02/06/18	Identical to case 221.
222	UH - Hilo	Student Affairs	Non-employee	01/30/18	02/06/18	Identical to case 221.
221	UH - Hilo	Student Affairs	Non-employee	01/30/18	02/06/18	Guinea pig in dorm room reviewed and resolved.
220	UH - Manoa	Employment & HR	Non-employee	01/29/18	03/27/18	Faculty comment investigated and action taken.
219	UH - Manoa	Student Affairs	Employee	01/29/18	03/08/18	Non-compliance with policies and regulations reviewed and resolved.
218	UH - Manoa	Athletics	Employee	01/23/18	02/13/18	Non-compliance with policies and regulations reviewed and resolved.
217	Hawaii CC	Employment & HR	Employee	01/20/18	01/22/18	Conflict of interest reviewed. No violation.
216	System	Employment & HR	Employee	01/17/18	03/07/18	Staff not performing job investigated and action taken.
215	UH - Manoa	Health and Safety	Non-employee	01/17/18	01/17/18	Identical to case #213.
214	UH - Manoa	Health and Safety	Non-employee	01/16/18	01/17/18	Identical to case #213.
213	UH - Manoa	Health and Safety	Non-employee	01/16/18	01/16/18	Crowded classroom resolved by moving to a larger class.
212	UH - Manoa	Employment & HR	Employee	01/15/18	02/24/18	Staff not performing job. Addtl info. requested but not provided.

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211	UH - Hilo	Employment & HR	Employee	01/13/18	02/11/18	Lack of confidentiality investigated and action taken.
210	Windward CC	Other	Non-employee	01/13/18	01/19/18	Inappropriate Facebook post.
209	UH - Manoa	Student Affairs	Non-employee	01/13/18	04/12/18	Alcohol and drug complaint. Investigated and resolved.
208	UH - Hilo	Athletics	Non-employee	01/12/18	02/14/18	Student athletes meal allowance investigated and resolved.
207	UH - Manoa	Research	Non-employee	01/12/18	01/16/18	Non-compliance with policies, laws and regulations.
206	UH - Manoa	Health and Safety	Employee	01/12/18	01/16/18	Smoking on campus. Forwarded to Public Safety.
205	UH - West Oahu	Health and Safety	Non-employee	01/12/18	02/05/18	Smoking on campus. No violation.
204	UH - Hilo	Employment & HR	Employee	01/10/18	02/12/18	Inattentive staff investigated and action taken.
203	Hawaii CC	Employment & HR	Non-employee	01/08/18	03/22/18	Title IX. Addtl info. requested but not provided.
202	Kapiolani CC	Health and Safety	Employee	01/02/18	01/08/18	Caution tape blocking flooded stairwell. Campus addressed matter
201	Hawaii CC	Employment & HR	Employee	12/27/17	07/31/18	Required certification investigated and corrected.
200	UH - Hilo	Employment & HR	Employee	12/20/17	01/03/18	Staff certification. Addtl info requested but not provided
199	UH - Manoa	Student Affairs	Non-employee	12/14/17	12/22/17	Student cheated on exam. Forwarded to Office of Judicial Affairs.
198	Honolulu CC	Employment & HR	Non-employee	12/12/17	12/12/17	Inappropriate Facebook post.
197	Kapiolani CC	Health and Safety	Employee	12/04/17	12/08/17	Equipment stored in hallways. Reviewed and resolved.
196	Kapiolani CC	Employment & HR	Employee	12/04/17	01/10/18	Conflict of interest. No violation.
195	UH - Manoa	Other	Employee	12/03/17	01/16/18	Addtl info. requested from reporter. Addtl info not provided.
194	Hawaii CC	Employment & HR	Employee	11/27/17	01/16/18	Identical to case #190.
193	UH - Hilo	Employment & HR	Employee	11/26/17	12/26/17	Competency of staff personnel.
191	System	Employment & HR	Non-employee	11/19/17	01/12/18	Addtl info. requested from reporter. Addtl info not provided.
190	Hawaii CC	Employment & HR	Employee	11/18/17	01/16/18	Inequitable work shifts. Reviewed and resolved.
189	Kapiolani CC	Employment & HR	Employee	11/01/17	11/13/17	Policy violation allegation investigated. No violation.
188	UH - Hilo	Employment & HR	Non-employee	10/31/17	11/21/17	Identical to case #185.
187	UH - Hilo	Employment & HR	Non-employee	10/31/17	11/21/17	Identical to case #185.
186	UH - Hilo	Employment & HR	Non-employee	10/31/17	11/21/17	Identical to case #185.
185	UH - Hilo	Employment & HR	Non-employee	10/31/17	11/21/17	Competency of staff personnel.
184	UH - Hilo	Employment & HR	Non-employee	10/23/17	12/26/17	Staff personnel trips investigated and action taken.
183	System	Other	Employee	10/18/17	01/11/18	Non-compliance with laws/regs. Addtl info requested not provided.
182	UH - Manoa	Financial	Employee	10/17/17	12/06/18	Non-compliance with University policies. Reviewed and resolved.
181	Windward CC	Employment & HR	Employee	10/12/17	01/09/18	Title IX. Addtl info. requested. Addtl info not provided.
180	UH - Manoa	Student Affairs	Non-employee	10/11/17	10/17/17	Academic grievance forwarded to departmental personnel.
179	UH - Hilo	Employment & HR	Non-employee	10/10/17	10/20/17	Staff not working 8 hr days investigated and action taken.
178	UH - Manoa	Student Affairs	Non-employee	10/09/17	10/18/17	Identical to case #177.
177	UH - Manoa	Student Affairs	Non-employee	10/09/17	10/18/17	Academic grievance forwarded to departmental personnel.
176	Honolulu CC	Information Technology	Employee	10/09/17	11/28/17	Addtl info. requested from reporter. Addtl info not provided.
175	UH - Manoa	Employment & HR	Employee	10/03/17	11/30/17	Service animal.
174	Kapiolani CC	Employment & HR	Employee	09/14/17	11/14/17	Conflict of interest reviewed. No violation.
173	UH - Manoa	Financial	Employee	09/13/17	10/17/17	Addtl info. requested from reporter. Addtl info not provided.
172	Kapiolani CC	Employment & HR	Employee	09/13/17	11/14/17	Conflict of interest reviewed. No violation.
171	System	Employment & HR	Employee	09/11/17	09/13/17	Conflict of interest reviewed and resolved.



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170	UH - Manoa	Employment & HR	Non-employee	09/09/17	10/02/17	Addtl info. requested from reporter. Addtl info not provided.
169	Honolulu CC	Employment & HR	Employee	09/05/17	10/19/17	Addtl info. requested from reporter. Addtl info not provided.
168	UH - Manoa	Other	Non-employee	09/03/17	09/05/17	Faculty comments investigated and action taken.
167	Kapiolani CC	Student Affairs	Non-employee	09/01/17	09/06/17	Free speech. Forwarded to departmental personnel.
166	UH - Manoa	Health and Safety	Employee	09/01/17	09/08/17	Smoking allegation forwarded to departmental personnel.
165	UH - Manoa	Employment & HR	Employee	09/01/17	10/25/17	Staff not performing job investigated and action taken.
164	Windward CC	Employment & HR	Employee	08/25/17	09/13/17	Outside employment of staff investigated. No violation.
163	UH - Manoa	Student Affairs	Employee	08/23/17	09/11/17	Academic grievance reviewed and resolved.
162	UH - Hilo	Employment & HR	Non-employee	08/21/17	09/14/17	Employee late to work investigated and action taken.
161	UH - Manoa	Other	Non-employee	08/19/17	08/21/17	No violation.
160	Maui College	Employment & HR	Non-employee	08/18/17	08/21/17	Staff behavior investigated and action taken.
159	UH - Hilo	Employment & HR	Employee	08/18/17	10/02/17	Staff behavior investigated and action taken.
158	System	Employment & HR	Employee	08/16/17	09/13/17	Hiring practice investigated. No violation.
157	UH - Manoa	Student Affairs	Non-employee	08/16/17	08/17/17	Academic grievance forwarded to departmental personnel.
156	Windward CC	Employment & HR	Employee	08/15/17	08/21/17	Conflict of interest. No violation.
155	Windward CC	Employment & HR	Employee	08/15/17	09/12/17	Staff comments investigated. No violation.
154	UH - Manoa	Employment & HR	Employee	08/08/17	08/31/17	Addtl info. requested from reporter. Addtl info not provided.
153	System	Employment & HR	Employee	08/07/17	09/10/17	Conflict of interest reviewed and resolved.
152	System	Other	Employee	07/28/17	09/04/17	Expense reimbursement policy investigaed. No violation.
151	UH - Manoa	Other	Non-employee	07/28/17	07/28/17	Argument at faculty housing
150	UH - Manoa	Employment & HR	Employee	07/05/17	10/19/17	Full time faculty working part time.
149	Hawaii CC	Employment & HR	Employee	07/03/17	11/29/17	Conflict of interest investigated and action taken.
148	UH - Manoa	Student Affairs	Non-employee	07/03/17	07/28/17	Academic dishonesty. Forwarded to Office of Judicial Affairs.
147	UH - Manoa	Employment & HR	Employee	07/01/17	10/19/17	Addtl info. requested from reporter. Addtl info not provided.
146	Kapiolani CC	Other	Employee	06/20/17	07/07/17	Misuse of facilities. Matter resolved.
145	Kapiolani CC	Student Affairs	Employee	06/13/17	07/05/17	HR matter investigated. No violation.
144	Kapiolani CC	Employment & HR	Employee	06/09/17	07/05/17	HR matter investigated. No violation.
143	UH - Manoa	Employment & HR	Employee	06/09/17	02/02/18	HR allegation reviewed and resolved
142	Kapiolani CC	Other	Non-employee	05/23/17	12/11/17	Academic grievance. Reviewed with action taken.
141	UH - Manoa	Employment & HR	Non-employee	05/23/17	05/23/17	Allegation is identical to #133.
140	UH - Manoa	Employment & HR	Employee	05/22/17	09/11/17	Hiring policy investigated with appropriate action taken.
139	UH - Manoa	Employment & HR	Non-employee	05/21/17	05/22/17	Allegation is identical to #133.
138	UH - Hilo	Employment & HR	Non-employee	05/21/17	05/21/17	Allegation is identical to #133.
137	UH - Manoa	Employment & HR	Non-employee	05/20/17	05/22/17	Allegation is identical to #133.
136	UH - Manoa	Employment & HR	Non-employee	05/20/17	05/22/17	Allegation is identical to #133.
135	UH - Manoa	Employment & HR	Non-employee	05/19/17	05/22/17	Allegation is identical to #133.
134	UH - Manoa	Employment & HR	Non-employee	05/19/17	05/19/17	Allegation is identical to #133.
133	UH - Manoa	Employment & HR	Non-employee	05/18/17	05/19/17	Free speech. Reviewed by administration and resolved.
132	Kapiolani CC	Other	Employee	05/17/17	07/19/17	HR allegation reviewed and resolved
131	UH - Manoa	Employment & HR	Non-employee	05/15/17	05/18/17	Professor misrepresentation. Forwarded to appropriate office.

**University of Hawaii**  
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130	System	Health & Safety	Non-employee	05/12/17	05/22/17	Improper use of University vehicle. Investigated and determined that vehicle is not owned by the University.
129	Honolulu CC	Employment & HR	Employee	05/10/17	05/15/17	Conflict of interest. No violation.
128	Kapiolani CC	Health and Safety	Non-employee	05/03/17	09/07/17	HR allegation reviewed and resolved
127	UH - Manoa	Hiring policy	Non-employee	05/02/17	09/11/17	Hiring policy investigated. No violation.
126	UH - Manoa	Hiring policy	Non-employee	05/02/17	09/11/17	Hiring policy investigated. No violation.
125	Honolulu CC	Employment & HR	Employee	05/01/17	06/27/17	HR matter.Addtl info. requested from reporter but not provided.
124	UH - Manoa	Student Affairs	Employee	04/27/17	05/06/17	HR allegation reviewed and resolved
123	UH - Hilo	Employment & HR	Employee	04/20/17	06/20/17	Procurement of goods/services reviewed and resolved.
122	UH - Manoa	Student Affairs	Non-employee	04/14/17	09/05/17	Bird in dorm room investigated and resolved.
121	UH - Manoa	Student Affairs	Non-employee	04/13/17	09/01/17	Title IX
120	UH - Manoa	Health & Safety	Non-employee	04/12/17	09/05/17	Title IX
119	Kapiolani CC	Student Affairs	Employee	04/11/17	04/23/17	Former employee has campus keys. Reviewed by admin and resolved
118	Kapiolani CC	Other	Employee	04/11/17	04/16/17	Former employee on campus.Reviewed by admin and resolved.
117	UH - Manoa	Other	Employee	04/05/17	05/18/17	HR matter. Addtl info. requested from reporter but not provided.
116	Kapiolani CC	Employment & HR	Non-employee	03/24/17	03/28/17	Culinary operations. Matter resolved.
115	Kapiolani CC	Employment & HR	Employee	03/21/17	03/31/17	Casual hiring policy. No violation.
114	Kapiolani CC	Other	Employee	03/20/17	04/05/17	Hiring policy investigated. No violation.
113	Kapiolani CC	Employment & HR	Employee	03/20/17	05/14/18	HR matter investigated. No violation.
112	Kapiolani CC	Student Affairs	Non-employee	03/15/17	03/05/18	Academic grievance. Investigation completed and resolved.
111	UH - Manoa	Student Affairs	Employee	03/14/17	04/20/17	Vague allegation. Addtl info. requested. None rec'd.
110	UH - Manoa	Health & Safety	Non-employee	03/11/17	03/18/17	Academic grievance.
109	UH - Hilo	Health & Safety	Employee	03/10/17	04/25/17	Casual hiring policy. Addtl info. requested. None rec'd.
108	Kapiolani CC	Employment & HR	Employee	03/09/17	04/20/17	HR matter investigated. No violation.
107	UH - West Oahu	Health & Safety	Non-employee	03/03/17	03/06/17	Health center hours of operation. Signage at health center updated.
106	Kapiolani CC	Health & Safety	Employee	03/02/17	03/01/17	Former empl loitering on campus. Reviewed by admin and resolved
105	System	Other	Employee	03/01/17	04/04/17	Employee grievance investigated. No violation.
104	UH - Manoa	Employment & HR	Employee	02/28/17	03/18/17	HR allegation reviewed and resolved
103	UH - Manoa	Other	Non-employee	02/17/17	02/23/17	Free speech. Reviewed by administration and resolved.
102	UH - Hilo	Employment & HR	Employee	02/17/17	03/15/17	HR allegation reviewed and resolved
101	Kapiolani CC	Employment & HR	Employee	02/16/17	03/12/17	HR allegation reviewed and resolved
100	Kapiolani CC	Health & Safety	Employee	02/16/17	02/17/17	Policy violation allegation investigated. No violation.
99	Kapiolani CC	Employment & HR	Employee	02/16/17	02/20/17	HR allegation reviewed and resolved
98	UH - Manoa	Health & Safety	Employee	02/15/17	02/21/17	Inappropriate use of e-mail allegation investigated. No violation.
97	Hawaii CC	Employment & HR	Employee	02/15/17	03/09/17	Improper paint disposal allegation investigated. No violation.
96	Kauai CC	Financial	Employee	02/13/17	03/07/17	HR allegation reviewed and resolved
95	UH - Manoa	Employment & HR	Employee	02/10/17	02/13/17	Inappropriate use of parking pass. Forwarded to appropriate dept.
94	Kapiolani CC	Student Affairs	Employee	02/10/17	03/21/17	Addtl info. requested from reporter. Addtl info not provided.
93	Kapiolani CC	Employment & HR	Employee	02/10/17	04/18/17	HR matter investigated. No violation.

**University of Hawaii**  
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92	Kauai CC	Financial	Employee	02/10/17	03/31/17	Service animals. Investigated and resolved.
91	Kapiolani CC	Other	Employee	02/10/17	03/05/17	Outdated policies allegation reviewed and resolved.
90	Kapiolani CC	Employment & HR	Employee	02/09/17	02/20/17	HR allegation reviewed and resolved
89	UH - Manoa	Athletics	Non-employee	02/08/17	02/08/17	Academic grievance.
88	Leeward CC	Student Affairs	Employee	02/06/17	03/09/17	HR allegation reviewed and resolved
87	UH - Hilo	Employment & HR	Non-employee	02/05/17	02/08/17	Academic grievance
86	Kapiolani CC	Employment & HR	Non-employee	01/26/17	07/10/17	HR matter investigated. No violation.
85	Kapiolani CC	Property Facilities & Equipment	Non-employee	01/20/17	08/09/17	Poor classroom condition resolved to complainant satisfaction.
84	UH - Manoa	Employment & HR	Employee	01/17/17	01/18/17	HR allegation forwarded to departmental personnel.
83	Hawaii CC	Employment & HR	Employee	01/17/17	02/03/17	Free speech. Reviewed by administration and resolved.
82	Maui College	Other	Non-employee	01/15/17	02/03/17	Financial aid. Reviewed by administration and resolved.
81	UH - Hilo	Employment & HR	Non-employee	01/11/17	01/25/17	HR allegation reviewed and resolved
80	UH - Manoa	Employment & HR	Non-employee	01/11/17	01/12/17	Academic grievance
79	Kauai CC	Employment & HR	Non-employee	01/10/17	01/10/17	HR allegation reviewed and resolved
78	UH - Manoa	Other	Non-employee	01/09/17	01/10/17	Loud music
77	Kapiolani CC	Student Affairs	Employee	01/09/17	09/25/17	HR matter under investigation
76	UH - Hilo	Employment & HR	Employee	01/08/17	02/03/17	HR allegation reviewed and resolved
75	UH - Hilo	Property Facilities & Equipment	Non-employee	01/08/17	02/01/17	Federal reg. non-compliance. Reviewed by admin and resolved
74	Kapiolani CC	Research	Employee	01/06/17	01/24/17	Former empl loitering on campus. Reviewed by admin and resolved
73	Kapiolani CC	Health & Safety	Employee	01/05/17	03/29/17	HR allegation reviewed and resolved
72	UH - Hilo	Employment & HR	Employee	12/26/16	01/25/17	HR allegation reviewed and resolved
71	UH - Hilo	Financial	Employee	12/26/16	01/25/17	Compliance with UHF policies. Reviewed by admin and resolved.
70	UH - Manoa	Other	Non-employee	12/25/16	01/03/17	Addtl info. requested from reporter. Addtl info not provided.
69	UH - Manoa	Other	Employee	12/23/16	01/05/17	HR allegation reviewed and resolved
68	UH - Manoa	Employment & HR	Non-employee	12/15/16	12/16/16	Allegation withdrawn by reporter
67	UH - Manoa	Employment & HR	Employee	12/08/16	12/15/16	Use of handicap parking pass
66	UH - Manoa	Employment & HR	Employee	11/17/16	12/28/16	Addtl info. requested from reporter. Addtl info not provided.
65	UH - Hilo	Other	Employee	11/09/16	05/10/17	HR allegation reviewed and resolved
64	UH - Manoa	Employment & HR	Employee	11/09/16	11/09/16	No-smoking policy
63	Hawaii CC	Employment & HR	Non-employee	10/30/16	12/04/16	Addtl info. requested from reporter. Addtl info not provided.
62	UH - Hilo	Employment & HR	Employee	10/28/16	12/17/16	HR allegation reviewed and resolved
61	Honolulu CC	Employment & HR	Non-employee	10/26/16	10/26/16	HR allegation reviewed and resolved
60	Hawaii CC	Employment & HR	Non-employee	10/24/16	11/30/16	Addtl info. requested from reporter. Addtl info not provided.
59	Maui College	Property, Facilities & Equipment	Employee	10/24/16	12/06/16	HR allegation reviewed and resolved
58	Honolulu CC	Other	Employee	10/21/16	12/08/16	HR allegation reviewed and resolved
57	Maui College	Employment & HR	Employee	10/21/16	12/06/16	HR allegation reviewed and resolved
56	Maui College	Health & Safety	Employee	10/21/16	12/06/16	HR allegation reviewed and resolved
55	Maui College	Student Affairs	Employee	10/21/16	12/06/16	HR allegation reviewed and resolved
54	UH - Hilo	Employment & HR	Employee	10/20/16	12/01/16	HR allegation reviewed and resolved

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53	Honolulu CC	Employment & HR	Employee	10/19/16	12/06/16	Health insurance. Reviewed by administration and resolved.
52	UH - Manoa	Employment & HR	Non-employee	10/18/16	10/20/16	Unreconciled account balances. Reviewed and resolved by admin.
51	UH - Manoa	Other	Employee	10/16/16	12/28/16	Addtl info. requested from reporter. Addtl info not provided.
50	UH - Hilo	Health & Safety	Non-employee	10/12/16	12/01/16	HR allegation reviewed and resolved
49	UH - Manoa	Other	Employee	09/20/16	09/29/16	Cluttered stairwell
48	UH - Manoa	Employment & HR	Employee	09/20/16	10/07/16	HR allegation reviewed and resolved
47	Windward CC	Information Technology	Non-employee	09/01/16	09/19/16	Addtl info. requested from reporter. Addtl info not provided.
46	UH - Hilo	Property, Facilities & Equipment	Non-employee	08/29/16	10/28/16	Free speech. Reviewed by administration and resolved.
45	UH - Hilo	Employment & HR	Employee	08/27/16	09/18/16	HR allegation reviewed and resolved
44	UH - Manoa	Employment & HR	Non-employee	08/24/16	09/08/16	Alcohol complaint
43	Hawaii CC	Employment & HR	Employee	08/24/16	09/27/16	HR allegation reviewed and resolved
42	UH - Manoa	Employment & HR	Employee	08/22/16	11/22/16	HR allegation reviewed and resolved
41	UH - Manoa	Employment & HR	Employee	08/19/16	10/03/16	Addtl info. requested from reporter. Addtl info not provided.
40	UH - Manoa	Employment & HR	Non-employee	08/18/16	09/29/16	HR allegation reviewed and resolved
39	UH - Manoa	Employment & HR	Employee	08/17/16	09/29/16	HR allegation reviewed and resolved
38	UH - Manoa	Student Affairs	Non-employee	08/16/16	01/11/17	HR allegation reviewed and resolved
37	UH - Manoa	Employment & HR	Non-employee	08/08/16	08/20/16	Allegation withdrawn by reporter
36	System	Employment & HR	Employee	08/04/16	09/26/16	Addtl info. requested from reporter. Addtl info not provided.
35	System	Other	Employee	07/27/16	08/26/16	HR allegation reviewed and resolved
34	UH - Manoa	Employment & HR	Employee	07/19/16	09/01/16	Use of general funds. Reviewed by administration and resolved.
33	Honolulu CC	Employment & HR	Employee	07/14/16	09/19/16	Addtl info. requested from reporter. Addtl info not provided.
32	UH - Manoa	Research	Non-employee	07/14/16	07/18/16	Parking safety allegation reviewed by administration. No violation.
31	System	Employment & HR	Employee	07/12/16	08/04/16	HR allegation reviewed and resolved
30	UH - Manoa	Other	Non-employee	07/11/16	07/14/16	HR allegation reviewed and resolved
29	UH - Manoa	HR matter under investigation	Non-employee	07/11/16	07/18/16	Title IX
28	UH - Hilo	Other	Non-employee	07/05/16	07/06/16	HR allegation reviewed and resolved
27	UH - Hilo	Health & Safety	Non-employee	07/01/16	09/18/16	HR allegation reviewed and resolved
26	UH - Manoa	Health & Safety	Employee	06/30/16	06/30/16	Dirty parking facility
25	Kapiolani CC	Employment & HR	Employee	06/27/16	08/03/16	HR allegation reviewed and resolved
24	UH - West Oahu	Student Affairs	Employee	06/21/16	08/30/16	HR allegation reviewed and resolved
23	Kapiolani CC	Student Affairs	Employee	06/19/16	06/27/16	HR allegation reviewed and resolved
22	Kapiolani CC	Employment & HR	Employee	06/17/16	04/19/16	HR allegation reviewed and resolved
21	Kapiolani CC	Employment & HR	Employee	06/16/16	04/27/18	HR allegation reviewed and resolved
20	UH - Manoa	Employment & HR	Employee	06/16/16	09/01/16	HR allegation reviewed and resolved
19	UH - Manoa	Student Affairs	Employee	06/16/16	07/01/16	Allegation does not involve the University
18	UH - Hilo	Employment & HR	Non-employee	06/16/16	08/29/16	HR allegation reviewed and resolved
17	System	Property Facilities & Equipment	Employee	06/16/16	07/20/16	Addtl info. requested from reporter. Addtl info not provided.
16	UH - Manoa	Other	Employee	06/15/16	07/14/16	HR allegation reviewed and resolved
15	Leeward CC	Property Facilities & Equipment	Employee	06/15/16	06/30/16	HR allegation reviewed and resolved

**University of Hawaii**  
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14	Kapiolani CC	Student Affairs	Employee	06/15/16	06/16/16	Allegation was previously reported, resolved and closed.
13	Kapiolani CC	Other	Employee	06/15/16	06/15/16	Information request.
12	UH - Manoa	Employment & HR	Employee	06/15/16	08/09/16	Addtl info. requested from reporter. Addtl info not provided.
11	Hawaii CC	Health & Safety	Non-employee	06/15/16	02/22/17	HR allegation reviewed and resolved
10	UH - Manoa	Employment & HR	Employee	06/15/16	06/15/16	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.

**UNIVERSITY OF HAWAI‘I  
FY 2018 WHISTLEBLOWER HOTLINE  
ANNUAL REPORT**

**Independent Audit Committee  
January 17, 2019**



**UNIVERSITY  
of HAWAI‘I®**  
SYSTEM

## **I. Introduction**

On June 15, 2016, the University of Hawai‘i (University) launched a confidential whistleblower hotline to further advance the University’s commitment to encourage and enable any member of the University community or the general public to make good faith reports of misconduct. The hotline, managed by EthicsPoint, is available 24 hours a day via telephone and online. The hotline allows anyone to anonymously report fraud, waste, abuse or other conduct that might be in violation of any law, regulation or university policy.

The first annual Whistleblower Hotline Report was submitted to the Board of Regents for the University of Hawai‘i (“Board”) on August 10, 2017, which summarized and presented the types of Whistleblower Hotline complaints by campus and complaint-type for the FY 2017 period. This second annual report updates the Board with Whistleblower Hotline complaint data for the FY 2018 period (ending June 30, 2018).

## **II. University Profile**

The University of Hawai‘i System was founded in 1907 and has experienced steady development over the past century. Currently, the University is responsible for maintaining over 16,800 acres of land and 14 million gross square feet of physical assets. In fiscal year 2018, it supported over 51,000 students across its 10 campuses and system offices and managed an employee base of over 8,000 FTE.

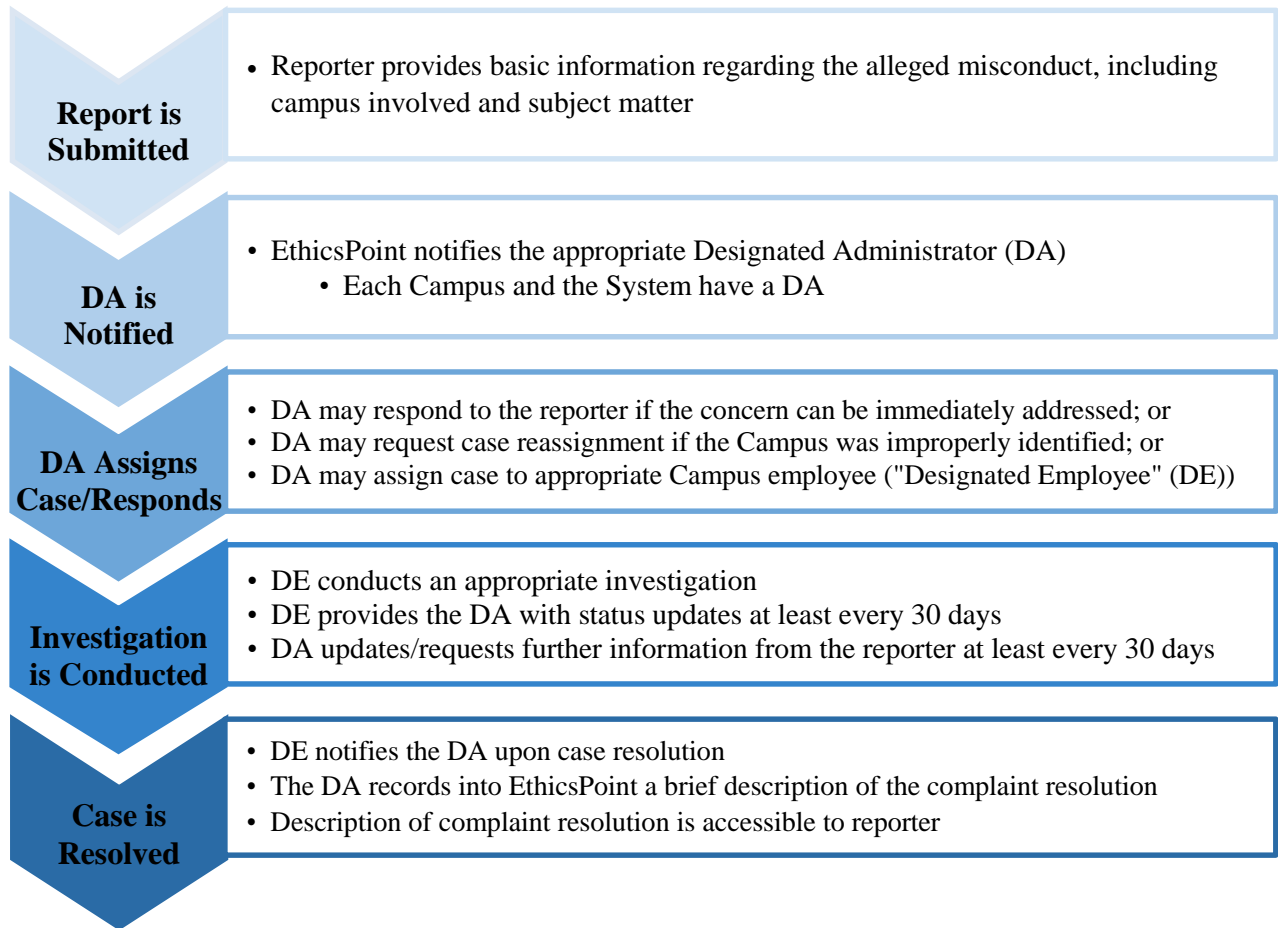
## **III. Whistleblower Hotline Program**

In FY17 and FY18, the Whistleblower Hotline averaged 122 reports per year. Reporters have utilized both telephone and online methods to report their concerns and it appears that the hotline is working as intended. To date, no concerning trends or patterns have been identified. All reports are reviewed by the Director of Internal Audit, who is responsible for providing regular updates to the Committee on Independent Audit of the Board of Regents regarding Whistleblower Hotline complaints.

Reporters identify whether or not they are a University employee and the relevant campus. The Reporter classifies complaints into the following categories: (1) employment/human resources; (2) student affairs; (3) health and safety; (4) financial; (5) property, facilities or equipment; (6) research; (7) information technology; (8) athletics; or (9) other.



The whistleblower report workflow proceeds as follows:

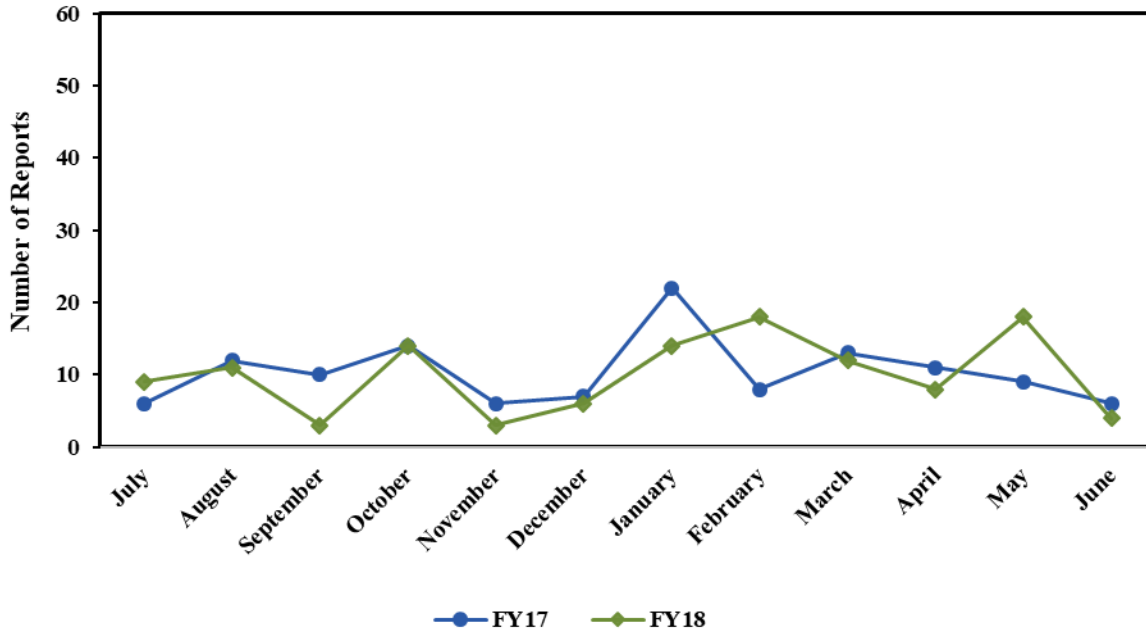




## Annual Summary

A total of 124 reports were submitted in FY18 ranging from 6 to 22 reports each month, compared to a total of 120 reports submitted in FY17 ranging from 3 to 18 reports each month.

**University of Hawai'i Hotline Reporting by Month**



## Monthly Reporting Summary

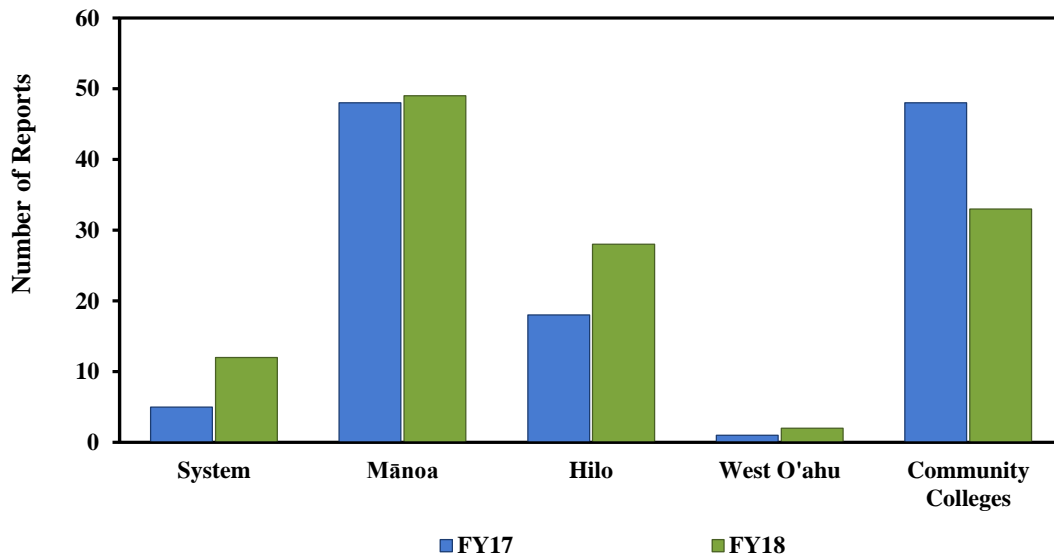
Year	Number of Reports Each Month		
	Lowest	Highest	Median
FY17	3	18	10
FY18	6	22	9.5



### Summary of Reports by Campus

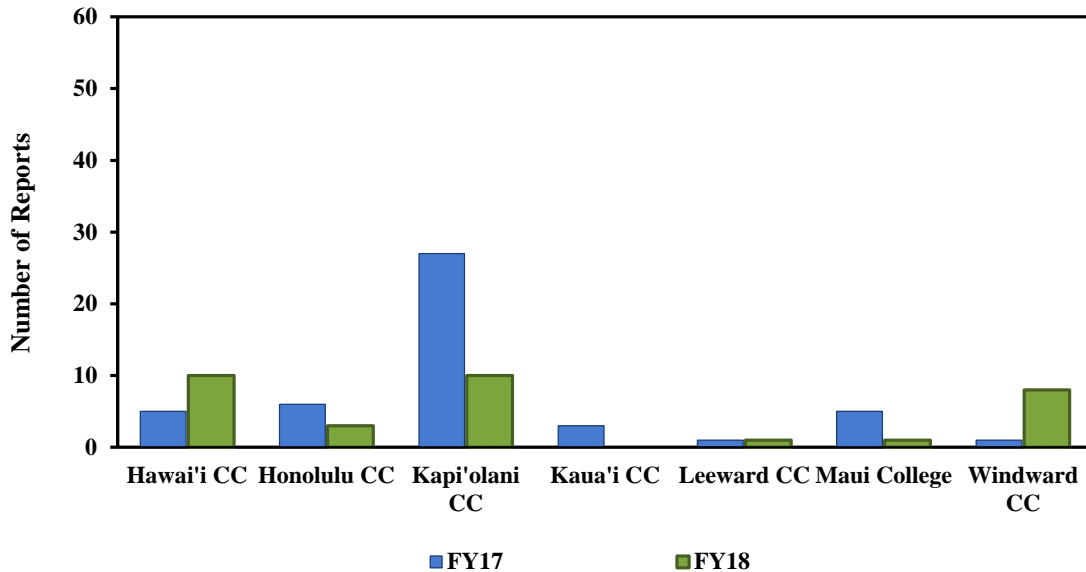
In FY17 and FY18, UH Mānoa received the highest number of reports, accounting for 40% of all reports in both years. Except for the Community Colleges, all campuses experienced an increase in the number of reports from FY17 to FY18. UH Hilo experienced the greatest increase in the number of reports, increasing from 18 reports in FY17 to 28 reports in FY18 (56%).

**University of Hawai'i Hotline Reporting by Campus**



In FY17 and FY18, reports concerning the Community Colleges accounted for 40% and 27% of all reports, respectively. Overall, the number of reports concerning the Community Colleges decreased by 31% from FY17 to FY18. Kapi’olani Community College experienced the greatest decrease in the number of reports, decreasing from 27 reports in FY17 to 10 reports in FY18 (63%). Windward CC experienced the greatest increase in the number of reports, increasing from 1 report in FY17 to 8 reports in FY18 (700%).

### Community College Hotline Reporting by Campus



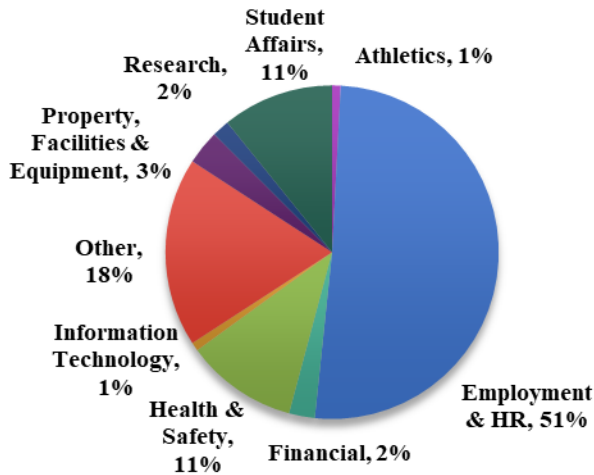
### Summary of Reports by Complaint Type

Reports were assigned to nine categories: (1) employment/human resources; (2) student affairs; (3) health and safety; (4) financial; (5) property, facilities or equipment; (6) research; (7) information technology; (8) athletics; or (9) other. The complainant self-selects the complaint category; however, under very limited circumstances, if the Director of Internal Audit (“Director”) believes the selected complaint category is significantly mischaracterized, then the Director will change it to the appropriate category. This report reflects the updated complaint category classifications.

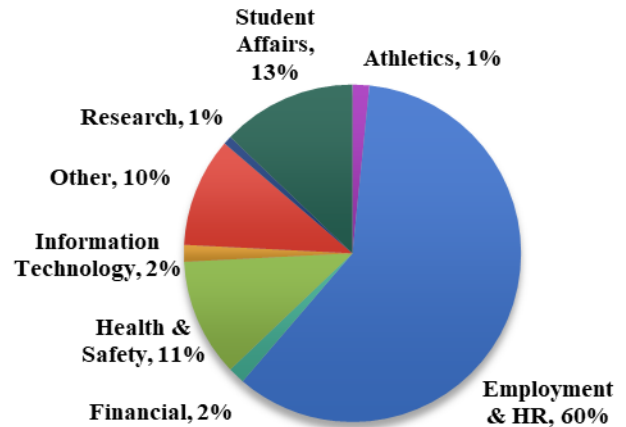


In both FY17 and FY18, over half of all reports were related to human resources or employment-related matters. On average, 60% of reports were submitted by employees each year.

**FY17 University of Hawai'i Reports by Type**

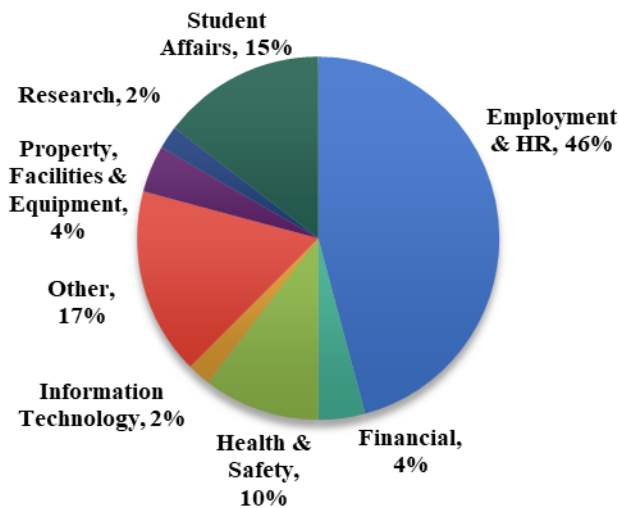


**FY18 University of Hawai'i Reports by Type**

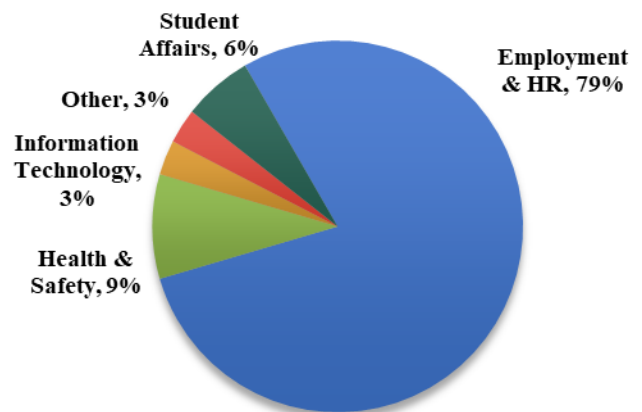


In both FY17 and FY18, for reports concerning the Community Colleges, human resources or employment-related reports were the most frequent, averaging 63% of all reports. On average, 78% of reports were submitted by employees each year.

**FY17 Community Colleges Reports by Type**

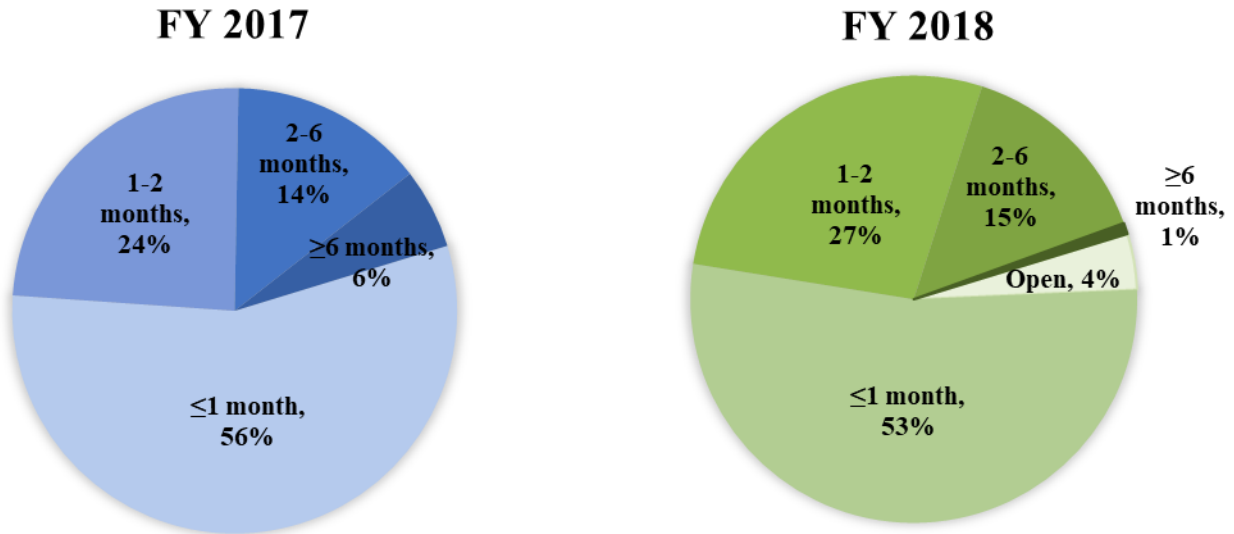


**FY18 Community Colleges Reports by Type**



### Case Processing Time

Cases are investigated, addressed and closed fairly quickly, with over 50% of cases closed within one month of the initial report and 80% of cases closed within two months of the initial report in both FY17 and FY18.



#### IV. Conclusion

Based on a review of the reports for FY 2017 and FY 2018, the Office of Internal Audit and the Office of Risk Management conclude that there were no complaints or trends in complaints, regarding accounting and internal control matters or financial fraud, indicating a concern that rises to a material level requiring consultation with the Committee on Independent Audit.





Regents Policy Chapter 2, Administration  
Regents Policy RP 2.205, Policy on Whistleblowing and Retaliation  
Effective Date: June 2, 2016  
Prior Dates Amended: none  
Review Date: August 2017

**REVISED DRAFT FOR  
DISCUSSION**

**I. Purpose:**

To set forth a policy that promotes an atmosphere at the University of Hawai'i (university) that allows individuals to disclose in good faith violations of law, regulation, or policy, and protects individuals from retaliation by adverse academic or employment action taken as a result of a good faith report.

**II. Definitions:**

"Members of the university" means any university faculty, staff, students, and or administrators.

**III. Board of Regents Policy:**

- A. The university is committed to compliance with applicable laws and regulations, and to promulgate policies and procedures to interpret and apply these laws and regulations in the university setting.
- B. To achieve compliance, it is the policy of the university to encourage and enable any Member of the university or the general public, to make good faith reports of known or suspected violations of law, regulation, or policy, including but not limited to fraud.
- C. No employee shall take retaliatory academic or employment action against any Member for reporting, or causing to be reported, in good faith suspected violations of law, regulation, or policy.
- D. The general authority for implementing this policy is vested in the president or designee, with the following exceptions:
  1. ~~that~~ in connection with the responsibilities of the independent audit committee of the board for reviewing the university's antifraud programs and controls, and aiding in discovering and remedying incidences of financial fraud regarding the university, it is expected that the independent audit committee through the university's internal auditor will review and monitor good faith reports of financial fraud.

2. All whistleblower hotline reports of violations of law, regulation, or policy made about specific conduct of the president shall be provided to the board executive administrator and secretary and the board chair. The board, through its chair and the appropriate subject matter committee chair, shall determine appropriate action including any investigation and appropriate resolution of the matter. An investigation may be conducted by the chair and the appropriate subject matter committee chair, the board executive administrator and secretary, and/or an outside investigator retained to pursue the investigation. If an investigation is conducted, the president shall be notified, and every reasonable effort shall be made to conduct the investigation in a confidential manner. Steps may be taken as interim measures, when situations warrant, to protect complainants during any investigation, and retaliation against any complainant for a good faith report of misconduct is strictly prohibited. Any findings of violation of law, regulation, or policy should be presented to the full board in executive session to determine appropriate action, if any.

**IV. Delegation of Authority:**

The general authority for implementing this policy is vested in the president or designee, with the exception as indicated in Section III.D. ~~above~~, for which the board retains authority.

**V. Contact Information:**

Office of the Board of Regents, 956-8213, bor@hawaii.edu.

**VI. References:**

- A. <http://www.hawaii.edu/offices/bor/>.
- B. Hawaii Revised Statutes Section 304A-321, as amended.

**Approved as to Form:**

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Kendra Oishi  
Executive Administrator and  
Secretary of the Board of Regents

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Date

**IV.K.**  
**Committee Annual Review**

**ITEM TO BE  
DISCUSSED AT  
MEETING**