MINUTES
BOARD OF REGENTS’ COMMITTEE ON UNIVERSITY AUDITS MEETING

May 25, 2012

I. CALL TO ORDER

Committee Chair James Lee called the meeting to order at 3:30 p.m. on Friday, May 25, 2012, at University of Hawai‘i, Bachman Hall 113, 2444 Dole Street, Honolulu, Hawai‘i 96822.

Committee members in attendance: Committee Chair James Lee; Committee Vice Chair Dennis Hirota; Carl Carlson; Barry Mizuno; Saedene Ota; and Jan Sullivan.

Others in attendance: Regents Chair Eric Martinson (ex officio committee member); Regent Coralie Matayoshi; President M.R.C. Greenwood, Ph.D.; Vice President for Community Colleges, John Morton, Ph.D.; Vice President for Budget & Finance/Chief Financial Officer, Howard Todo; Director of the Office of Internal Audit, Glenn Shizumura; and others as noted.

II. APPROVAL OF MINUTES OF MARCH 15, 2012 MEETING

Regent Mizuno moved and Regent Ota seconded the motion to approve the minutes of the March 15, 2012 meeting, which were unanimously approved.

III. PUBLIC COMMENT PERIOD

No persons submitted written testimony or signed up to orally testify regarding today’s agenda items.

IV. AGENDA ITEMS

Review of the Kapi‘olani Community College Culinary Arts Program Operations (Information Only)

Office of Internal Audit Director, Glenn Shizumura, said that his office reviewed Kapi‘olani CC’s inventory management and related accounting and operational controls, financial results and other financial information, Farmers’ Market operations and agreement compliance, cash collection procedures and related accounting controls, and health and safety matters related to the Culinary Arts Program (CAP).

Key findings and conclusions are that from a reconciliation standpoint, inventory counts are only performed annually. The CAP does not compare actual to expected inventory cost of sales. Also, the ratio of food and beverage and salaries and wages to revenues are higher than anticipated. With respect to the Farmers’ Market, weekly vendor rental rates range from $40 to $240, depending on the size of the stall. Kapi‘olani CC collects about $800 a month in rent, with an additional $2,000 in donations to the UH
Foundation. Another finding was the inappropriate segregation of duties in connection with the sales and cash receipts.

Vice President for Community Colleges, John Morton, provided the management’s response. He noted that there are differences between the John A. Burns School of Medicine’s Kulia Grill (operated by Kapi‘olani CC), which is managed as a business with no instructional component, as opposed to Kapi‘olani CC’s Fine Dining Room, which is entirely instructional. Kapi‘olani CC’s Ohi‘a cafeteria is a mix of the two.

Other suggestions in the audit will help to maximize efficiency. With respect to inventory issues, inventory software was purchased. Additionally, the launch of the Kuali Financial System in July 2012 will aid in the tracking of expenses.

Committee Chair Lee commented that the Culinary Program covers many areas (Kulia Grill, dining facilities, banquet rooms, cafeteria, and Farmers’ Market), and he advised separating food costs from instructional costs in regard to operations.

Committee Chair Lee noted that there is no contract with the Farmers’ Market. VP Morton said that there is a Facilities Use Agreement with the Hawai‘i Farm Bureau Federation (HFBF), which governs the Farmers’ Market. It is the same agreement for any outside vendor. The contribution that the HFBF makes to the scholarship fund is a donation. Committee Chair Lee urged VP Morton to re-visit the Facilities Use Agreement to ensure that the University and Kapi‘olani CC are receiving a fair amount. VP Morton said that it is a standard price for outside vendors using the facilities, but UH can take a look at it.

Regent Sullivan asked about the Memorandum of Agreement between Kapi‘olani CC and HFBF, which does not specify rent payment due dates. HFBF is currently six months behind in rent. VP Morton said that they will resolve the issue.

**Review of the University of Hawai‘i at Mānoa, Office of Facilities and Grounds (OFG) (Information Only)**

Director Shizumura said that the audit was a follow-up to look into the areas of inventory, financial reporting, and human resources.

In regard to inventory, OFG lacked documentation supporting changes in inventory quantities at the OFG’s workshops. Thus, control over inventory at the workshops needs to be strengthened. Additionally, OFG lacked documentation supporting inventory values, and the valuations could not be validated.

In regard to financial reporting, OFG lacked a periodic analysis of department-wide financial information.

In regard to human resources, OFG’s operations are not consistent with the approved organization structure, annual performance evaluations were not prepared for Civil Service employees, and there was a lack of objective monitoring of employee work productivity.
UH Mānoa Vice Chancellor for Administration, Finance, and Operation, Kathleen Cutshaw, provided the management's response. Vice Chancellor Cutshaw thanked the Office of Internal Audit for its detailed report and added that she looked forward to implementing its suggestions. She also thanked David Hafner and Gale Yamada for gathering the data.

Vice Chancellor Cutshaw said that management is in basic agreement with the findings of the Internal Audit report. Management concurs with the findings regarding inventory: inventory is not valued appropriately, documentation was not maintained centrally and could not be located, work orders and invoices to support quantity changes could not be provided, and work orders were not being closed to on a timely basis. To address these issues, OFG will centralize its business processes for inventory valuation and management; it will hire a material management specialist; and validate and implement the Kuali Materials Management (KMM) system with both catalogue buying and inventory management functions; and inventory for all locations will be valued prior to implementing KMM.

In regard to Financial Reports, OFG does not prepare revenue and expenditure reports for trial balances. Mānoa units, except for the revenue generating units, do not prepare Generally Accepted Accounting Principles (GAAP) basis financial statements, which has historically been a System responsibility. Financial review, analysis and reconciliation of OFG's budget are performed by fund type and by account.

In regard to Human Resources, management concurs with the findings, but clarified that OFG's operating structure is inconsistent with the organizational chart. Also, civil service performance evaluations were not monitored to ensure that completion and productivity standards were implemented for janitorial work performance. Corrective action responses include a revised permanent organizational structure by Summer 2013; a monitoring system to ensure completion of civil service performance evaluations has been implemented; and industry productivity standards will be reviewed as appropriate to preventive work.

Vice Chancellor Cutshaw, when asked by Regents Vice Chair Carlson, said that there has been significant improvement since findings from an initial APPA report in 2006 were released.

Regent Sullivan asked about inventory controls. Vice Chancellor Cutshaw said that UH Mānoa did not hire anyone in inventory control. UH Mānoa is moving into KMM (Catalog Buying function in November 2012 and Inventory Management function in Spring 2013). It will need a person who is an expert in both the Kuali Financial System (KFS) as well as material management to ensure it has its processes in place.

Regent Mizuno asked how KFS will help. Vice Chancellor Cutshaw said that in regard to inventory control, one of the mechanisms is similar to an online shopping catalog with an automated inventory control system. It will move away from decentralized, paper-based system of controlling inventory. Upon inquiry by Regent Mizuno, Vice Chancellor Cutshaw confirmed that there will be an accurate inventory of all items when KMM is
launched. President Greenwood clarified that KFS has many components, and KMM is one of those components. KFS is launching in July 2012, but KMM would be launching in November 2012.

Committee Vice Chair Hirota asked about the status of personnel following the transition from a decentralized system to a centralized system. Vice Chancellor Cutshaw responded that the people who are currently taking the inventory out of the storerooms are the shop personnel. The people who are purchasing the inventory are fiscal personnel.

Committee Chair Lee asked Vice Chancellor Cutshaw when UH Mānoa received the Spring 2012 APPA Facilities Management Evaluation Program report. Vice Chancellor Cutshaw responded that it was received around April 2012. Committee Chair Lee requested that the OFG’s budget be delivered to the Office of Internal Audit. Vice Chancellor Cutshaw agreed.

Committee Chair Lee said that there are a number of issues. He requested a timeline by UH Mānoa to ensure that they issues are resolved. Vice Chancellor Cutshaw agreed.

Regent Sullivan said that the APPA Facilities Management Evaluation Program 2011 report notes a staff of 308 OFG staff members. However, the OFG Table of Organization, dated July 1, 2011, states that OFG has 358 Full Time Equivalent (FTE) positions. Regent Sullivan asked about the difference in numbers. Vice Chancellor Cutshaw said that the official document of the organization chart represents appropriated, authorized positions from the Legislative body, whether they are filled or not.

Review of the Fiscal Officer Position (Information Only)

Director Shizumura said that the report provided an overview of the duties and responsibilities of the University’s Fiscal Officers and Fiscal Officers at other executive department units within the State of Hawai‘i, and what impact, if any, the move to the Kuali Financial System (KFS) would have on the roles and responsibilities of UH’s Fiscal Officers.

UH has approximately 230 personnel with the position title of “Fiscal Officer.” University Fiscal Officers are appointed positions within respective departments, which is up to the discretion of the program head. Whereas the State of Hawai‘i requires Fiscal Officers to have accounting credit hours and a baccalaureate degree, as well as certain levels of experience (supervisory levels in accounting and management), the University does not have a specific required number of years of experience, or requirements or specification. The department head determines if the person appointed as a Fiscal Officer can fulfill the duties, which include purchasing and maintenance of funds.

Internal Audit noted that based on prior audits, the fiscal personnel of various departments (as far as monitoring financial results and managing accounts) do have some oversight of trial balances and analyzing accounts. However, this is not done in all departments. Internal Audit recommended that a periodic analysis of accounts be performed.
A KFS consultant informed Internal Audit that no significant changes in roles and responsibilities of fiscal personnel due to KFS implementation occurred at other institutions. Shizumura noted that fiscal personnel at those other institutions are required to have accounting degrees.

President Greenwood asked if there is a specific definition within state agencies for the Fiscal Officer position, and if UH should change the title "Fiscal Officer" to reduce confusion and misunderstanding of job duties. Director Shizumura said that the larger concern of Internal Audit is the work that is being performed; that expenditures are complete, recorded timely, and accurate.

Vice Chancellor Cutshaw said that most of UH Mānoa's departments are not revenue generating. They manage their appropriations, and a majority of them manage account-by-account and fund-by-fund. The revenue generating operations at UH Mānoa are the bookstore and parking operations. UH Fiscal Officers are actually administrative officers who not only balance books, but also perform personnel and facility actions and manage operations.

Regent Matayoshi asked about the differences in scope of duties between the University Fiscal Officer and State of Hawai‘i Fiscal Officer in the high-end of the pay scale. Vice Chancellor Cutshaw said that it is her understanding that there are only five Fiscal Officers in the State, who are comparable to UH's Controller. She is unsure about the pay ranges, because UH is separate from the State.

Committee Chair Lee asked if each department has a Fiscal Officer who would be able to do a revenue expense report, and if that would lead to better oversight. Vice Chancellor Cutshaw said that the people currently in those positions are not qualified to perform that function. If the Regents preferred, Vice Chancellor Cutshaw would recommend that UH Mānoa would centralize that function in the business office in Vice Chancellor Cutshaw's operations to perform that function.

Regents Chair Martinson asked what level of authority is given to University Fiscal Officers. Vice Chancellor Cutshaw said that they are given procurement authority from $5,000 to $25,000, depending on their level and years of experience. She estimated that about a dozen people have authority to authorize a $25,000 purchase.

Committee Chair Lee asked if there is an existing job description for the University Fiscal Officer position. Vice Chancellor Cutshaw said that there is a broad-banding classification system, with minimum qualifications. Vice President for Budget & Finance/Chief Financial Officer, Howard Todo, said that within the personnel system, there is no designation for the Fiscal Officer position. The Institutional Support position is part of a broad-banding category. A University Fiscal Officer is assigned a fiscal responsibility by a dean or director, who wants a person who can make purchases.

Regent Sullivan asked if the University was currently structured properly to make adjustments to account for revenue at the college level. VP Todo said that the structure is related to UH's decentralization legacy. A higher level of expertise may be required, given
what is currently required. With the implementation of KFS, more information may be available, and expectations may be for University Fiscal Officers to perform different functions, which would require additional training.

Committee Chair Lee asked if the University is following best practices in terms of its structure. VP Todo responded that it should be looked at, which what is occurring with KFS, in terms of centralization versus decentralization.

V. ADJOURNMENT

There being no further business, on the motion of Regent Ota and second by Regents Vice Chair Carlson, and with unanimous approval, the meeting was adjourned at 4:23 p.m.

Respectfully Submitted,

[Signature]

Keith Y. Amemiya, Esq.
Executive Administrator and
Secretary of the Board of Regents