MINUTES
BOARD OF REGENTS’ COMMITTEE ON UNIVERSITY AUDITS MEETING

June 25, 2012

I. CALL TO ORDER

Committee Chair James Lee called the meeting to order at 3:00 p.m. on Monday, June 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; Barry Mizuno; Saedene Ota; and Jan Sullivan.

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

II. PUBLIC COMMENT PERIOD

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

III. AGENDA ITEMS

Kuali Financial System

Vice President for Budget & Finance/Chief Financial Officer, Howard Todo, said that UH implemented the Kuali Financial System (KFS) for several reasons, including that the outgoing Financial Management Information System (FMIS) is no longer supported by the vendor; the old mainframe technology and programming are not web based; it is difficult to find people to maintain FMIS; it does not include budget-to-actual reports, commitments, or workflow; and customized reports are difficult to develop and take time and expertise. VP Todo also provided a KFS overview, including KFS implementations at other institutions, and UH’s KFS implementation timeline and team.

The initial KFS implementation will be “vanilla”, with minimal modifications to the baseline KFS system. Policies and procedures have been and will continue to be analyzed to enhance efficiencies aligning with KFS baseline. After initial implementation, the nice-to-have but not essential features of KFS will be phased in. Future enhancements will be analyzed to see how UH can further improve existing features.

VP Todo also spoke about KFS’s initial scope of work, highlighting workflow (routing and approval), online balance inquiry and budgeting, reporting (third party vendor), and procurement and purchasing.
After the July 1, 2012 go-live date, other phases will enhance KFS functionality for UH:

- Kuali Coeus (KC/UH myGrant) integration
- Kuali Material Management (catalog shopping) – targeted for November 2012
- Financial Transaction Processing
- Purchasing
- Accounts Payable
- Capital Asset Management
- Accounts Receivable (Contracts and grant billing is being implemented in July 2012)
- Labor Ledger

The benefits that were gained through the initial KFS implementation include an electronic workflow with online document routing and approval, online balance availability, elimination of general fund encumbrance effort, no separate accounts by fiscal year necessary, and the elimination of departmental checking accounts.

VP Todo also explained the project plan and completion status (as of June 22, 2012) of KFS Phase I, which include Project Management, Development, eThority Reporting, Process Documentation, Testing, Training, System Testing, Development/Cutover, Perform Post Implementation Support, and Phase II Planning. Almost all tasks were 100% complete. One task that the UH KFS team knew that it would have an issue with is the interface between the Dept. of Accounting and General Services (DAGS), which handles UH’s payroll. People will still receive their paychecks. Most of the items that are not 100% complete, mainly the Labor Ledger and Effort Reporting, relate to the issue with DAGS.

KFS Consultant, John Sponaugle, said that everything has been through technical unit testing, functional unit testing, and integration testing. UH made minimal modifications to KFS. Conversion from FMIS to KFS is currently being done in a live production environment. To deal with defects, UH set up a help desk. To date, the help desk received 10 to 12 calls, all of which have been closed. By July 5, users will begin to create new transactions in KFS.

VP Todo also provided an overview of the cutover calendar and key dates in the KFS implementation timeline.

Regent Sullivan asked if there are any security issues. Sponaugle said that one Labor Ledger piece has a security access issue. The UH KFS team is developing a solution that will be tested when the Labor Ledger is operational.

Regent Mizuno said that the help desk must be prepared to answer the multitude of questions when KFS launches. Sponaugle said that there will be issues no matter how many tests are performed. The staff is prepared to deal with the questions. VP Todo acknowledged that some people will be unhappy, but said that KFS was the right thing to do.
Regent Matayoshi asked if the financials will be available at the campus level. VP Todo said that financial data and reports will be available at the campus level. However, audited financials were never available at the campus level. That is something that will need to be worked on.

Committee Chair Lee asked if reports could be created at the department level. VP Todo said that the data and transactions will be available by department. UH Mānoa Vice Chancellor, Kathleen Cutshaw, a member of the KFS implementation team, said that budgets-to-actual reports will be available, but a revenues and expenses statement is more difficult.

VP Todo explained that currently with FMIS, UH can generate month-end reports that are neither customized nor current. KFS is a solution that is more intuitive and can generate reports that are timelier.

Regent Ota asked for an explanation on the process of consolidating multiple checking accounts. UH Controller, Paul Kobayashi, said that KFS provides the opportunity to increase the frequency of system-generated check runs. With KFS, UH implemented new policies to synchronize payment requirements for certain transactions. Departmental checking accounts in the current system were initially created to address the need for generating checks in a timely manner.

Committee Chair Lee asked if KFS will address the issue of P-Cards and parceling of purchases. Kobayashi said that this issue is partially related to KFS. However, UH recently rolled out First Hawaiian Bank CentreSuite to fiscal officers so that they have more online access to their transactions. UH is starting to develop reports regarding parceling.

Regents Chair Martinson asked about KFS’ potential worst-case scenario. Sponaugle said that there will be issues, such as people who can’t access the system or have access to organizations or accounts that do not belong to them. UH had a relatively small and inexperienced team that was augmented with consultants. There is still a knowledge-transfer process. It worked out as well as could be expected.

Upon inquiry by Committee Chair Lee, Sponaugle said that the help desk hours are from 7:45 a.m. to 4:45 p.m.

Regents’ Chair Martinson asked if there is a troubleshooting FAQ. Sponaugle said that it is on the UH website (http://www.hawaii.edu/kualifinancial), and that it is being advertised.

Regent Matayoshi asked if electronic timesheets are already being used. Sponaugle said that it is a part of the labor system, which is not a part of KFS. Vice President for Information Technology and Chief Information Officer, David Lassner, said that most UH employees do not use time sheets.

Committee Chair thanked the KFS Implementation team.
President Greenwood said that the KFS is ready to go live. UH understands that there will be issues, but this is the right thing to do.

Status of Internal Audits

University of Hawai’i at Mānoa Transportation Services

Director Shizumura said that the UH Mānoa Transportation Services department oversees vehicles, performs routine maintenance and safety checks, and manages a fuel dispensing facility. The Office of Internal Audit reviewed compliance with state and federal regulations governing the dispensing of fuel and maintenance of a fuel dispensing facility; adequacy of controls over vehicle fleet and parts inventories; and financial results for the year ended June 30, 2011.

The summary of key findings/conclusions included finding no non-compliance with state and federal fuel storage regulations; as of June 30, 2011, the value of inventory was approximately $36,000; the automated control to monitor the dispensing of fuel that also prevents fuel theft was not operating effectively; the net book value of Transportation Services’ vehicles approximates $1 million; and the Statement of Revenues and Expenses for the years ended June 30, 2011 and 2010 note revenues exceeding expenses by approximately $185,000 and $183,000, respectively.

Fuel tanks were re-calibrated on April 11, 2012 and Transportation Services management believes that they have determined the cause of the ineffective fuel dispensing automated control.

Regent Sullivan asked about the fleet of 704 vehicles Systemwide. Director Shizumura explained that Transportation Services maintains a rental pool of 184 vehicles, and there are 520 activity-owned vehicles, which are owned by individual departments. Regent Sullivan asked about the policy regarding purchasing and owning vehicles. Director Shizumura said that if a department has enough funds, it can purchase a vehicle, which is on the department’s books as a fixed asset. Regent Sullivan asked if there is policy regarding who is allowed to use the vehicle. Director Shizumura said that he is unsure about the answer.

Regent Matayoshi asked who services the vehicles. Director Shizumura said that if the vehicle is on O'ahu, it will be taken to Transportation Services for repair work. Transportation Services cannot do extensive work, which would be contracted out but would be overseen by Transportation Services. The individual departments would incur the expense. The individual department also carries the depreciation of their respective vehicle.

Follow-up of Purchasing Card Findings

Director Shizumura said that primary objectives of the follow-up of previous Purchasing Card (P-Card) Findings that were identified during Fiscal Year 2011 were to review and report on the status of the recommendations.
There were no exceptions in four of the 10 departments from the prior year. There were new findings in four of the six other departments, which were not significant. There were recurring findings in two departments. One was a documentation issue with receipts, the other finding occurred with the same individual, and the P-Card was revoked from the individual.

**Status of Conflict of Interest and Commitment Policies and Procedures**

Director Shizumura said that the objective of the audit was to provide an update regarding the University's proposed revised conflict of interest and commitment policy (COI Policy). The proposed revised COI Policy is currently with the Vice President for Research and is anticipated to be presented to the Board of Regents in an upcoming meeting.

The biggest change is that every UH and RCUH employee must complete a manual COI disclosure form at least annually. Respective Deans or Directors are responsible for ensuring completion of the COI Disclosure Form, identifying potential COI situations and determining ways to reduce or eliminate the COI. A COI Committee consisting of 16 members has been established and is responsible for reviewing and providing guidance on managing potential/actual COI situations.

President Greenwood said that she wants to know how the COI Policy lines up with policies with other major institutions. Director Shizumura said that it was drafted following best practices.

A discussion of the scope of who would fill out the manual COI Disclosure form ensued. Regent Sullivan voiced concern about the establishment of the 16 person COI Committee, as well as the establishment of what constitutes a conflict, which could put the burden on the administrator. She asked that it be reviewed carefully.

Regent Mizuno moved and Regents Chair Martinson seconded the motion for Acceptance of the Internal Audit Reports, which was unanimously approved.

**IV. ADJOURNMENT**

There being no further business, on the motion of Regent Ota and second by Regent Sullivan, and with unanimous approval, the meeting was adjourned at 4:48 p.m.

Respectfully Submitted,

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