

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Audit of the Research Corporation of the University of Hawaii

### Summary

The Research Corporation of the University of Hawaii (RCUH) is administratively attached to the University of Hawaii and provides support services for university and state research contracts and grants. The corporation receives no appropriation from the State and relies on management fees it charges the university and state agencies. RCUH handled more than \$84 million in research grants in fiscal year 1991-92. In the past several years, reports of significant weaknesses in its management have threatened funding from the federal government.

Our audit found that RCUH is an independent organization that operates with little accountability and oversight by either the university or its Board of Directors. An underlying problem is that the university and RCUH have not defined clearly their respective responsibilities for contracts and grants. By law, RCUH is attached administratively to the university, but the university has yet to decide what control it should exercise over RCUH. Since the federal government holds the university accountable for any deficiencies in grant administration by RCUH, we believe the university should have more oversight and control over the corporation to protect the integrity of its research contracts and grants program. This could be done by restructuring RCUH to make it clearly subordinate to the university.

We reviewed RCUH's financial reports and found that they are misleading and do not adhere to generally accepted accounting principles for treatment of assets. More specifically, revenues and expenses are not clearly identified, and property and equipment that should be accounted for as assets are omitted from its balance sheet. These assets are improperly classified as operating expenses by the corporation. We found the treatment of assets by RCUH departs from its own policy and generally accepted accounting principles. It also results in a misstatement of the management fee RCUH charges the university.

The corporation also provides administrative and financial services to state agencies that contract for its services. In fiscal year 1991-92, these contracts amounted to \$8.2 million. However, RCUH lacks clear policies, criteria, and management controls for contracts with state agencies. These weaknesses have resulted in abuses and avoidance of state laws. We also found that the executive agencies have used contracts with RCUH to evade state requirements. In several instances, state agencies appeared to have contracted with RCUH to avoid lapsing requirements, circumvent position ceilings, and make inappropriate purchases.

We reviewed RCUH fees charged to state contracts and found them based on an arbitrary rate of 5 percent that is not directly linked to its administrative costs. In contrast, the RCUH management fee charged the university is based on a formula designed to recover its administrative expenses proportionate to the volume of business attributable to the university.

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## Recommendations and Response

We recommend that the Legislature require the University of Hawaii to report to the 1994 Legislature on its plans and intentions to restructure the RCUH and UH relationship. The report should include how the university intends to hold RCUH accountable, the role and function of the Board of Directors, and the RCUH relationship to other university research activities. A final report on the implementation of the reorganization should be presented to the 1995 Legislature.

In its financial statements, we recommend that RCUH report accurately on its revenues and expenses. We also recommend that it adhere to its written policy and generally accepted accounting principles in its treatment of fixed assets.

To improve oversight over state contracts, we recommend that the University of Hawaii ensure that RCUH develop clear policies, criteria, and guidelines for the types of projects it will accept from state agencies. The university should also ensure that RCUH develops management controls and a monitoring program to safeguard against any circumventing of state laws. A policy for management fees RCUH charges state agencies should be formalized. It should be based on the corporation's administrative costs, and RCUH should define the use of revenues derived from the fee.

We also recommend that the governor develop policies for the executive branch that identify the conditions and criteria under which state agencies may contract with RCUH, and establish a system to review requests for contracts with the corporation.

The University of Hawaii responded that it generally agrees with our recommendations to clarify its oversight relationship with the corporation. The university has formed a committee to review its relationship and oversight of RCUH, while protecting the corporation's primary purpose—to support the university's research mission. With respect to state contracts, the Department of Budget and Finance concurred with our recommendation that the corporation needs to develop policies, criteria, and guidelines for state projects it will accept. The department believes such policies would help avoid past problems and concerns over inappropriate use of the corporation by state agencies.

The Research Corporation of the University of Hawaii responded that it disagreed to a large extent with the findings and recommendations. However, in its response the corporation did not comment on the report's specific recommendations. Instead, it presented detailed justification of its current operations. The corporation took exception to our policy of keeping our working papers confidential until the report is published. The corporation, however, generally agreed that restructuring its relationship with the university could provide an opportunity for increased effectiveness. The corporation did not respond to our recommendation that a policy should be developed for the acceptance of and fees charged to state contracts.

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