

# OVERVIEW

## *Financial Audit of the University of Hawaii at Manoa Summer Session Program*

Report No. 99-19, April 1999

### Summary

The Office of the Auditor and the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. conducted a financial audit of the University of Hawaii at Manoa Summer Session Program (Summer Session) for the fiscal year July 1, 1997 to June 30, 1998. The audit examined the financial records and transactions of the program; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with applicable laws and regulations. Because the financial statements were incorrectly reported as of and for the fiscal year ended June 30, 1998, Nishihama & Kishida, CPA's, Inc. could not audit the financial statements.

We found three deficiencies in the financial accounting and internal control practices of the Summer Session. One deficiency was serious enough that the auditors were unable to audit and express an opinion on the Summer Session's financial statements.

We also found that pro rata assessments amounting to \$813,000 imposed by the university on the Summer Session Special Fund apparently violated Sections 37-53 and 36-30, Hawaii Revised Statutes. Section 37-53 allows transfers of special fund moneys when the amounts transferred are determined to be in excess of a program's needs and the transfer is approved by the governor or the director of finance if so delegated by the governor. Section 36-30 requires each special fund to pay its pro rata share of a department's administrative expenses but exempts the Summer Session Special Fund from this assessment.

The university used \$500,000 originally earmarked for the renovation of Krauss Hall. The university could not provide us with proof of gubernatorial or delegated approval of the transfer or that the funds were in excess of the Summer Session's needs. The university also used \$313,000 of Summer Session funds for library books, labeling the assessment "academic support" instead of "administrative expenses." Earlier, the university had informed the Summer Session of its intent to transfer some of the university's general fund burden to the Summer Session. General fund costs include administrative expenses.

Finally we found that more than \$4 million of special fund transfers from the Summer Session used for the Krauss Hall renovation violated the fund's intent and purpose.

### Recommendations and Response

We recommend that the Outreach College and the university comply with the statutes, exercise greater care in accurately and timely presenting financial statements, and use special funds for the purpose for which the funds were established.

The university disagrees with the findings on the use of Summer Session special fund moneys for library expenses and for transfer to the state general fund. The university



maintains the \$500,000 from what had been earmarked for Krauss Hall renovations was not in excess of Summer Session needs but for library books integral to the program. The university also maintains that the transfer of the \$313,000 to the general fund was tacitly approved by the director of finance's lack of objection to the university's proposal.

In the instance of the \$313,000, the university admits that this was a balance in excess of the special fund's requirements for FY1994-95 and offered this sum to help offset the reductions in general fund allotments that the governor imposed that year. We maintain that applying this amount in this way in effect offsets administrative expenses that this special fund was not allowed to absorb by statute.

In the instance of the \$500,000, we note that these moneys were originally part of the \$1.2 million earmarked from the Summer Session Special Fund for the Krauss Hall renovation. When the project did not proceed as scheduled, the university obtained control over the funds but did not return them to the Summer Session. Instead, the university used \$500,000 for library books. These moneys were not declared to be in excess, and were used for purposes that had been paid for by general funds and for the benefit of all members of the university and the public. A fundamental principle for the establishment of any special fund is that there be a link between the charges assessed and the beneficiaries of the expenditures. The university has not consistently assessed the Summer Session for library books, bringing into question its assertion that this is an appropriate cost for the Summer Session to bear. It appears that this special fund was assessed on the basis of its ability to bear the assessment.

The university did not disagree with our finding regarding its deficient financial report, but provided an explanation for the faulty reporting period. The university noted that it continued to maintain two sets of fiscal records for the Summer Session and the College of Continuing Education and Community Service. These entities were merged into a new Outreach College at June 1, 1998. The university stated that we did not request financial reports that extended only to May 31, 1998.

However, the university did not dispute its responsibility to present accurate financial statements. Since the Summer Session program did not exist as a separate entity as of June 1, 1998, its financial statements provided as of June 30, 1998 could not be audited. Our finding has been validated by the American Institute of Certified Public Accountants.

Finally the university disagreed with our finding that the \$4 million transfer for the Krauss Hall renovation did not meet the fund's intent and purpose. The university stated that prior to the renovation, the majority of floor space of Krauss Hall was condemned and unfit for occupancy. However, while the renovation may have brought the facility up to occupancy standards and provided expanded space for the Summer Session program, we still conclude that the purpose of the Summer Session Special Fund does not include capital projects. Moreover, the link with the Summer Session Special Fund was severed even further when the Summer Session's administrative offices were moved from Krauss Hall in September 1998.

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