OVERVIEW

Audit of the University of Hawaii Contract with the University of Hawaii Foundation

Report No. 04-08, May 2004

Summary

The University of Hawaii Foundation was established in 1955, primarily to support the University of Hawaii's goals through fundraising. It is a non-profit corporation, legally separate from the university. It seeks to generate gifts, build and manage relationships, provide leadership for the fundraising process, and manage assets to generate competitive returns.

In October 2002, the university signed an agreement with the foundation to provide fundraising, stewardship, and alumni relation services for $2.35 million each year through FY2007-08. The university also agreed to reimburse the foundation for 50 percent of its unit-based development officers' salaries, benefits, and applicable taxes, at a projected cost exceeding $700,000 annually. The total university support, therefore, is estimated to be more than $3 million for each full contract year. The contract is paid for by the Tuition and Fees Special Fund. This agreement succeeded a similar contract for $1 million per year to conduct the university's 1997-2002 fundraising campaign. That 1997 contract provided operating funds for the foundation that were lost when donors objected to a six percent administrative fees on all donations. The fee was lowered to two percent—a rate that the foundation is currently seeking to raise.

The fundraising contract between the university and the foundation was not based on well-founded plans or well articulated expectations. It lacks clear definitions for contracted services, performance standards, and measurable deliverables that would allow proper monitoring of the foundation's performance. Insufficient up-front planning prior to contract execution has caused the parties to seek amendments and added resources for unanticipated costs.

Even though the contract bypassed the university's usual sole source contracting process, the Board of Regents, the body responsible for the university's fundraising activities, approved this contract with little scrutiny.

We found that the foundation authorized questionable, even abusive, expenditures from donated funds because of vague guidelines, poorly defined account purposes, and lenient interpretations of the foundation's expenditure policies. These expenditures include private club memberships, numerous instances of meals and alcoholic beverages, and bidding at a charity auction. In addition, the foundation has shown a bias for maintaining distributions from endowment accounts whose values have fallen below the original gift amount, due to investment losses, without donor's consent. Furthermore, instances of poorly handled donor relations point to a need for greater scrutiny of the foundation's stewardship of donor interests.

During our audit, we identified several issues worth further scrutiny, including fundraising by groups operating independently from the foundation, fund transfers between expendable accounts, and spending for administrative and fundraising purposes from donated funds.

Recommendations and Response

We recommended that the Board of Regents and the university administration ensure that contracts for fundraising services conform to appropriate university procedures and sound contracting practices; include clearly stated services to be performed, clearly defined performance standards and measurable outcomes, the method(s) of evaluation for service performance, and penalties or remedies for failure to perform; and clarify their mutual intent regarding the relationship between the 2002 fundraising contract and the 1997 memorandum of understanding outlining their respective roles and responsibilities relating to fundraising.

We also recommended that the Board of Regents develop policies and guidelines for fundraising activities applicable to all university fundraising organizations, including the foundation; assume responsibility for contracting financial and performance audits of fundraising activities; develop a capacity for monitoring fundraising activities, including utilizing the university's internal audit function, which should report directly to the board; ensure that the foundation's expenditure policies over donated funds are strengthened and enforced; ensure that purposes and spending limitations for all accounts, including unrestricted expendable accounts, properly reflect donor expectations; and ensure that donor intent is faithfully fulfilled.

The foundation, its Board of Trustees, the university, and the Board of Regents acknowledged the value of some of our findings and recommendations but raised a number of concerns and objections. These disagreements include our representation of the effect of limitations placed on our access to information, our finding of bias for payouts to programs at the expense of donor interests, and the recommended Board of Regents oversight over audits.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830