

OVERVIEW

Systemwide Financial Audit of the University of Hawai'i System: Phase II

Report No. 07-08, December 2007

Summary

The Legislature initiated a systemwide financial audit of the University of Hawai'i through H.C.R. No. 213, 2005 Regular Session, because it was unable to obtain timely financial information from the university during the 2002 and 2005 legislative sessions. The resolution requested the systemwide financial audit be conducted in two phases. The first phase focused on the University of Hawai'i at Mānoa and was conducted in Fall 2005, with our findings and recommendations presented in Report No. 05-15, *System Financial Audit of the University of Hawai'i System: Phase I*. The second and current phase focused on the University of Hawai'i System and the remaining campuses.

We engaged the certified public accounting firm of Nishihama & Kishida, CPA's, Inc., to review the accounting and use of general and tuition funds, and strategic planning, budgeting, and forecasting processes for University of Hawai'i at Hilo, University of Hawai'i-West O'ahu, Hawai'i Community College, University of Hawai'i Center-West Hawai'i, Maui Community College, University of Hawai'i Center Maui, Honolulu Community College, Kapi'olani Community College, Leeward Community College, Windward Community College, Kaua'i Community College, University of Hawai'i Center-Kaua'i, and the University of Hawai'i System.

This second phase of our audit found a theme consistent with the first phase—that the university struggles to demonstrate accountability. We found that the university's current strategic plan has limited value and does not promote accountability. Owing to unclear planning and a lack of guidance, the *University of Hawai'i System Strategic Plan 2002-2010* and related campus plans are disjointed. There is no clear link between the various plans as to how they support each other. The university also did not understand or effectively define the requisite elements of a useful plan, resulting in system and campus plans that largely lack measurability. Specific goals and objectives are generally vague and do not identify specific targets and timelines.

For example, the system goal of "Educational Effectiveness" has a related objective, "to achieve a shared institutional culture that makes student learning and success the responsibility of all," and a related action strategy to "design and implement an effective enrollment management plan to improve the entry, retention, and success of diverse student populations, especially Native Hawaiians." While these are admirable goals, there is no way to objectively measure progress towards these goals.

We further found that the university should improve its budgeting and internal financial reporting. The Board of Regents approved the institutions' largest ever tuition increase in May 2005. Despite this significant increase in its revenue base,



the university did not include the increased tuitions in the FY2006-07 supplemental budget request until prompted by the Legislature. We also found that certain campuses have developed effective internal financial reporting processes; however, these processes were not consistent across campuses. The university's community college system effectively utilizes the Budget Level Summary (BLS) reporting system to prepare useful and informative financial reports. Other campuses, however, viewed use of the BLS as more of a required task than a useful management tool.

Finally, we found that certain policies and procedures over tuition deadlines are not clear or enforced. The university should build upon efforts driven by the first phase of our systemwide financial audit and continue to improve contract maintenance. The university recently modified its contract database but essential information is still missing, including modifications, change orders, renewal dates, encumbrances, and expenditure details. We also noted that some contract administration functions are decentralized, such as initiating the retirement of contracts, which is currently the responsibility of the respective departments. As a result, during FY2005-06, the university unnecessarily had approximately \$253,500 tied up in 48 contracts that were completed or expired. We further noted that tuition deadlines across campuses create confusion and problems in determining whether tuition payments are timely.

Recommendations and Response

We made several recommendations regarding the strategic planning and budgeting processes and financial system of the University of Hawai'i. Among these, we recommended that the president of the university review all existing strategic plans, and ensure future plans contain requisite elements and a systematic approach for assessment is developed. We also made a number of recommendations to the University of Hawai'i and the Office of Procurement and Real Property Management.

In its response to our draft report, the University of Hawai'i strongly criticized the timing and relevance of our findings and recommendations, primarily those relating to its strategic plan. It is puzzling that the university holds this view considering that, as recently as late November 2007, it was asking its faculty, students, and the public whether its system goals need to be updated or revised. Our audit points out specific elements of the various system and campus strategic plans of the university that need to be enhanced in order to contribute to the development of any successful, future plans.

The university also attempts to clarify several errors and inaccuracies contained in our audit findings. However, the university's arguments are generally based on a misreading of the facts presented. We did modify several financial exhibits based on the university's response, none of which affect our findings and overall conclusions.

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