



Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

“A research organization has got to be willing to take some risks, too.”

—RCUH board chair

For the full text of this and other reports, visit our website:
<http://auditor.hawaii.gov/>

Audit of the Research Corporation of the University of Hawai'i

Report No. 15-07, June 2015

RCUH's weak plans and limited role reduce accountability for hiring and procurement exemptions

Conservative, complacent business approach relegated RCUH's role to a university service bureau

The Research Corporation of the University of Hawai'i (RCUH) was formed to play a proactive role in promoting the welfare of Hawai'i's people by initiating, stimulating, conducting, and coordinating research and training, as well as commercializing inventions and discoveries. We found, however, that RCUH acts primarily as a provider of services to UH, which constituted \$9 out of every \$10 in RCUH business in FY2014. The RCUH board recognized a need to expand UH services and pursue more non-UH projects in 2004. However, plans to do so were not implemented or updated because the RCUH Board of Directors lacked initiative, training, policies, and metrics needed to drive proper planning. This planning failure undermines RCUH's accountability for services provided and for achievement of the purpose for which the corporation was founded.

We further found that RCUH's executive director and board took a cautious business approach that ignored plans to pursue more non-UH projects. According to the RCUH board chair, from about 2002 through 2011, UH's research enterprise was growing rapidly, which provided the corporation with all the work it could handle. As a result, there was no pressing need to grow RCUH's non-UH business. Plans to pursue non-UH business also were undermined by RCUH efforts to avoid conflicts with a public sector union and private service providers.

Improved oversight of projects is needed to ensure the integrity of RCUH's services

RCUH's broad purpose allows projects remotely associated with research or training to qualify for exemptions from state procurement and civil service laws. As such, strong management controls should be in place to ensure that projects qualify for RCUH's exemptions. During FY2014, the corporation had about 3,000 employees earning \$113.5 million in salary. We found that RCUH allows state agencies to circumvent contract requirements, secure services without proof of governor approvals, and forgo required evaluations of \$4.3 million in projects. We also found that the corporation lacks clear policies and procedures for the review and acceptance of direct projects, and the department in charge of administering those projects lacks staff to ensure adequate project vetting and monitoring. We further found that written policies and procedures could improve RCUH's oversight of intramural and revolving account projects. A lack of accountability for the flexibility afforded to RCUH raises the risk that RCUH's employment and procurement exemptions are inappropriately used, which in turn may expose the corporation to criticism and undermine the public's trust.

Agency response

Neither the board chair nor the executive director disputed our findings in their responses to our audit. The chair said the board will review the corporation's mission and make changes as needed, but that the current mission was appropriate. He also said the board will work with the executive director to ensure policies and procedures are reviewed and updated. The chair agreed that RCUH needs strategic and long-range goals, objectives, and performance measures. The board chair also stated that our audit did not take into account the legislative intent of creating RCUH, or the statutory composition of the board, which both skew toward providing services to UH. The chair misses our larger point that the RCUH board adopted initiatives to grow and diversify the corporation's business in 2004, but failed to ensure their implementation.

The RCUH executive director disagreed with our recommendation that the Legislature amend Chapter 304A, HRS, to require RCUH to develop and provide annual reports with goals and objectives. He said it will be recommended to the next executive director to follow-up on our recommendations by enhancing board orientation, and establishing performance measure parameters. Additionally, the executive director said RCUH is updating its policies and procedures and is developing guidelines as needed. The executive director further stated that RCUH will not execute any direct project agreements or amendments without approval from the governor, and that all state agencies will be required to comply with the State/RCUH master agreement.