

# OVERVIEW

## *Review of Selected University of Hawaii Non-General Funds and Accounts*

Report No. 03-04, March 2003

### Summary

The University of Hawaii is a postsecondary education system that comprises three university campuses, seven community colleges, an employment training center, and five education centers distributed across six islands throughout the state. Although \$660 million was appropriated to the university during FY2001-02, representing nearly 10 percent of the entire executive branch's budget, the Legislature was unable to obtain timely financial information from the university during the 2002 legislative session.

Our review found numerous accounts of mismanagement by the university for six of its non-general funds. We found that lax monitoring has led to the inappropriate use of funds in at least two non-general funds. For example, the Research and Training Revolving Fund, which was statutorily created to facilitate university research and training, has been used for other purposes. We found that this fund was used to pay for aesthetic improvements to a library and to cover a shortfall in funds for the utility expenses of new facilities. We also found that the university misused its \$57 million Endowment Fund. Funds endowed to the university to further marine and atmospheric research have been used by a dean to pay for personal entertainment expenses.

The university also lacks documented policies and procedures for the use and allocation of its Research and Training Revolving Fund and its Tuition and Fees Special Fund. Without allocation guidelines for the research fund, the campuses, departments, and schools that might receive allocations are unable to plan for future research initiatives. In addition, university administrators were unable to tell us how \$8.5 million of the total \$21.7 million research and training allocation for FY2002-03 would be used. The lack of policies and procedures for the Tuition and Fees Special Fund is especially concerning because the fund collected over \$439 million and expended over \$400 million since FY1997-98. This concern is exacerbated by the fact that the university has not assigned responsibility for this significant source of revenue to anyone.

We also found that outdated procedures may contribute to the university's inability to provide adequate loans to qualified students from its State Higher Education Loan Fund. This loan program has about \$8.99 million in loans outstanding to students with 31 percent (\$2.85 million) of that considered past due or delinquent. Other universities we contacted reported such delinquency rates as low as 2 and 15 percent.

The university has also disregarded sound contracting practices by allowing contractors to render services before contracts were fully and properly executed. We found several agreements funded by the Tuition and Fees Special Fund that were either incomplete or executed in an untimely manner. We also found lease



agreements relating to the Real Property and Facilities Use Revolving Fund were not updated or modified in a timely manner.

From 1997 through October 2002, the university contracted with the University of Hawaii Foundation to provide fundraising and stewardship services at an annual cost of \$1 million. In October 2002, the university entered into a new contract with the foundation for \$2.35 million annually. As allowed by law, these contracts have been paid with moneys in the university's Tuition and Fees Special Fund. However, the university has failed to adequately monitor these contracts. In fact, the current tuition-funded contract does not allow the university to adequately monitor the foundation's services. Furthermore, although the State Auditor is statutorily authorized to conduct postaudits of state or public fund expenditures, the foundation prevented access to information needed to thoroughly assess the university's state-funded contract with the foundation.

Despite the limitations imposed by the foundation, we were still able to identify a number of questionable foundation expenditures made under the guise of fundraising. For example, a number of social events and functions attended by foundation employees such as football games, holiday luncheons, and community fundraisers, were not justified as fundraisers for the university and do not appear to benefit the institution. We also found that student tuition-funded contract funds were used to entertain foundation employees. For example, foundation employees' tickets for a rock concert were paid with state contract funds. State contract funds were also used to pay for at least two foundation employees' farewell parties at a local restaurant and museum. Finally, we found that the university president used public contract funds to purchase a personal gift. Although the amount of the questionable expenditures we identified may not be significant to the total operation of the foundation, we believe the prevalence of improper usage of student tuition and fees warrants further attention.

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## Recommendations and Response

We made a number of recommendations to the president of the University of Hawaii, the University of Hawaii Board of Regents, and the Legislature. In its written response to our draft report, the university questioned the "materiality" of our findings yet concurred with our recommendations that the university strengthen its internal oversight and accountability over the non-general funds we reviewed. The university did not agree with all our findings; however, it reported that it has taken steps to address many of them.

Similarly, the Board of Regents agreed with our recommendation for stronger reporting requirements and indicated that changes were being made to address this concern. Finally, although the foundation did not agree with all of our findings, it reported that it has created a separate account to manage its university contract funds and is in the process of reviewing its expenditure policies.

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