

OVERVIEW

Systemwide Financial Audit of the University of Hawai'i

System: Phase I

Report No. 05-15, December 2005

Summary

The Legislature initiated a systemwide financial audit of the University of Hawai'i through House Concurrent Resolution No. 213, 2005 Regular Session, because it was unable to obtain timely financial information from the university during the legislative session. We assessed the University of Hawai'i at Mānoa's process of strategic planning and actual cost per student for one academic year. We also engaged the certified public accounting firm of Nishihama & Kishida, CPA's, Inc., to review the Mānoa campus's accounting and use of general and tuition funds, and budget process. Audit reports on all other university campuses and the University of Hawai'i system are due to the 2007 Legislature.

Our audit found that the budget process and financial system of the Mānoa campus do not fully ensure fiscal accountability. The Mānoa campus's budget impedes the efficient and effective use of resources. The campus prepares its budget using an incremental approach, focusing attention on adjustments to the prior year's budget and taking previous appropriations for granted. For FY2005-06, the Board of Regents' approved budget for the Mānoa campus included approximately \$200 million in general funds, of which only about \$13 million required justification. Thus, the Mānoa campus's budget process results in a budget that is largely unfounded and is not based on results. Additionally, the campus did not effectively monitor the development of its 2005-2007 biennium budget as it was reviewed and adjusted by system administration, the Board of Regents, the governor, and Department of Budget and Finance. As a result, the Mānoa campus could not sufficiently justify its budget request to the Legislature. Furthermore, the campus has recently begun to restructure its budget process; however, it has not yet made the commitment necessary to implement such changes.

Although financial responsibility is delegated to unit personnel, the Mānoa campus lacks a formal mechanism for monitoring program use of funds, resulting in little assurance that the campus has an adequate understanding of its overall fiscal condition. The Mānoa campus made an effort to improve its internal financial reporting through the implementation of the Budget Level Summary (BLS) reporting system—a system of reports that compares budgeted, actual, and projected financial information. However, the Mānoa campus's BLS reports lack the detail needed to evaluate unit and program performance. Also, unit level BLS reports are not reconciled on a quarterly basis to the university's budget or financial information system, making the reliability of the reports questionable.

The Mānoa campus also lacks formal policies and procedures to ensure the proper use of general and tuition funds: 1) policies and procedures for the tuition funds dated May 2003 remain in draft form; 2) disbursement procedures for the new web based purchasing and payment processing system, implemented in July 2003, have



not been included in the university's Administrative Procedures Manual; 3) disbursements for small purchases are made without verification of proper approval; and 4) certain purchasing duties are not properly segregated. In FY2004-05, the Mānoa campus expended, on a cash basis, over \$213 million and \$72 million of general and tuition funds, respectively.

Also, during our review of disbursements of Mānoa campus funds, we noted several violations of procurement procedures and questionable uses of contract modifications. For example, a purchase for chemistry equipment contained no evidence that price quotations were obtained to ensure fair competition. A contract included a modification of \$120,000 for services that were not described in the original contract. Modifications to contracts should be used to extend services under existing contracts without materially modifying the scope of work or the related costs, and should not be used to circumvent normal procurement procedures.

Further, we found that the University of Hawai'i's calculation of the Mānoa campus's actual cost per student has limited value for decisionmaking because: 1) the lack of an industry standard for computing the actual cost per student and differences between institutions with respect to mission, resources, and structure limit the calculation's comparative value; and 2) the university's internal controls cannot ensure the reliability of data used in the calculation.

Recommendations and Response

We made several recommendations regarding the budget process and financial system of the University of Hawai'i at Mānoa. Among these, we recommended that the chancellor of the Mānoa campus ensure that: a process clearly linking the strategic plan to the budget is established and documented; the commitment necessary to restructure its budget process is made; and the campus's budget is monitored during the review process to provide the Legislature with the information needed for decisionmaking. We also made a number of recommendations to the University of Hawai'i's president, Office of Academic Planning and Policy, Budget Office, and chief information officer.

In its response to our draft report, the University of Hawai'i strongly disagreed with our overall conclusion, and questioned the quality of our work and several of our findings. The university concurred with several of our recommendations, despite its objections, and has begun implementing them, while disagreeing with others.

We spent considerable time reviewing documents, conducting interviews, and analyzing the campus's budget process and internal controls over the general and tuition funds. We believe the audit report presents an accurate and balanced analysis of the Mānoa campus's current finances.

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