

**AN UPDATED REVIEW OF THE
ADMINISTRATIVE REORGANIZATION
OF THE UNIVERSITY OF HAWAII
AUTHORIZED BY THE BOARD OF REGENTS
ON NOVEMBER 15, 1985**

A Report to the Governor and the Legislature of the State of Hawaii

**Submitted by the
Legislative Auditor of the State of Hawaii
Honolulu, Hawaii**

**Report No. 88-5
January 1988**

FOREWORD

Under a special provision (Section 207) of the General Appropriations Act of 1987 (Act 216), the Legislative Auditor was requested to continue the evaluation which had previously been made of the administrative reorganization of the University of Hawaii authorized by the Board of Regents on November 15, 1985, and put into effect in early 1986 and which had been reported to the Legislature during its 1987 session. The report included herewith constitutes the response to this follow-up legislative request.

In this update of our initial evaluation, we have reviewed the reorganization in terms of its stated objectives, its compliance with the recommendations contained in our initial evaluation report, and its adjustment to changes which have occurred since the submission of our earlier report. As in the case of our previous assessment, we have also taken into consideration the broad program of delegation of personnel management authority which has taken place within the university and the effects of the 1986 legislation (Acts 320 and 321) which granted increased administrative flexibility to the University of Hawaii and the Department of Education.

We wish to acknowledge the cooperation and willing assistance extended to our staff by the president, top officials, and other affected personnel of the University of Hawaii.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

January 1988

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Chapter 1

INTRODUCTION

In February 1987, the Legislative Auditor submitted to the Governor and Legislature of the State of Hawaii Report No. 87-15, *A Review of the Administrative Reorganization of the University of Hawaii Authorized by the Board of Regents on November 15, 1985*. Among other things, the Legislative Auditor reported the following:

"With the reorganization still in its shakedown phase and incomplete, it is too soon to reach any final conclusions regarding it. At the same time, however, such a long shakedown period indicates inadequate attention to implementation planning and a need to move expeditiously to conclude the implementation process."

As a result of this and other findings in the report, the 1987 Legislature through a provision included in the General Appropriations Act of 1987 requested that the Legislative Auditor conduct a "further evaluation of the administrative reorganization of the University of Hawaii" which was authorized by the Board of Regents on November 15, 1985, and the implementation of which was initiated on January 1, 1986. This report contains the results of the continued review of the reorganization conducted pursuant to Section 207 of the General Appropriations Act of 1987 (Act 216, SLH 1987).

Objectives of the Study

The objectives of this study were:

1. To identify and describe the basic features of the reorganization and, in particular, to note any changes which may have occurred since the completion of the Legislative Auditor's 1987 report on the reorganization.
2. To highlight the resource allocation implications of the reorganization, including its impact on positions and salary costs.
3. To evaluate the reasonableness, effectiveness, and efficiency of the reorganization based on the justifications provided by the university and on general management principles relating to higher education.
4. To assess the extent to which the university has responded to the findings and recommendations contained in the Legislative Auditor's 1987 report on the administrative reorganization.
5. To identify problems relating to the reorganization, and, if appropriate, to recommend possible solutions to those problems.

Scope of the Study

The study focus of this report was on the administrative reorganization of the university which was formally initiated by the Board of Regents on September 20, 1985, and on the status of the organization of administrative entities at the president, vice president, and chancellor levels and, on a selected basis, at the dean and director levels at the Manoa campus of the university and the provost level at the community colleges. Included also in our considerations were the findings and recommendations in our initial 1987 report on the reorganization.

Organization of the Report

This report is divided into three chapters. Chapter 1 is this introduction. Chapter 2 summarizes what has occurred with regard to the reorganization since our 1986 assessment (reported in early 1987). Chapter 3 then presents an assessment of the reorganization as viewed two years after it was authorized by the Board of Regents.

Chapter 2

BACKGROUND

This chapter summarizes events relating to the most recent administrative reorganization of the University of Hawaii (UH). It covers the period from September 1985, when the Board of Regents (BOR) initiated action to restructure the organization of the university, to December 1987, when this report was drafted.

In this summary, we highlight: (1) the major features of the reorganization as it was approved by BOR in November 1985, (2) our initial assessment of the reorganization as reported to the Legislature in early 1987, and (3) changes affecting the reorganization which occurred during the period from late 1986 through late 1987.

Administrative Reorganization: September 1985 to December 1986

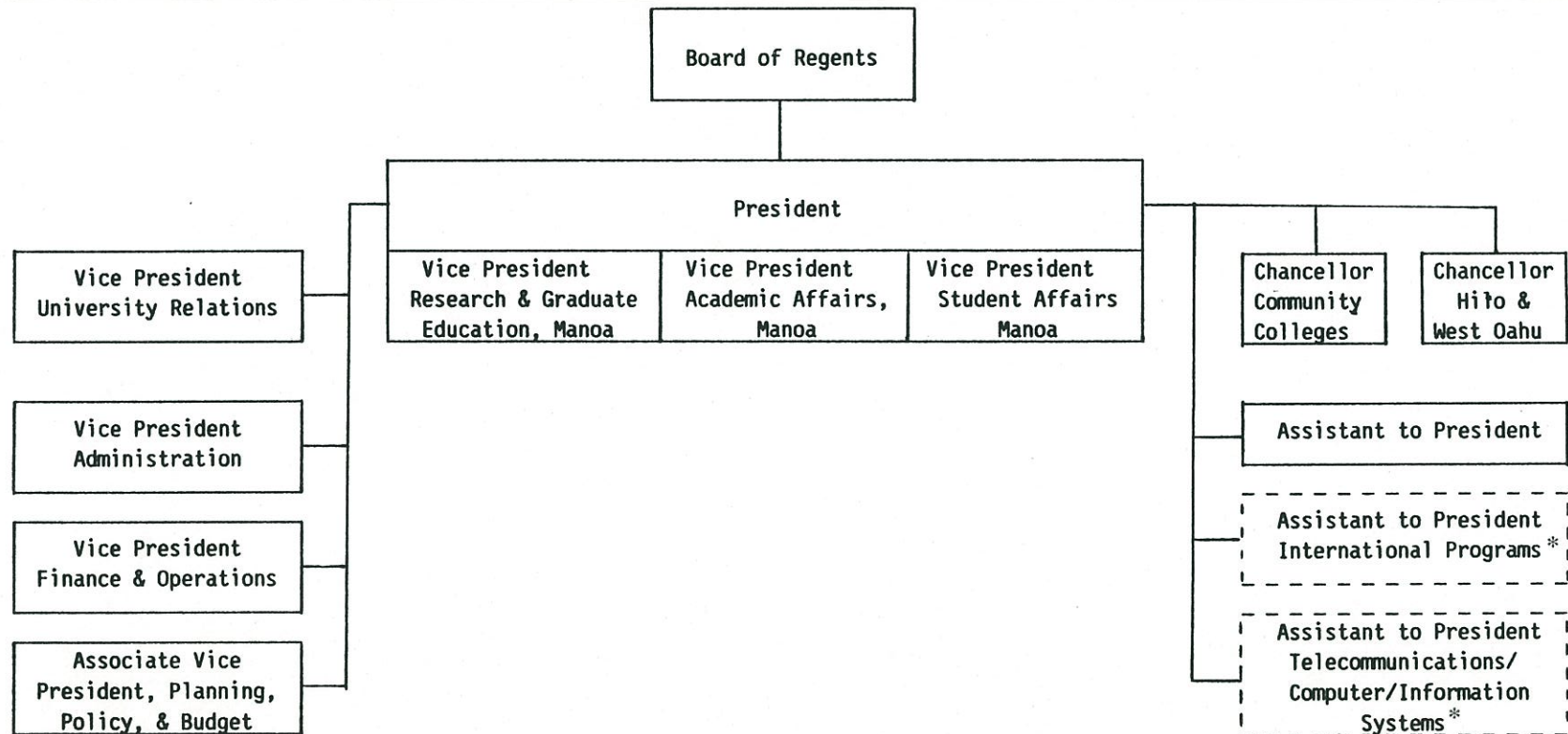
After more than two years of study and consultation, BOR in September 1985 mandated the newly appointed UH president to restructure the organization of the university.¹ The main objectives of this action were to: (1) reduce internal friction within the institution by consolidating the administrative operations of the overall university system and of the largest component within the system, the University of Hawaii at Manoa (UH-Manoa), and (2) give increased emphasis to several areas of administrative activity which were felt not to be receiving adequate attention.

The reorganization plan which was submitted to and approved by BOR in November 1985 called for the elimination of the chancellor level of organization for UH-Manoa and the establishment of a combined systemwide and UH-Manoa organization consisting of the president, six vice presidents (for administration, finance and operations, university relations, academic affairs, research and graduate education, and student affairs), an associate vice president (for planning, policy, and budget), and three assistants to the president (with two of them having temporary assignments). In addition, the plan provided for the continuation of the chancellor for the community college system and of the chancellor of the University of Hawaii at Hilo (UH-Hilo) and West Oahu College (WOC) whose respective jurisdictions remained substantially untouched by the reorganization.² By the end of January 1986, the president's new executive team was approved by BOR and in place.³

The new combined systemwide and UH-Manoa organization as approved by BOR in November 1985 is shown in Figure 2.1. As depicted in this organization chart, there is an Office of the President which includes within it three vice presidents with only Manoa related responsibilities (i.e., those for academic affairs, research and graduate education, and student affairs). The other three vice presidents and associate vice president have systemwide as well as UH-Manoa related responsibilities and are shown outside of the Office of the President. These four plus the two chancellors, however, report directly to the president. The new executive team, then, consisted of the president, the six vice presidents, the associate vice president, the two chancellors, and the assistant to the president, and together constituted the new University Executive Council. It was this organization that was the subject of the assessment which was reported to the Legislature during its 1987 session.

Figure 2.1

University of Hawaii
Office of the President
November 1985



Source: University of Hawaii, University Budget Office.

*Temporary position.

Initial Assessment of the Reorganization

In our initial assessment of the university's reorganization, we noted that there were several other interrelated factors which had to be taken into account when looking at the new organization and its functioning. These other factors included the internal movement to decentralize decisionmaking within UH and the university's efforts to gain from state executive and legislative authorities greater administrative flexibility for UH in exercising control over its own affairs. There was also a shift in basic organizational and management philosophy at UH from one heavily oriented toward hierarchical control and adherence to prescribed procedures and policies to one which placed emphasis on academic leadership and vision; which encouraged motion, flexibility, and adaptability on the part of the new management team; and which directed increased attention to UH's relations with its various constituencies, such as students, alumni, the Hawaii community, and the world outside of Hawaii.

Within this context, we carried out our assessment and found a number of shortcomings. Major among these was the failure to complete the actual implementation of the reorganization itself which, in turn, reflected a lack of adequate attention to the whole area of organizational planning strategy. No one was given clear authority and responsibility for organizational planning and implementation nor was this aspect of management included as part of the university's strategic planning process. In addition, besides increasing considerably the administrative role and burden of the president, the new organization—with its unique arrangement of having some vice presidents inside the Office of the President and others outside of it—also created a potentially serious degree of

administrative ambiguity by failing to clarify interrelationships among the various top level officials. One immediate result of this situation was to complicate considerably, rather than streamline, the budget review process for UH-Manoa.

We also found that overall administrative control over and attention to personnel management were diluted by the reorganization and its accompanying administrative decentralization. This was true despite the facts that: (1) higher education is a labor intensive field where personnel constitute an institution's most important resource, and (2) our 1981 management audit finding that this was a function greatly in need of strengthening.

A further deficiency of the reorganization was its failure to include an effective means of ensuring accountability to go along with its accompanying broad delegations of authority and responsibility. No system was set up to monitor and evaluate performance on a regular, consistent, and end results oriented basis despite stated intentions to provide for accountability.

Instead of achieving cost savings as originally claimed for it, the reorganization was also found to have added to the administrative costs of the university. During its first year, these added costs were already exceeding \$0.5 million.

Subsequent Events Affecting the Reorganization

At the time we reported on our initial assessment, we indicated that some significant events were occurring which would affect the reorganization, particularly its continued implementation. Primary among these events were the departures of three vice presidents and the associate vice president—two to join the new state administration, one to go into retirement, and the fourth to return to teaching and private medical practice.

Two of the four vacant positions have since been filled. In February 1987, the assistant to the president was promoted to vice president for student affairs, but this, in turn, created another vacancy which took several months to fill on a permanent basis. The position of vice president for university relations was not filled until June 1987. In the meantime, the new vice president for student affairs had to take on the extra duty of overseeing the Office of University Relations (which she had actually assumed prior to her promotion). Thus, even in these two cases, added strain was imposed by the six-month delay in filling the post of vice president for university relations.

After an eleven-month hiatus, the position of associate vice president for planning, policy, and budget was abolished in November 1987, and its duties were distributed between a director of planning and policy and a director of budget. Both of these positions now report directly to the president (as they had ever since the departure of the associate vice president).

The position of vice president for administration still remains vacant. In the meantime, the two major subordinate positions under this vice president report to the president. In the case of the director of personnel, it is a direct reporting relationship. In the case of the internal auditor (director of internal audit), the line of reporting is through the assistant to the president. At the time of our initial assessment, the position of director of personnel was vacant, but subsequently, it was filled with the person who had previously been the state director of personnel services.

Under these current arrangements, the director of planning and policy, the director of budget, and the director of personnel all sit on the University Executive Council. As a result, the president's management team has been expanded and now

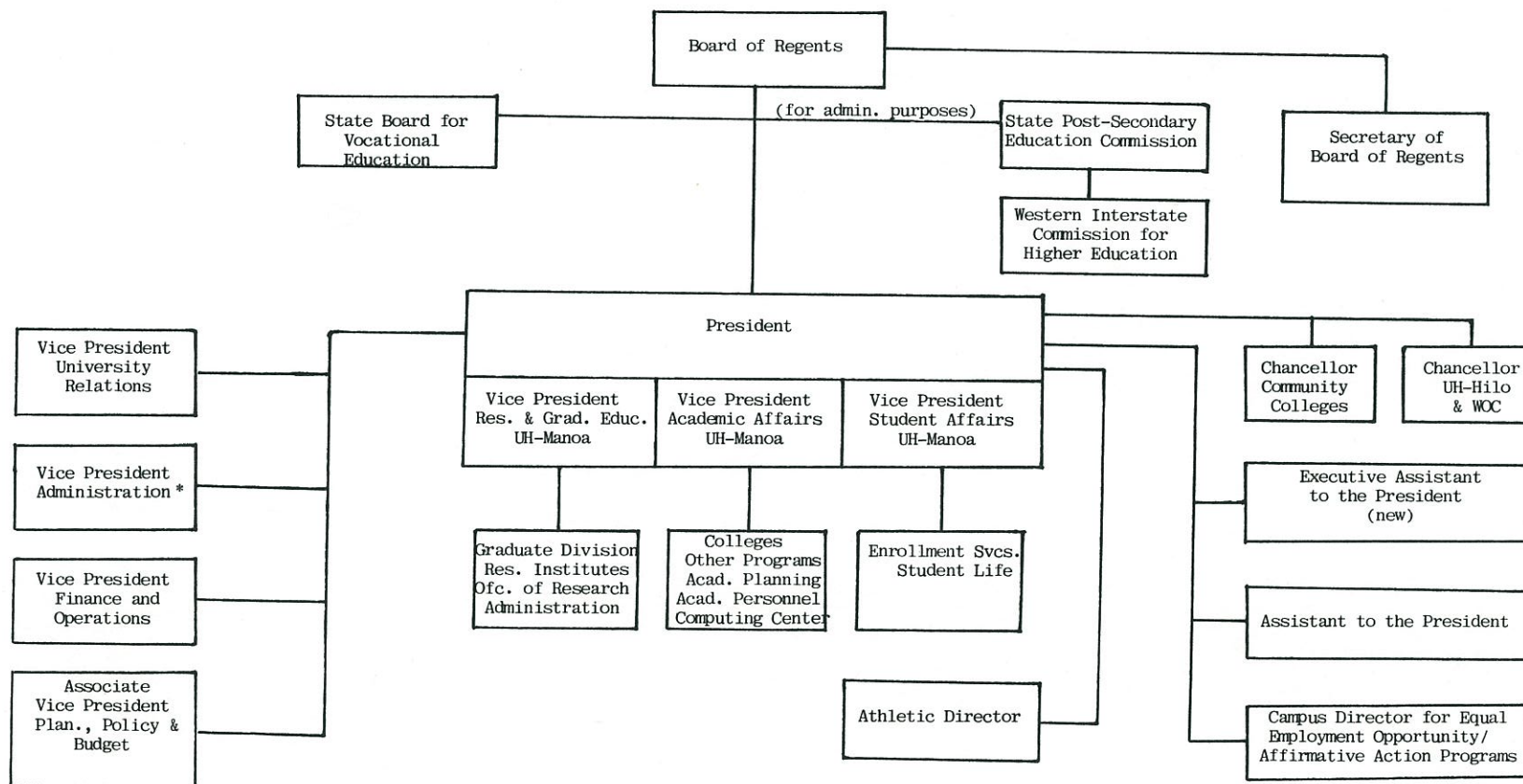
includes three directors as well as five vice presidents, two chancellors, and the assistant to the president. (In addition to the foregoing, the UH-Manoa director of athletics and director for equal employment opportunity and affirmative action programs also report to the president.) Figure 2.2 shows the present overall combined systemwide and UH-Manoa organization.

Several other organizational changes have also taken place. For example, an Office for Student and Community Affairs has been added to the Office of the Chancellor for Community Colleges. Minor reorganizations and personnel changes have occurred in the offices of the vice presidents for academic affairs, research and graduate education, and finance and operations. In March 1987, a permanent assistant to the president for technology and economic development was appointed. A position of executive assistant to the president has also been added to the Office of the President.

As a result of the foregoing changes, the university administrative organization which we looked at this second time was not quite the same organization which we initially assessed. As can be seen in Chapter 3, some of these changes loom significantly in our reassessment of the reorganization.

Figure 2.2

University of Hawaii Administration
Position Organizational Chart



Source: University of Hawaii, University Budget Office.

*Currently represented by the Director of Personnel.

**Replaced by two directors—Director of Planning and Policy and Director of Budget—as of November 1987.

Chapter 3

ASSESSMENT OF THE ADMINISTRATIVE REORGANIZATION OF THE UNIVERSITY OF HAWAII

In this chapter, we update our assessment of the administrative reorganization of the University of Hawaii (UH) which was approved by the Board of Regents (BOR) on November 15, 1985. Using methodology similar to that used in our initial assessment of this reorganization, we have reviewed the reorganization in terms of its: (1) stated objectives, (2) relationship to UH's 1985 strategic plan,¹ (3) attention to the organizational problems noted in our 1981 management audit of UH,² and (4) consideration of and response to the findings and recommendations contained in our 1987 report on the reorganization.

Summary of Findings

After the passage of almost two years since its formal approval, we find as follows:

1. Implementation of the reorganization still has not been completed and has also been subjected to uncertainty due to changes made in the initial reorganization plan. While extenuating circumstances may help to explain this delay and uncertainty, the more basic problem seems to be a lack of priority for and attention to organizational planning and implementation. This is evidenced by the failure to fix clear responsibility for organizational planning and implementation and for maintaining the institution's position information inventory system.

2. The departure and nonreplacement of two key administrators have the effect of enlarging the role and burden of the president while fragmenting and diminishing important administrative functions.

3. Ambiguity still surrounds the roles of various high officials who report to the president. Continuing failure to delineate clearly administrative relationships and respective areas of authority and responsibility creates an environment conducive to conflict, confusion, and administrative ineffectiveness.

4. The new organization still fails to provide for a comprehensive and unified approach to personnel management for the university despite the fact that higher education is a labor intensive field where human resources are the most important resources.

5. Although the university has begun to give some attention to the matter of educational assessment, it has not yet inaugurated a system for ensuring accountability to go along with the broad delegations of authority and responsibility which accompanied the reorganization.

6. One of the initial claims made for the reorganization was that it would result in cost savings, but present evidence indicates that increased personnel costs associated with the reorganization are currently adding approximately \$0.5 million annually to the university's budget.

Continued Failure to Complete Reorganization

When we completed our first report on the reorganization, 4 of the 14 major administrative units still needed more time to complete their reorganization planning and structuring. As of December 1987, two major units—the Office of

Student Affairs and UH-Hilo/West Oahu College--had yet to complete their organizational plans and structures. In addition, due to the departure and nonreplacement of two key executives, a lingering degree of uncertainty has surrounded the Office of the President, the Office of the Vice President for Administration, and the Office of the Associate Vice President for Planning, Policy, and Budget. Just recently, the last of these three entities was abolished and replaced by two subunits which report directly to the president. The position of vice president for administration still remains vacant, however, and subunits under the office of that vice president are now also reporting to the president.

Extenuating circumstances. With regard to all of these affected units, we recognize that extenuating circumstances have contributed to the delay in completing reorganization implementation or in removing organizational uncertainty. In the case of UH-Hilo/West Oahu College, the new chancellor was not appointed until September 1986 and thus, started on his task much later than most other affected top administrators. Similarly, there was a turnover in the position of vice president for student affairs with the new vice president not taking over until February 1, 1987. In addition, this person was also given interim responsibility for directing the Office of the Vice President for University Relations until a new vice president for university relations was appointed in June 1987. Careful deliberation is also understandable when it comes to filling vacancies in posts involving top assistants to the president.

Need to overcome delay. Nevertheless, there are also grounds for feeling that full implementation and additional adjustment of the reorganization have taken too long to complete and should be finalized as expeditiously as possible. For one thing, the president himself indicated that June 30, 1987, was a reasonable target date for

achieving these tasks. In the cases involving more recently appointed top administrators, it must be recognized that considerable attention had been given to organizational planning affecting their administrative units prior to their taking over their new posts. As for the two top posts left vacant so long, with their key importance to the overall reorganization having so recently been justified, it is difficult to understand how their need could no longer be urgent.

Probably the most important consideration, however, is the impact which delay can have on personnel actions and programmatic change. While reorganization implementation is under way, many positions are placed in limbo—i.e., those that have to be relocated, reclassified, redescribed, or adjusted in compensation to fit newly assigned duties and responsibilities. Until each unit organization plan is formally approved, personnel actions for those affected cannot be officially finalized. As a consequence, long delays can result in inequitable treatment of personnel and in employee dissatisfaction. Similarly, programmatic improvement may be the primary aim of a reorganization but may remain frustrated so long as it cannot be shown just exactly how the new organization will function to bring about the desired programmatic change. For example, needed additional resources may be withheld from a program while its organization remains fluid.

With regard to the foregoing, a major objective of the reorganization was to enable greater emphasis to be placed on students and student services. Nevertheless, student services is just about the last area for the reorganization to be implemented. Despite this fact, additional funds and positions were requested for and granted to the student services area under the biennial budget for 1987–89. However, continued funding will be open to question if UH does not move more quickly to organize itself to utilize effectively the additional resources already granted and to set forth specifically how it plans to improve services in this area.

Continuing lack of focus on organizational planning and implementation. In our initial assessment of the reorganization, we concluded that many of the problems detected then, including the failure to complete reorganization implementation on a timely basis, could be attributed to a lack of adequate attention to planning and preparing for organizational change within the institution. No implementation subplan had been developed as part of the process of formulating the reorganization plan. Similarly, no system had been developed to monitor and manage the implementation process. As a result, no one was really in charge of implementation, and many loose ends were left dangling. A year later, much the same situation continues to exist. This continuing lack of focus on organizational planning and implementation, probably more than the extenuating circumstances mentioned above, helps to explain why implementation of the reorganization remains incomplete some two years after it was initially approved by the Board of Regents.

With the passage of time, many of the procedural problems noted in our earlier assessment have been largely resolved. Many of the support staffs have rallied together to learn the intricacies of handling the personnel administration functions delegated to them. The university administration has also recognized the need and made provision for more training and better communication among the several administrative levels within the institution. The problem of organizational planning, however, has not been adequately addressed. The function has never been clearly defined and assigned, and no one office is responsible for carrying it out. Shortcomings are set forth more specifically below.

1. *Present handling of organizational planning.* The UH has not maintained accurate or up-to-date records of its current organization or of any organizational

changes which have occurred subsequent to the initial reorganization announced in 1986. At present, the university budget office is the repository for organization charts and functional statements. No one office or administrator, however, is responsible for assuring that organization plans for the system and campuses are properly structured to fix accountability and to facilitate planning, decisionmaking, decision implementation, coordination, control, and communication.

If anything, the attitude toward organizational planning is quite divided within the university. On one hand, there are the "academics" who stress collegiality and organizational fluidity and who press for autonomy in their management of the teaching and learning environment of the university. On the other hand, there are the "non-academics" who recognize that the university is a large and complicated administrative operation supported by the State of Hawaii and who acknowledge the importance of administrative accountability. There is an ongoing need, then, to bridge the gap between these two perspectives and to keep the university both responsive to and responsible for effective management of Hawaii's higher education program.

The UH has a long-range strategic plan which defines its missions. However, this strategic plan does not incorporate an organizational and management strategy which adequately meets its operational needs in carrying out these missions. The president and BOR, therefore, need to make decisions regarding organizational planning and its importance in the management and operation of the university and ultimately to the achievement of the university's missions. If UH is to grow and attain its goals, it needs to provide the means to adapt to changes and to maximize its utilization of resources. To achieve this, organizational planning must be included procedurally and organizationally as a component of the overall planning

and budgeting strategy of the university. Under the existing organization, this means it should be closely associated with, if not part of, the Office of Planning and Policy.

There is one further consideration with regard to UH exercising effective control over its organizational planning and implementation. This concerns the whole issue of administrative flexibility or autonomy for the university. The UH has laid much stress on its need to be able to control its own internal organization rather than have it subject to executive review and approval via the Department of Budget and Finance like other state executive agencies. If it is to be truly persuasive in supporting this position, it must be able to demonstrate that it can indeed exercise effective control over this aspect of its internal management. Under existing circumstances, this would be extremely difficult, if not impossible, to demonstrate.

2. *Failure to maintain centralized position inventory file.* In line with the need to give appropriate attention to organizational planning and implementation is the need to maintain an accurate and current inventory of positions and personnel. The cost of the personnel component of the UH budget is sizeable—nearly 75 percent of total systemwide expenditures or \$147.3 million out of \$200.2 million for fiscal year 1986–87. Indeed, the position inventory file is an important tool for the planning and budget strategy for this labor intensive activity.

The UH has had for some time a position inventory file (PIF) which is a computerized listing and status of each position at UH which has been approved by the Legislature and for which funds have been appropriated to UH. Prior to January 1986, the personnel office maintained PIF. However, with the reorganization, many aspects of personnel administration—including position inventory control—were

delegated down the line to the various vice presidents, chancellors, colleges, institutes, and special programs, and PIF was no longer maintained or updated on a centralized basis.

While overall responsibility for PIF still has not been formally assigned to anyone within UH, the budget office, which needs comprehensive and accurate personnel information for determining the personal services portion of the budget, has recently assumed responsibility for updating PIF on at least a semiannual basis. However, this action came only after a delay of almost two years. In the meantime, the budget office had to rely upon an outdated PIF in its preparation of the UH budget request for the 1987-89 fiscal biennium. As a result, the UH budget request for the current biennium was more than \$1 million short in its provision for faculty salaries. (This particular matter is the subject of a separate report which the Legislative Auditor is preparing.)

While position inventory information is now being collected by the budget office, this does not mean that adequate recognition and attention are being given to oversight and maintenance of PIF. Under present plans, the intent is only to update PIF twice a year. Moreover, the units down the line will continue to be relied upon to assure the completeness and accuracy of the inventory information. Hence, there still will not be a readily accessible and up-to-date centralized position and personnel inventory. Also, no determination has been made concerning what other uses besides budget preparation can and should be made of such an inventory. The net result, then, is that the university needs to focus upon this matter and to establish clearly what is needed in the way of a position and personnel inventory, how such an inventory is to be maintained, and who within the organization should have the authority and responsibility for maintaining the inventory.

As in the case of organizational control, UH must be able to demonstrate that it is able to exercise effective position control if it expects to inspire executive and legislative confidence that it is willing and able to manage its own internal affairs.

Fragmentation and Diminution of Important Administrative Functions

The departure of four top executives at the end of the first year under the new organization and the nonreplacement of two of them slowed down the implementation of the reorganization. It also has resulted in enlarging the role and burden of the president while at the same time fragmenting and diminishing several important administrative functions.

One of the main features of the reorganization was to focus more authority and responsibility in the president. In addition to retaining his role as head of Hawaii's statewide system of higher education, the president under the reorganization also assumed the functions, if not title, of the chancellor of UH-Manoa, the largest component within the statewide system. On taking on this greatly enlarged role, however, the president also created several new positions at the vice presidential level to assist him in carrying out his many and varied duties.

The net result was a broad and diverse span of control for the president. Besides several assistants, the president had reporting to him: two chancellors, three vice presidents with Manoa related responsibilities, three vice presidents and an associate vice president with both Manoa and systemwide responsibilities, and the UH-Manoa director of athletics. In addition, a score or more of deans and directors of academic and research units at UH-Manoa also had direct access to the president.

Now this span of control is even broader and more diverse. Instead of a single official in charge of planning, policy, and budget, the president has reporting to him

a director of planning and policy and a director of budget. In place of the vice president for administration, the director of personnel and the director of internal audit now report to the president (the latter via the president's administrative assistant). The effects of this modification of the reorganization with respect to the planning, policy, budget, and internal audit functions are discussed below. The personnel function is discussed separately in a later section of this chapter.

Separation of planning and policy from budgeting. One of the main justifications given for the reorganization when it was proposed and approved was that it would facilitate carrying out the strategic plan which the university had previously developed and adopted. To this end, the functions of planning, policy formulation, and budgeting were grouped together in a single administrative unit and placed under an associate vice president. In referring to this new position, the president noted that it "calls for an individual who can take the lead

in the development of strategic and academic planning at the University, facilitating the formulation of an appropriate policy base and making certain that the budget execution is consistent with these plans and policies."³

In effect, then, when the president abolished this position and took over its functions, he actually assumed the planning, policy, and budget coordination and direction role previously assigned to the associate vice president. This means he now must deal with two individuals instead of one and must synthesize two sources of information and recommendations instead of being able to rely upon a top assistant to perform this function. Perhaps more important, this split has once again separated planning and policy formulation from budgeting. Even though the two new entities both report to the president and remain physically located near each other, they nevertheless are two quite distinct offices with different, though

related, functions. Moreover, they must compete for the president's time and attention not only with each other but also with the many other officials who have direct access to the president. Meshing effectively the activities of the two offices under these conditions unavoidably becomes more difficult.

This task is further complicated by other effects which the change has had on the planning and policy functions. In addition to these activities, several other activities which previously had reported to the associate vice president plus one new activity—i.e., institutional research, management systems, and information technology—have been assigned to the Office of Planning and Policy. The combined activities involve a total staff of more than 50 persons, including three directors. With this amount of responsibility and with the task of creating and developing a new office of information technology, it is unlikely that the Office of Planning and Policy will be able to increase appreciably its interchange and interaction with the Office of Budget. With its continuing responsibility for administering both UH-Manoa and university systemwide budgets, much the same can be said for the Office of Budget.

Another, though more subtle, effect of this change has been to reduce the status of the planning, policy, and budget functions. Although the heads of the two offices report to the president and are included as members of the University Executive Council, it still must be recognized that the title of director does not carry as much weight as that of vice president or associate vice president.

Diminishing further the internal audit function. The expanded role of the president has also had the effect of downgrading further the internal audit function within the university. When we looked at this activity, we found that it was already suffering from inadequate attention and organizational focus even before the

president assumed direct responsibility for it. Since the change, it has been significantly diminished in status and in its ability to be performed effectively. The function is now assigned to the president's administrative assistant who has no background relating to internal auditing and whose other assignments leave little, if any, time or resources to devote to this activity.

Key importance of internal auditing. In large organizations generally, be they government or private, internal auditing is viewed as an essential ingredient of effective management. The Institute of Internal Auditors defines internal auditing as: "an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the proper discharge of their responsibilities. Internal auditing furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed."⁴

To perform most effectively, the internal audit function should be as independent as possible—i.e., not under the control of those who are being audited or evaluated. This means it should report to or have direct access to the highest authority within the organization—i.e., the board of directors or other governing body. The broad practice is for such boards to appoint audit committees to oversee the internal audit function. In the private sector, outside (i.e., nonmanagement) members of boards are often appointed to audit committees to enhance further the independence and integrity of the internal audit function.

University's approach to internal audit function. In terms of defining what the internal audit function should encompass, UH has developed a fairly reasonable statement of what should be involved. However, in terms of organizational focus and of actual practice, it has been and is continuing to be deficient. This situation

is reflected in the role accorded the institution's internal auditor (director of the Office of Internal Audit).

According to a 1984 statement of "Establishment of the Class of Director of Internal Audit," the major work expectation of the internal auditor is the management of the UH internal and external audit program which involves the independent appraisal and review of fiscal and administrative operations. In this regard, his work is to be "performed with wide latitude for the exercise of independent judgment and initiative and . . . reviewed internally by the Vice President for Administration, President, and Board of Regents for attainment of program goals and externally by legislative auditors and the State Comptroller for maintenance of system integrity and for system improvements."⁵

More specifically, the duties listed for the internal auditor include: (1) developing long and short range audit plans, (2) planning and coordinating and directing internal financial and performance audits, (3) developing audit contract specifications and soliciting and analyzing bids, (4) coordinating financial audits by independent accounting firms, (5) exercising contractual and technical supervision over external auditing teams and evaluating and following up on audit reports, (6) developing and recommending systemwide audit policies and improvements for approval by the President or BOR, and (7) investigating operations and management of programs and activities for compliance with applicable state and UH policies, rules, and regulations and with sound management practices.

Based upon the foregoing, the internal audit function should be of key importance and should be receiving top level attention and support at UH. Such, however, is not the case. In the *first* place, the internal audit staff consists only of the internal auditor himself and his secretary. *Second*, the office is not performing

many of the functions set forth in the class description and functional statement for the internal auditor. Considering the office's limited resources, this is perhaps not surprising. *Third*, BOR is not set up to fulfill its role with respect to the audit function; it does not have an audit committee and does not exert policy control over audit activities. Indeed, in our interviews with some members of BOR, we found that they were not even aware that UH had an internal auditor.

Recent financial and personnel audits contracted by UH illustrate the limited role accorded the internal auditor. In this instance, it was the vice president for finance and operations, not the internal auditor, who let the contracts. The internal auditor was not even involved in developing the specifications, soliciting and analyzing the bids, or coordinating the conduct of the audits. The extent of the internal audit office's involvement was to provide to the external auditors some of the working papers for internal audits which it had previously performed so as to minimize any duplications of effort.

In discussions with internal auditors from across the country at a recent conference of the Association of College and University Auditors held in Hawaii, some of the most common suggestions regarding the role of the internal auditor included the following: (1) the internal auditor should be independent by being placed organizationally under the governing board or by being attached only administratively to the vice president for finance or business affairs, (2) in any event, the internal auditor should functionally report directly to the governing board through its audit committee, (3) the internal auditor should not be placed directly under the president or within the president's office because the schedules and responsibilities of presidents generally are too demanding to allow a president to devote much time and attention to the internal audit function, and (4) the internal

auditor for a large institution should have a staff of at least two or three, with at least one accountant and one specialist in electronic data processing. The UH's internal auditor falls short with respect to every one of these.

The BOR and UH administration, therefore, need to work together to make sure that the internal audit function at UH is properly structured and effectively used. In addition to establishing an audit committee, one option BOR may wish to consider is that of placing the internal auditor on its own staff under its executive secretary. This would maximize the independence of the internal auditor and establish a clear link between BOR and the internal audit function. So long as the position of vice president for administration remains vacant, the other main option would be to attach the internal auditor administratively to the vice president for finance and operations. In either case, there should be an active audit committee that is willing and able to exercise policy control over the internal audit function.

Continuing Ambiguity Surrounding Top Level Executives

In our initial assessment of the reorganization, we noted that ambiguity surrounded the management roles of many of the top administrators provided for under the new organization. Only the two chancellors had fairly well-defined roles within their respective areas of responsibility (i.e., the community college system and UH-Hilo/West Oahu College). However, a much different situation obtained with respect to the seven positions at the vice presidential level. Three were shown within the Office of the President and were designated to have parallel authority and responsibility for the three related areas of academic affairs, student affairs, and research and graduate education at the Manoa campus. The other four were

shown outside of the Office of the President and were designated to have systemwide responsibilities as well as responsibilities relating directly to UH-Manoa. Pertinent functional statements were either silent or extremely vague regarding interrelationships between and among the two groups of vice presidents and between the various vice presidents and the two chancellors.

In the year following this initial assessment, no action has been taken to dispel these ambiguities. Indeed, if anything, the situation has become fuzzier with the replacement of two officials at the vice presidential level with three directors. Although some adjustments have been made to the organization charts, there has been no updating or amplification of functional statements. Hence, the earlier identified potential for confusion, conflict, and administrative ineffectiveness still remains, if it has not become more intensified.

Problems in this area are beginning to emerge with regard particularly to the three vice presidents with Manoa designated responsibilities. With respect to their functional responsibilities, they differ from the two chancellors in at least two ways: (1) they have shared, rather than exclusive, responsibility for academic and student affairs; and (2) they have no, rather than direct, control over many operational aspects of budgeting, planning, and personnel. Yet, many times when it comes to developing information and formulating recommendations, these three vice presidents are expected to function in much the same way as the two chancellors. This can put them at a serious disadvantage. Not only must they cooperate and coordinate among themselves, they must also compete for staff support either from other offices with universitywide responsibilities or from line units below them. Viewed in this light, it cannot be said that the reorganization has simplified the administration of the university's largest and most complex component.

Along the same line, we noted in our earlier assessment that the new organization put the vice president for academic affairs in an anomalous situation. Although designated as the president's first deputy and the one to serve as acting president in the absence of the president, on a day to day operating basis he had virtually no systemwide responsibilities (unlike four others at the vice presidential level). Moreover, for the Manoa campus, his span of responsibility was much narrower than that of the UH-Manoa chancellor under the old organization (not even encompassing all areas of academic and student affairs) or that of either of the other chancellors for their respective units (i.e., the community college system and UH-Hilo/West Oahu College). Hence, a gap was created between the titular importance and operational importance of this position.

Nothing has happened since our earlier report to change this situation regarding the academic vice president. As we pointed out in that report, most large universities have chief academic officers, but usually such officials have broad institutionwide authority and responsibility for a whole gamut of activities relating to faculty, students, and curricula. As we also indicated then, if the academic vice president is to be able to function truly effectively as the second in command to the president, then it would appear that he should be given broader responsibilities and greater prestige than were provided for under the reorganization. We continue to hold to this view.

Continuing Lack of a Comprehensive Approach to Personnel Management

As previously noted, higher education is a labor intensive field of activity. At UH, this is reflected in the fact that approximately 75 percent of the budget goes toward personal services costs related to some 7,000 full time and part time faculty

and staff members. In recognition of the importance of this human resources component of UH's operations, we devoted considerable attention to the subject of personnel administration in our management audit of UH which we reported on in 1981. One of our major findings then was that UH lacked a comprehensive and integrated personnel program which would ensure both an effective and productive approach to the use of human resources and an adequate means of protecting the rights of employees.

To deal with the shortcomings relating to personnel management, the audit report recommended that a comprehensive and integrated personnel management function be established and placed under a single high level officer, such as a vice president for personnel management. Rather than a personnel transactions operation as had existed up to that time, this function would include personnel planning, collective bargaining, personnel development, personnel transactions, employee safety, employee benefits, employee training, and compliance with equal opportunity and affirmative action requirements.

In our initial review of the reorganization, we again took a look at the personnel management function, with the 1981 audit providing the backdrop for our examination. This time we found that as a result of the reorganization and its accompanying program of decentralizing various administrative activities (delegations of authority), UH's central personnel function, such as it was, had been largely dismantled and many of the central personnel staff as well as the central personnel files had been dispersed throughout the administrative structure. The net result was a personnel management system that was even more diffused than it was six years earlier at the time of our audit. As a consequence, we recommended that the UH administration take another careful look at the whole area of personnel

management and develop a comprehensive and integrated approach to this important aspect of the institution's operation and management.

In the period since we thus reported on the situation regarding UH's approach to personnel management, the situation affecting this important area of concern has changed in some ways but has remained unchanged in other ways. For one thing, the position of vice president for administration has continued to remain vacant. We noted in our 1987 report that since personnel management was one of the main duties left under this position, the position at least had the potential of evolving into the type of high level position in charge of personnel management which had been envisioned in our 1981 audit report. So long as the position remains vacant, however, there is no chance of it realizing any of its potential.

However, the position of director of personnel which falls under the vice president for administration has been filled, in this case by the former head of the state personnel agency. As previously mentioned, in the absence of a vice president for administration, this position reports directly to the president and sits on the president's executive council. Thus, there is now an experienced administrator heading up the personnel management functions that remain centralized at the systemwide level of UH, except for those faculty-related personnel matters which fall under the vice president for academic affairs and the two chancellors (e.g., faculty recruitment, faculty development, tenure, and tenure review). Moreover, this administrator is a direct and active participant at the highest level of management at the university.

Despite this enhanced position for the director of personnel, the personnel management function remains highly fragmented and diffused within UH. Under the delegations of authority and responsibility which accompanied the reorganization,

much of the personnel work that is actually performed occurs down the line throughout the UH hierarchy. The central (systemwide) personnel staff remains relatively small. As already indicated, many personnel matters relating to the faculty fall under the jurisdiction of the vice president for academic affairs and the two chancellors. Thus, there is still no person or office in charge of looking at UH's human resources from an overall perspective or of ensuring that all aspects of personnel management are being adequately covered.

In recognition of this general situation, UH contracted an outside consulting firm in July 1987 to make an in-depth review of the institution's personnel management functions and activities and to make recommendations for improving UH's personnel management system.⁶ The consultant has submitted its report to UH. In summary, it has found that most of the organizational and administrative problems affecting the personnel management function which were identified in our 1981 management audit still have not been satisfactorily resolved by the university. The consultant also found that UH needs an automated system for managing employee records, processing personnel transactions, and conducting human resources planning. The consultant's major recommendation echoes the audit report's recommendation that a comprehensive and integrated personnel management program be established under a single high official.

As of December 1987, it is not known what action UH will take on this consultant's report.

Continuing Need for Accountability

A major objective stated for the reorganization was that it would provide for a system of improved accountability. When the reorganization was announced, it was

indicated that this system would include specification of performance standards throughout the organization, monitoring and evaluation of actual performance on a regular basis, and provision of feedback to those affected.

In our initial assessment of the reorganization, we found that very little concrete action had been taken to give actual meaning to these stated intentions. This can probably be attributed to the fact that the reorganization plan was completely devoid of an implementation subplan—that is, the specification of implementation objectives, timetable, methodology for assessing progress, and mechanism for assuring that needed corrective or follow-up actions will be taken. In the area of accountability, no specific ideas had been developed to translate these general ideas into positive actions and requirements.

Another year later, much the same thing can be said about follow-up in this area, except that some attention is now being given to educational assessment which is an activity that can and should form an integral part of any accountability plan for the university. The president has stated his commitment to educational assessment as a management tool and has initiated efforts to get a system of educational assessment into motion. The results to date of his commitment and efforts are described briefly below.

Beginning of attention to educational assessment. Following the legislative auditor's first interim report on evaluation of the legislation granting increased administrative flexibility to UH and the Department of Education (Acts 320 and 321, SLH 1986), the Legislature in 1987 adopted House Concurrent Resolution No. 110, "Requesting the University of Hawaii to Develop and Implement an Educational Assessment Program." This resolution has prompted UH to start work on an educational assessment program. The president has designated the director of

planning and policy to respond to this resolution and to begin work on an educational assessment plan for the entire UH system.

As a first step in this direction, a survey was undertaken to determine the types and extent of assessment activities already occurring on the various campuses throughout the university system. This survey indicated that assessment and accountability activities vary from campus to campus, from academic unit to academic unit on the same campus, and even among programs within a single academic unit. In almost all of the surveyed activities, the focus was on program improvement.

The surveyed activities were grouped as follows: (1) assessments of program quality, (2) assessments of student learning and personal development, (3) faculty assessments, (4) community service assessments, and (5) new assessment initiatives. No attempt has been made, however, to evaluate or analyze any of the specific assessments grouped under these five categories. These assessment activities run the gamut from in-depth studies to accreditation reviews to test scores to survey results.

Organized system of accountability still lacking. Thus, while UH has indicated its commitment to a system of accountability, efforts to fulfill this commitment are still in their early formative stage. As indicated above, educational assessment on any overall basis is just starting. Existing activities in their broadly dispersed and uncoordinated form have been inventoried, but UH has not yet developed any specifications for a systemwide educational assessment program. Nothing has been done in terms of fitting educational assessment into any overall program of accountability.

In an attempt to acquire the necessary funding to embark upon a systemwide educational assessment program, the president proposed to BOR that \$128,000 be included in UH's supplemental budget request for FY 1988-89 to "undertake the specification, development, and implementation of a comprehensive project that utilizes a variety of techniques . . . to appropriately place students, evaluate student progress, analyze student outcomes, identify program strengths and weakness, and make improvements."⁷

However, BOR turned down the president's proposal on the grounds that more information was needed before the funding request could be adequately considered. The president has indicated that he expects to have a suitable plan to present to BOR for its consideration, but as of December 1987, no such plan was available.

In addition to carrying out the inventory of educational assessment activities noted above, the president has also opened dialogue on the subject with various constituencies within the university. At present, faculty members hold diverse views on the matter, but the prevailing attitude appears to be a noncommittal one. The two chancellors have sent members of their respective staffs to attend a mainland conference on educational assessment. The vice president for academic affairs has expressed support for the concept but has indicated that its implementation should be carried out under the auspices of his office.

In short, much remains to be done before it can be said that a program of educational assessment and administrative accountability is well under way.

Continued Mounting Costs of Reorganization

In announcing the reorganization plan in 1985, the president stated that "major cost savings will occur as fewer people are needed to perform the same functions."

He went on to say that with the savings thus accrued, other critical areas in the UH strategic plan could be funded.⁸

In our initial assessment of the reorganization, however, we found that these views were considerably over-optimistic. Instead of any cost savings, we found that the first year costs of the reorganization amounted to more than \$0.5 million, including associated facility renovations, additional equipment and furnishings, and increased salary expenditures.

At the end of another year, we find that added costs associated with the reorganization are continuing to mount. Although the expenditures for renovations, equipment, and furnishings were one-time costs, the salary costs are recurring costs which expand as time goes by. This results not only from the higher salaries being paid to many of the affected individuals but also from adding to the total number of staff members.

Based upon information provided by UH, there are now 13.25 more full time equivalent positions on the UH administrative staffs than there were prior to the reorganization.* Moreover, to fund these additional positions and to provide for adjustments in compensation due to reclassifications and promotions related to the reorganization, UH is currently paying out an additional \$0.5 million on an annualized basis. Even so, all of the reclassifications and other adjustments arising out of the reorganization have not been completed so that the total costs cannot now be fully determined. In addition, the costs would be considerably higher if two positions at the vice presidential level had not been allowed to remain vacant.

*The current count of positions affected by the reorganization is listed at 230 full time equivalent (FTE) positions. This number represents an increase of 13.25 FTE positions over the 216.75 FTE positions in existence prior to the reorganization of the UH-Manoa and systemwide administrative offices.

In summary, then, it may be said that during its first two years or so, the reorganization has resulted in an additional cost of approximately \$1 million. Moreover, there will be an ongoing cost in excess of \$0.5 million per year. Viewed in the perspective of UH's overall budget (now totalling more than \$200 million per year), this may not seem such a large amount. However, compared to a hoped for cost reduction, it represents a substantial variance.

Recommendations

As the result of this reassessment of the reorganization of the University of Hawaii, we make the following recommendations:

- 1. The university should move to complete the reorganization as expeditiously as possible, but of greater importance, it should fix ongoing responsibility for organizational planning and implementation so that an appropriate organizational strategy can be developed and implemented for the institution. This fixing of responsibility should include determining who should maintain the position and personnel inventory system.*

- 2. The planning, policy formulation, and budgeting functions should be reintegrated with each other and organized in such a manner that effective day-to-day operational control can be exercised over them on a comprehensive and interrelated basis.*

- 3. The university should give appropriate organizational focus to the internal audit function. At a minimum, the internal auditor should have a direct reporting relationship with the Board of Regents and the Board of Regents should have an active audit committee that will exercise effective policy control over the audit function.*

4. *The president and his management team should take another close look at the network of interrelationships among them so as to minimize confusion and conflict. They should clarify and describe these interrelationships in broad but sufficient terms so that all affected parties can know who should be doing what and how differences and conflicts can be resolved. In this regard, particular consideration should be given to clarifying and enhancing the role of the president's second in command.*

5. *The university should take heed of the various recommendations it has received in the area of personnel management and should develop and implement a comprehensive and integrated approach to the management of its human resources.*

6. *The university should move more aggressively to develop and implement an adequate system of management accountability based upon evaluation and educational assessment.*

7. *The university should carefully assess the financial implications of all proposed changes in organization and should develop a system for projecting expected costs relating to such changes and for evaluating actual costs after the changes have been implemented.*

NOTES

Chapter 2

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2. University of Hawaii, Board of Regents, Minutes of the Regular Meeting, Honolulu, November 15, 1985.
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2. Hawaii, Legislative Auditor, *Management Audit of the University of Hawaii*, Report No. 81-9, Honolulu, March 1981.
3. University of Hawaii, Board of Regents, "Executive Team Reorganization and the Strategic Plan," Executive Officer's Report No. 5, Honolulu, January 24, 1986.
4. James C. Treadway, Jr. Chairman, "Report of the National Commission on Fraudulent Financial Reporting," New York, October 1987.
5. Fujio Matsuda, President, University of Hawaii, "Establishment of the Class of Director of Internal Audit," February 2, 1984.
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7. University of Hawaii, Office of Planning and Policy, "FB 1987-89 Supplemental Operating Requests," Honolulu, August 12, 1987.
8. University of Hawaii, Board of Regents, "Executive Team Reorganization and the Strategic Plan," Executive Officer's Report No. 5, Honolulu, January 24, 1986.