UNIVERSITY OF HAWAI'I

KAPI'OLANI COMMUNITY COLLEGE

CHANCELLOR'S OFFICE ACCOUNTS AT THE UNIVERSITY OF HAWAI'I FOUNDATION

Years Ended June 30, 2013 and 2012

University of Hawai'i
Office of Internal Audit

UNIVERSITY of HAWAI'I® SYSTEM

September 25, 2014

To the University of Hawai'i Board of Regents
and
Kapi'olani Community College Chancellor

The Office of Internal Audit (Internal Audit) performed a review of University of Hawai'i Foundation (UHF) accounts controlled and administered by the Kapi'olani Community College (KCC) Chancellor's Office for the fiscal years ended June 30, 2013 and 2012. Internal Audit reviewed these UHF accounts to determine compliance with University and UHF policies and procedures in addition to donor requirements. In addition, Internal Audit reviewed the process and controls regarding the receipt and disbursement of donor contributions.

The UHF accounts controlled and administered by the KCC Chancellor's Office and tested by Internal Audit were established in compliance with UHF policies. However, Internal Audit noted instances where donor required reports were either not prepared or were submitted after the report's due date. In addition, Internal Audit was informed that $700,000 of payroll expenses related to a UHF Study-Abroad Program during 2005 and from 2009 through 2013 was paid from KCC's tuition and fees. As of the date of this report, UHF has not received documentation from KCC requesting reimbursement from UHF to replenish the KCC accounts used to pay for the Study-Abroad Program payroll expenses.

Internal Audit also reviewed revenue (contribution) and expense transactions and noted that the transactions were processed in accordance with KCC's policies and procedures. However, the policies and procedures related to art exhibitions at KCC's Koa Art Gallery should be evaluated. A pre-printed agreement between the artist and the Koa Art Gallery Director includes provisions that the artwork is insured and on loan to the Koa Art Gallery and also indicates that various costs are incurred on-behalf of the artist (e.g., refreshments at opening receptions, return of artwork to artists, etc.).

Account Administrators are KCC personnel responsible for managing and administering their UHF accounts pursuant to the terms/conditions of donor contributions. As Internal Audit noted instances where the review and oversight by Account Administrators can be improved, Internal Audit recommends that Account Administrators periodically review account activity through their access to UHF's general ledger to ensure that revenues and expenses are complete, accurate and within expectations. In addition, Account Administrators should ensure compliance with donor requirements (timely submission of donor reports).

Sincerely,

Glenn Shizumura
Director

University of Hawai‘i
Kapi‘olani Community College
Chancellor’s Office Accounts at the University of Hawai‘i Foundation
Years Ended June 30, 2013 and June 30, 2012

Background

The University of Hawai‘i Foundation (UHF) is a legally separate 501(c)(3) fundraising organization for the University of Hawai‘i (University). UHF maintains more than 6,000 expendable and endowment accounts that are under the control and administration of certain designated University personnel. Donors specify whether their contribution will be categorized as an expendable fund or used to create an endowment fund. Expendable accounts consist of donor contributions less allowable expenses that are available to be used immediately. Endowment accounts are established from a donor contribution (principal or corpus) for a specified purpose that remains intact in perpetuity and is invested to create a source of income. The investment income earned on endowment accounts less allowable expenses are deposited into a corresponding expendable account, which has the same purpose as the respective endowment account. The monies in expendable UHF accounts are administered by University personnel for the benefit of the University. Donors may designate a University program, project, college or department that will benefit from the contribution.

The Office of Internal Audit (Internal Audit) was requested by the Board of Regents’ Committee on Independent Audit (Audit Committee) to perform reviews of UHF accounts controlled and administered by University management personnel (Vice Presidents, Chancellors, Vice Chancellors, Deans, Directors, etc.) to determine compliance with University and UHF policies and procedures in addition to donor requirements. Internal Audit also reviewed the process and controls regarding the receipt and disbursement of donor contributions. During the fiscal year ending June 30, 2014, the Audit Committee instructed Internal Audit to review UHF accounts controlled and administered by the Kapi‘olani Community College (KCC) Chancellor’s Office.

KCC Chancellor’s Office UHF Accounts

For the fiscal years ended June 30, 2013 and 2012, Internal Audit requested that UHF provide a listing of net assets, revenues, and expenses for UHF accounts controlled and administered by the KCC Chancellor’s Office. The listing consisted of approximately 50 expendable and endowment accounts and the purpose (e.g., capital projects, student aid and service, academic support, faculty and staff support, enrichment, or special programs) of each account. Internal Audit prepared the following Schedule of Revenues and Expenses for the fiscal years ended June 30, 2013 and 2012 from the UHF provided financial information.

Kapi'olani Community College Chancellor's Office Accounts at UHF
Schedule of Revenues and Expenses
Years Ended June 30, 2013 and 2012
(Unaudited)

	Year Ended June 30,	
	2013	**2012**
Revenues		
Contributions:		
Capital projects	$ 2,230,050	$ 5,195,924
Student aid and services	155,724	59,287
Enrichment	181,239	22,685
Special programs	25,325	25,750
Academic support	24,437	22,902
Faculty and staff support	5,189	360
Investment earnings:		
Faculty and staff support	44,419	44,419
Special programs	12,147	12,142
Student aid and services	8,637	11,064
Capital projects	1,463	1,463
Total revenues	2,688,630	5,395,996
Expenses		
Construction/renovation	233,211	155,000
Student scholarships/fellowships	68,689	30,286
Travel	27,904	26,997
Business meetings	27,491	11,202
Furniture, fixtures, equipment	20,748	22,913
UHF gift fee	19,769	106,268
Protocol	17,396	14,134
Supplies	15,470	8,791
Bad debt	14,065	7,830
Books/subscriptions	12,527	84
Lecturers/speakers	11,390	3,075
Other services	5,561	9,969
Reception	4,607	363
Training/professional improvement	3,948	-
Postage, freight, delivery	3,322	5,737
Duplicating/printing	2,406	11,123
Registration fees	1,949	925
Other	6,446	17,136
Total expenses	496,899	431,833
Increase in net assets	2,191,731	4,964,163
Net Assets at beginning of year	7,696,925	2,732,762
Net Assets at end of year	$ 9,888,656	$ 7,696,925

Internal Audit was informed that "Capital Project" accounts primarily consist of contributions for the development of a facility entitled the Culinary Institute of the Pacific at Diamond Head (site of the former U.S. Army Fort Ruger Cannon Club). This facility is being developed for the purpose of advanced culinary education and training and to provide students the opportunity to pursue a Bachelor of Applied Science in Culinary Management degree. The facility is planned to include laboratories, classrooms, an administrative/faculty office building, a culinary amphitheater, and a restaurant. Construction/renovation expenses of approximately $233,000 and $155,000 for the fiscal years ended June 30, 2013 and 2012 relate to the development of the Culinary Institute of the Pacific at Diamond Head.

"Student Aid and Services" accounts consist of contributions for student scholarships or support for various student programs, such as the King William Charles Lunalilo Scholars Project (Lunalilo Scholars). The Lunalilo Scholars program provides financial and other support to first year KCC students. The other UHF accounts with the purpose of academic support, faculty and staff support, enrichment, or special programs allow designated University personnel to authorize a variety of expenses, such as travel, business meetings and protocol in support of a particular unit, program, or project.

Procedures

Internal Audit performed the following:

- Through interviews and inquiries, obtained an understanding of the process and procedures to create accounts at UHF to record contributions (account establishment), the administration of these accounts, and the controls to prevent and detect errors in these accounts.
- Selected a sample of KCC Chancellor's Office expendable accounts with significant financial activity or account balances and performed the following:
    - Requested and reviewed the "Request for Establishment of Account Form" (Establishment Form) and supporting contribution agreements, amendments and/or donor correspondence.
    - Determined compliance with terms and conditions included in Establishment Forms, contribution agreements, amendments and/or donor correspondence.
    - Obtained a transaction listing of revenues and expenses for the fiscal years ended June 30, 2013 and 2012 by expendable account to review and comment on account activity.

Observations

Process and controls:
Internal Audit was informed that the Director of Development, a UHF employee situated at the KCC campus, assists KCC in the identification, cultivation, and solicitation of donors. Donors are solicited through various methods including:

- The Director of Development and/or KCC administrators identifying and soliciting prospective donors.

- Written proposals prepared by UHF and/or KCC personnel requesting contributions from corporations and private foundations.
- Annual gifts provided by donors through UHF’s direct-mail, phone pledges, online solicitation, and corporate matching gift programs.

Donor contributions may be accompanied by a written agreement or correspondence documenting the purpose, allowable uses, and donor requirements with respect to the contribution. UHF and/or KCC personnel may also prepare an agreement on behalf of the donor to evidence any verbal, ambiguous or unusual terms and conditions related to the donor’s contribution. KCC personnel prepare the pre-printed UHF Establishment Form (documents if the contribution is to be classified as an expendable or endowment account) required by UHF policy to create a new “active” UHF account. All new accounts require a minimum contribution of $1,000 and the identification of a minimum of two Account Administrators. The Account Administrators and KCC Chancellor review and sign the Establishment Forms. Completed Establishment Forms and supporting contribution agreements and/or correspondence (if applicable) are submitted to the UHF Fiscal Services Office for review and recordation into UHF’s general ledger (IFAS).

Revisions to the terms/conditions, purpose, and allowable uses of donors’ contributions require the preparation of a revised Establishment Form by KCC personnel. The revised Establishment Form with supporting documentation is submitted to the UHF Fiscal Services Office for recordation into IFAS.

Account Administrators are responsible for managing and administering their UHF accounts pursuant to the terms/conditions of donor contributions. Account Administrators can monitor all transactions (revenues, expenses, transfers) in connection with their UHF accounts through their read-only access to IFAS. IFAS also provides users with the ability to create financial reports. Internal Audit was also informed that Account Administrators receive monthly e-mails informing them of the cash balances in their respective accounts.

Expendable KCC Chancellor’s Office accounts:
The KCC Chancellor informed Internal Audit that his authorization over the use of monies included in the accounts with the purpose of “Capital Projects” and “Student Aid and Services” is more limited in comparison to other accounts. Accordingly, for testing purposes, Internal Audit selected seven accounts with the largest net asset balances as of June 30, 2013 resulting in three accounts with the purpose of “Faculty and Staff Support”, one “Enrichment” account, two “Special Program” accounts, and one “Academic Support” account.

University of Hawai‘i
Kapi‘olani Community College
Chancellor’s Office Accounts at the University of Hawai‘i Foundation
Years Ended June 30, 2013 and June 30, 2012

	($ in 000’s)						
Account Purpose	Net Assets (7/1/11)	Revenue	Expense	Net Assets (6/30/12)	Revenue	Expense	Net Assets (6/30/13)
Capital projects	$1,928	$5,197	$257	$6,868	$2,232	$251	$8,849
Student aid and services	88	70	34	124	164	110	178
Faculty and staff support	533	45	78	500	50	61	489
Enrichment	12	23	26	9	181	18	172
Special programs	108	37	18	127	38	18	147
Academic support	64	23	18	69	24	39	54

The following summarizes Internal Audit’s observations based on Internal Audit’s review of Establishment Forms, contribution agreements and amendments (if applicable), donor correspondence, transaction listings of revenues and expenses for the fiscal years ended June 30, 2013 and 2012, and other supporting documents.

Faculty and Staff Support
Internal Audit was informed that accounts with the purpose of “Faculty and Staff Support” are generally used for faculty/staff salaries and employment benefits, professional development, and service and recognition awards.

Observations
Based on a review of Establishment Forms, other supporting documents and inquiries, Internal Audit noted that the three accounts reviewed were established for the following purposes:

- An account that receives a transfer of up to 10% (decreased to 5% effective July 1, 2014) of a donor’s contributions to fund a program providing University of Hawai‘i Community College (Community College) students with the opportunity to study a second-language abroad in Japan, China, or Korea (Study-Abroad Program). The KCC Chancellor determines the amount to transfer from this account to pay for Study-Abroad Program expenses at his discretion.
- An account funded through quarterly endowment distributions to support training of Community College faculty and staff.
- An account funded with a $100,000 contribution from a donor to support innovation in the professional development of KCC faculty.

Donor Requirements:
Of the three accounts reviewed, Internal Audit noted that two accounts stipulated the following donor requirements:

- According to the donor award letters related to the Study-Abroad Program for calendar years 2013 and 2012, a narrative and financial progress report must be submitted to the donor by January 31 of the subsequent year.
- The Memorandum of Understanding (MOU) requires the submission of an annual report to the donor; however, there is no specificity regarding the due date or form and content of the annual report.

Comments

Expenses:

Based on a review of the transaction listing for the three accounts for the fiscal years ended June 30, 2013 and 2012, Internal Audit noted that a majority of expenses are related to travel, business meetings, printing, and the purchase of Apple iPads (see expense testing transaction #10 performed below). The Apple iPads were purchased for KCC faculty responsible for facilitating, evaluating and analyzing the effectiveness of the C4ward program. Internal Audit was informed that the C4ward program provides KCC faculty with professional, leadership and personal development, in addition to relationship building among KCC faculty.

Compliance with Donor Requirements:

Of the two accounts requiring the submission of reports to the donor, Internal Audit noted the following:

- Approximately three months after the January 31, 2014 due date, KCC submitted to the Study-Abroad Program donor a letter (dated April 29, 2014), Statements of Income and Expenditures for the fiscal year ended June 30, 2013 and the six months ended December 31, 2013, and student participation listings for Spring 2013 and Fall 2013. Internal Audit was not provided the narrative and financial progress report that KCC stated was submitted to the donor for calendar year 2012. Did we ever submit this? Assuming yes, will need a copy of this report
- Internal Audit was informed by the KCC Vice Chancellor for Academic Affairs that the annual report required by the MOU was not prepared and submitted for the fiscal years ended June 30, 2010 and 2011. The Chancellor indicated that in lieu of preparing an annual report, the KCC Vice Chancellor for Academic Affairs met at least quarterly with donor representatives to discuss the use of monies from this account and the associated benefits to the Community Colleges and its students. The annual reports for the fiscal years ended June 30, 2012 through 2014 was submitted to the donor on August 23, 2014. The annual reports included a description of the training provided to faculty and staff in addition to a financial report summarizing expenses by category (e.g., travel, supplies, business meetings, etc.) and cash available as of June 30, 2012, June 30, 2013, and May 31, 2014.

Pau. Need copies or reports.

Use of Tuition and Fees:

Based on a review of a Statement of Income and Expenditures for the six months ended December 31, 2013 provided to the Study-Aboard Program donor, Internal Audit noted a disclosure stating that $700,000 of Study-Abroad Program expenses from a faculty and staff support fund were paid from KCC's tuition and fees. Internal Audit was informed that the $700,000 represents payroll expense incurred during 2005 and from 2009 through 2013 for Study-Abroad Program instructors paid by KCC that will be reimbursed from the Study-Abroad Program account maintained at UHF.

As of the date of this report, UHF has not received documentation from KCC requesting reimbursement from UHF to replenish the KCC amounts used to pay for Study-Abroad Program payroll expenses. According to the KCC Chancellor, procedures to prevent reoccurrence have been initiated. These procedures include the Project Director (also an Account Administrator) reviewing and approving all payroll/hiring documents related to the Study-Abroad Program,

including faculty and lecturer replacement Personnel Action Forms to monitor and ensure reimbursement from UHF.

Enrichment
Internal Audit was informed that accounts with the purpose of “Enrichment” are used to benefit a University academic division (college, school, or department). These accounts are not subject to donor restrictions.

Observations
With respect to the account reviewed, donor correspondence authorized the KCC Chancellor to use the monies in this account at his discretion. According to the KCC Chancellor, the monies in the account will be used to benefit KCC’s Arts and Humanities department.

Donor Requirements:
None

Comments
Internal Audit noted that the KCC Chancellor has requested the Arts & Humanities department to prepare spending guidelines prior to disbursing any monies from this account. The Establishment Form has not been submitted to the UHF Fiscal Office because spending guidelines have not been documented and approved. Accordingly, no funds have been disbursed.

Special Programs
Internal Audit was informed that accounts with the purpose of “Special Programs” are used to generally benefit University non-academic units and are subject to specific donor restrictions, such as KCC’s American Culinary Federation (ACF) competition account. The ACF account is primarily used for travel expenses related to students and instructors attending ACF competitions.

Observations
Internal Audit noted that the two accounts reviewed were established for the following purposes:

- To provide lectures and workshops by artists, animators and media technicians benefitting students enrolled in the New Media Arts program. The intent of the New Media Arts program is to prepare students for employment in the multimedia design and production fields, such as 3D animation and web/interface design.
- The second account was established in 2007 to provide general support to the KCC Culinary Arts Program and specifically excludes financial support to students.

Donor Requirements:
None

Comments
Expenses:
Based on a review of the transaction listing for the fiscal years ended June 30, 2013 and 2012, Internal Audit noted no expense activity in one account. The second account consisted of expenses for lectures/speakers in the multimedia design and production fields and their related travel costs.

Other:
Although not required by the donor, KCC prepares an annual report to the donor describing the content of the lectures and workshops held for the students enrolled in the New Media Arts program. The annual report also includes a biography of the lecturer or workshop instructor.

Academic Support
Internal Audit was informed that accounts with the purpose of "Academic Support" are used to benefit a University academic division (college, school or department). These accounts are also subject to specific donor restrictions.

Observations
The account reviewed was created for the benefit of KCC academic programs at the KCC Chancellor's discretion.

Donor Requirements:
None

Comments
Based on a review of the transaction listing for the fiscal years ended June 30, 2013 and 2012, Internal Audit noted that a majority of expenses were for protocol and business meetings.

Conclusion/Recommendation

Of the seven KCC Chancellor's Office accounts reviewed, Internal Audit determined that the accounts were established in compliance with UHF policies. However, Internal Audit noted that uncertainty exists at University units (colleges, schools and departments) regarding the responsibility and function of UHF in monitoring compliance with donor requirements. Internal Audit noted that University units believe that UHF is a compensating control that will detect non-compliance matters overlooked by the University unit personnel. However, UHF informed Internal Audit that UHF policies indicate that University units are primarily responsible for the oversight of their UHF accounts, including compliance with donor requirements. Internal Audit further noted instances where review and oversight by Account Administrators can be improved. Accordingly, Internal Audit proposes the following:

- KCC should consider developing a process to ensure all donor requirements as stipulated in contribution agreements and/or correspondence (e.g., preparation of annual reports) are met. In the event KCC is uncertain as to who has the primary responsibility to ensure compliance with donor requirements, KCC should clarify the responsibility and function of UHF with UHF management.

- The monitoring of KCC Chancellor's Office accounts could be enhanced by requiring the Account Administrator to periodically review account activity through IFAS to ensure that revenues and expenses are complete, accurate and within expectations. Periodic monitoring by the Account Administrator should detect instances of untimely submission of documents to UHF requesting reimbursement similar to the Study-Abroad Program funds of $700,000 related to instructor payroll during 2005 and from 2009 through 2013.

Revenues

Revenues consist of contributions to expendable accounts and investment earnings. Contributions are received in the form of cash, checks, securities, real property or personal property. In accordance with UHF policy, securities, real property and personal property will generally be sold immediately and converted to cash. As mentioned previously, donors may designate the University program, project, college or department that will benefit from the contribution. Investment earnings represent quarterly distributions from endowment accounts to corresponding expendable accounts.

Procedures:

Internal Audit performed the following:

- Through interviews and inquiries, obtained an understanding of KCC's revenue process (collection and recordation of contributions) and related controls.
- Selected a sample of revenue transactions recorded during the fiscal years ended June 30, 2013 or 2012 and reviewed the Transmittal of Contribution forms and related supporting documentation associated with the contribution.

Observations:

Process and Controls

Internal Audit was informed that contributions are typically received directly by UHF with nominal amounts received by KCC. Based on discussion with the KCC Advancement Specialist, KCC personnel prepare a pre-printed UHF Transmittal of Contribution (Transmittal) form for contributions received documenting the contribution amount, donor restrictions, and other pertinent information. Transmittal forms and other supporting documentation are forwarded to the Account Administrator and in certain situations to the Director of Development for review and signature. All Transmittal forms, donor contributions and other supporting documentation are forwarded to the KCC Advancement Specialist for review, duplication (for filing purposes) and submission to the UHF Fiscal Services Office for deposit and recordation into IFAS. If a

Transmittal form requires revision or is incomplete (e.g., signature of Account Administrator is missing), the KCC Advancement Specialist routes the Transmittal form back to the respective Account Administrator. UHF subsequently provides donors with a gift receipt for their contribution. Account Administrators are responsible for monitoring their respective account activity through read-only access to IFAS and accordingly may monitor revenue activity based on periodic reviews of reports in IFAS.

Internal Audit was informed that an art gallery located on the KCC campus (Koa Art Gallery) is the only source of contributions collected at KCC related to KCC Chancellor's Office accounts. According to the Koa Art Gallery Director, local artists are allowed to exhibit and sell their artwork at the Koa Art Gallery. A pre-printed agreement is executed between the Koa Art Gallery Director and the artist with provisions that the exhibited artwork is insured by and on loan to the Koa Art Gallery. The agreement also includes provisions that the Koa Art Gallery will incur costs to mail invitations to Koa Art Gallery members, return artwork to the artist, and provide refreshments at the opening reception. However, the agreement does not include provisions requiring the artist to reimburse KCC for any costs incurred in connection with the artwork exhibition. Internal Audit was informed that artists have contributed a portion of the proceeds from their artwork sales to the Koa Art Gallery. Contributions are also collected from a donation box at the Koa Art Gallery. For the fiscal years ended June 30, 2013 and 2012, contributions collected at the Koa Art Gallery approximated $14,000 and $21,000, respectively. Internal Audit was informed that the Koa Art Gallery Director implemented written procedures during July 2014 for the collection and transmittal of donation box contributions to UHF for processing. According to the Koa Art Gallery Director, prior to the implementation of these procedures, donation box contributions (average $500/year) were not submitted to UHF and primarily used to purchase office supplies from the KCC Bookstore.

David to send a couple executed contracts and blank

No longer use donation box

Need procedures

Transactions Tested

Internal Audit selected the following seven revenue (contribution) transactions recorded during the fiscal years ended June 30, 2013 or 2012 and reviewed the Transmittal form (if applicable) and other documentation associated with the contribution provided by either the KCC Advancement Specialist or the UHF Fiscal Services Office. Other documentation consisted of contribution agreements or correspondence from donors to assist Internal Audit in determining if contributions were recorded in IFAS in accordance with donors' requirements and the processing of these transactions were consistent with the revenue process and controls discussed above.

#	Account Purpose	Date	Amount	Description	
1	Enrichment	07/26/11	$ 10,000	$8,000 Koa Gallery,$2,000 Lama Library	**A**
2	Enrichment	02/11/13	674	Donations from artists to the Koa Art Gallery	**B**
3	Enrichment	04/19/13	1,059	Donations from artists to the Koa Art Gallery	**B**
4	Enrichment	10/25/12	150,000	Contribution from donor	
5	Enrichment	10/31/12	17,269	Contribution from donor	
6	Special Programs	11/10/11	25,000	Contribution to the New Media Arts Program	
7	Special Programs	10/17/12	25,000	Contribution to the New Media Arts Program	

Based on the results of testing performed by Internal Audit, Internal Audit noted that revenue transactions #4 – #7 represent contributions received directly by UHF. Internal Audit was informed that contributions received directly by UHF do not require the preparation of a Transmittal form. All revenue transactions were recorded properly in IFAS and processed in accordance with the revenue process noted above, with the exception of the following:

A – Supporting documentation for the allocation of a $10,000 contribution for an art exhibit between the Koa Art Gallery and Lama Library was unavailable. Based on discussion with the KCC Chancellor, the allocation was based on a verbal agreement between the Koa Art Gallery and Lama Library related to the respective artwork being displayed at both locations.

B – According to the Koa Art Gallery Director, there was a lag of approximately one month to two-and-a-half months from the date checks were received to the date of the deposit and recordation into IFAS. The lag was due to the Koa Art Gallery Manager, who is responsible for the preparation of Transmittal forms, being unaware of the importance of the timely deposit of checks. Koa Art Gallery has since prepared written procedures that require the deposit of contributions at least weekly.

Conclusion/Recommendation

Can we confirm that this has been done? Will need documentation.

Based on the testing performed of the seven revenue transactions noted above, Internal Audit determined that transactions were deposited into the appropriate UHF account and processed consistently with Internal Audit's understanding of KCC's procedures. Internal Audit believes the KCC Advancement Specialist should consult with KCC Business Office personnel to understand their role in safeguarding and depositing cash contributions to UHF for KCC's Culinary Art Program and determine if using the KCC Business Office would enhance controls.

Internal Audit noted instances where Koa Art Gallery checks were not deposited in a timely manner (delay of up to two-and-a-half months from the receipt of checks to deposit and recording into IFAS). Accordingly, KCC management should monitor Koa Art Gallery's compliance with the recently prepared written procedures. In addition, Account Administrators

should periodically review IFAS to ensure that revenue transactions are recorded appropriately and are consistent with expectations.

Internal Audit also recommends KCC administration review the Koa Art Gallery’s current policies and pre-printed agreement to ensure that KCC is not incurring unrecoverable costs related to art exhibitions and that the art exhibition agreement does not include provisions stating that KCC and the University will be liable for any risks of loss related to the exhibited art work.

Agreement?

Expenses

Expenses for accounts controlled and administered by the KCC Chancellor’s Office totaled approximately $497,000 and $432,000 for the fiscal years ended June 30, 2013 and 2012, respectively. Approximately $94,000 and $75,000 of these total expenses for the fiscal years ended June 30, 2013 and 2012 was primarily used for travel, business meetings, equipment, and protocol. According to UHF policies, the expenses must be reasonable, appropriate, and in accordance with the purpose of the account as stated on the Establishment Form.

Procedures

Internal Audit performed the following:

- Through interviews and inquiries, obtained an understanding of KCC’s expense and payment process and related controls.
- Selected a sample of expense transactions recorded during the fiscal years ended June 30, 2013 or 2012 and reviewed UHF Check Request forms (Check Requests), UHF Requisition for Purchase Orders (Requisition Forms), UHF Purchase Orders (Purchase Orders), and UHF Receiving Reports (Receiving Reports) and supporting documentation (invoices, receipts, Travel Completion Forms, etc.).

Observations

Processes and Controls

Payment for an expense is generated through two methods. The first payment method is the preparation of Check Requests for submission to the UHF Fiscal Office. This method is more prevalent and is used for reimbursements to employees and payments directly to vendors. The second payment method does not require the preparation of Check Requests but requires the preparation of a Requisition Form and related Purchase Order. The UHF Fiscal Office will process payment upon the submission of Receiving Reports evidencing receipt of goods or services and supporting invoices.

The UHF Fiscal Office requires information such as the payee, amount, UHF account number, expense type, and business purpose prior to payment processing under both methods. Account Administrators are responsible for reviewing and/or approving Requisition Forms, Receiving Reports (if actual amount of invoice is 5% or $100 greater than the original Purchase Order), Check Requests, and supporting documents (invoices, receipts, Travel Completion Forms,

quotes, etc.). According to UHF Policies and Procedures, Account Administrators are responsible to ensure that “all transactions are appropriate, reasonable and conform to the account’s purpose.” Account Administrators are also expected to thoroughly understand and comply with the donor requirements. All Check Requests and Requisition Forms over $250 require signatures of two Account Administrators. For payments to Account Administrators (reimbursements), the signature of a second Account Administrator is required regardless of the amount. The KCC Advancement Specialist retains a copy of and reviews all Check Requests, Requisition Forms, Receiving Reports and supporting documents for completeness and accuracy prior to submission to the UHF Fiscal Services Office for additional review and payment processing.

According to the Chancellor, Account Administrators are responsible for monitoring their respective account activity through read-only access to IFAS. Accordingly, Account Administrators may monitor expenses based on periodic reviews of IFAS.

Transactions Tested

Internal Audit selected the following ten expense transactions recorded during the fiscal years ended June 30, 2013 or 2012 and examined Check Requests, Requisition Forms, Receiving Reports and supporting documentation (invoice, receipt, Travel Completion Form, quote, etc.) to determine whether expenses were allowable and in compliance with donor requirements and that the processing of these transactions were consistent with the expense process and controls discussed above.

#	Account Purpose	Expense Category	Payee	Amount	Check Date	Description
1	Faculty & Staff Support	Travel	Leon Richards	$ 3,691	10/21/11	Attend student presentations and graduation in China; visit Seoul Universities 04/30 – 05/11/11.
2	Faculty & Staff Support	Travel	Leon Richards	3,292	05/04/12	Attend student presentations and program activities for the Study-Abroad Program in Japan 12/16 – 12/21/11.
3	Faculty & Staff Support	Travel	Rebecca Thompson	1,575	06/01/12	Attend American College Personnel Association Conference, Louisville, KY 03/22 - 03/31/12.
4	Faculty & Staff Support	Travel	Central Pacific Travel	1,218	03/21/13	Flight to Kauai for six members of a conference on 04/19/13.
5	Faculty & Staff Support	Business Meeting	Louise Pagotto	1,343	10/11/12	Reimbursement for meeting supplies and refreshments for C4ward Poster Session at KCC 05/04/12.
6	Academic Support	Business Meeting	KCC	1,485	05/23/13	Food from KCC Culinary Arts for BOR Meeting 04/18/13.
7	Faculty & Staff Support	Protocol	Louise Pagotto	2,481	06/28/12	Reimbursement for food and supplies for a faculty event held at KCC on 03/02/12.
8	Faculty & Staff Support	Protocol	Louise Pagotto	1,808	12/28/12	Reimbursement for refreshments and supplies for a faculty event held at Windward CC on 03/02/12.
9	Academic Support	Protocol	KCC	5,225	09/13/12	Food from KCC Culinary Arts for KCC 2012 Scholarship Mahalo Dinner 05/02/12.
10	Faculty & Staff Support	Expendable Equipment	Apple	18,188	10/14/11	Purchase of 30 Apple iPads for faculty of the C4ward program.

Based on the results of testing performed by Internal Audit, Internal Audit noted that the expense transactions were recorded in IFAS in accordance with the purpose of the account and processed in accordance with the expense process discussed above.

Conclusion/Recommendation

Based on the testing performed above, Internal Audit determined that expenses and related payments complied with the purpose of the respective account and were processed consistently with Internal Audit's understanding of KCC's procedures. Internal Audit does recommend that Account Administrators periodically review IFAS to ensure that expense transactions are recorded appropriately and are consistent with expectations.