

**University of Hawai‘i  
State of Hawai‘i**  
**Internal Control and Business Issues Report**  
**Year Ended June 30, 2017**

To the Board of Regents and Administration  
University of Hawai'i

In planning and performing our audit of the consolidated financial statements of the University of Hawai'i (the "University") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting ("internal control") as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

We are pleased to present for your consideration, comments and observations identified during the course of our audit that were not required to be reported in our Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* compliance audit report. This letter is intended solely for the information and use of the Board of Regents, management and others within the University and is not intended to be and should not be used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact us.

*Acuity* LLP

Honolulu, Hawai'i  
December 7, 2017

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**Comment No. 17-01: Property and Equipment Accounting Practices**

During our audit, we noted the following matters related to the accounting of the University of Hawai'i's (the "University") property and equipment expenditures:

- We identified three capital projects with an approximate cost of \$6.1 million which were completed in phases, or were completed in entirety as of June 30, 2016, but were not reclassified from construction in progress ("CIP") to depreciable assets in the Statements of Net Position until fiscal 2017.
- We identified two capital projects with an approximate cost of \$8.2 million which were completed in phases, or were completed in entirety as of June 30, 2017, but were not reclassified from CIP to depreciable assets in the Statements of Net Position as of June 30, 2017.

When a construction project is completed or an asset is placed into service, the University should reclassify the capitalized cost from CIP and commence depreciation of the asset over its estimated service life. Failure to properly account for capital assets could lead to material misstatement of the University's consolidated financial statements.

**Recommendation**

We recommend that the University implement monitoring and oversight procedures to ensure that completed construction projects are identified in a timely manner. These procedures should include, but not be limited to, monitoring large, aging capital projects and determining whether these projects should be placed into service and depreciated.

**Comment No. 17-02: Procurement Testing**

For one out of two professional service contracts selected for testing, the University failed to electronically post an awarded contract on the Office of Procurement and Real Property Management's Professional Services "Posting of Awards" website.

Hawai'i Revised Statutes ("HRS") Section 103D-304(i), states that contracts awarded for \$5,000 or more shall be posted electronically within seven days of the date which the contract was awarded by the Chief Procurement Officer or their designee and shall remain posted for at least one year. Information to be posted shall include, but not be limited to:

- 1) The name(s) of the person(s) submitted under subsection (g) of HRS Section 103D-304;
- 2) The name(s) of the person(s) or organization(s) receiving the award;
- 3) The dollar amount of the contract;
- 4) The name of the head of the purchasing agency or designee making the selection; and
- 5) Any relationship of the principals to the official making the award.

**Recommendation**

We recommend that the University ensure that awarded contracts are electronically posted in compliance with HRS Section 103D-304(i).

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**Comment No. 17-03: Untimely Execution of Purchase Order**

During our audit, we noted the following instances in which purchase orders were executed and approved subsequent to the receipt of the goods or services from the vendor:

- One purchase order totaling \$1,367 for the TRIO Cluster major Federal program.
- One purchase order totaling \$3,456 for the Trade Adjustment Assistance Community College and Career Training ("TAACCCT") major Federal program.
- One purchase order totaling \$915 for the Title VII Native Hawaiian Education major Federal program.

An executed and approved purchase order serves as an indication that a formal agreement between the vendor and the University regarding the nature and cost of goods or services to be provided has been reached.

Failure to complete a purchase order prior to the commencement of services or the receipt of goods from a vendor exposes the University to an undue risk of the misuse of Federal funds.

**Recommendation**

We recommend that the University ensure that a purchase order is properly executed and approved prior to the receipt of goods or services from a vendor.

**Comment No 17-04: Untimely Submission of Travel Completion Report**

During our audit, we noted the following instances where a "Travel Completion Report" form was not submitted in a manner consistent with the policies set forth in the University's Administrative Procedures ("AP"):

- One instance for the TAACCCT major Federal program:
  - For the travel period from October 28, 2016 to November 3, 2016, the "Travel Completion Report" was not submitted until January 19, 2017.
- Two instances for the Gaining Early Awareness and Readiness for Undergraduate Programs ("GEAR UP") major Federal program:
  - For the travel period from July 17, 2016 to July 21, 2016, the "Travel Completion Report" was not submitted until August 22, 2016.
  - For the travel period from July 11, 2016 to July 21, 2016, the "Travel Completion Report" was not submitted until August 25, 2016.
- One instance for the NASA IRTF major Federal program:
  - For the travel period from June 14, 2016 to July 6, 2016, the "Travel Completion report" was not submitted until August 16, 2016.
- One instance for the Title VII Native Hawaiian Education major Federal program:
  - For the travel period from January 18, 2017 to January 20, 2017, the "Travel Completion report" was not submitted until February 13, 2017.

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Paragraph 6, subsection L, of section A8.851, *Employee Out-of-State and Intra-State Travel*, of the University's AP states that "the Travel Completion report must be submitted to the traveler's business office within 21 calendar days from the end date of the trip."

Failure to submit the "Travel Completion Report" in a timely manner may result in the untimely disbursement of federal funds by the University.

**Recommendation**

We recommend that all reimbursement requests for travel expenditures are submitted and approved in a timely manner in accordance with University and Research Corporation of the University of Hawai'i ("RCUH") policies.

**Comment No. 17-05: Ship Operations**

During our current year audit, we noted that in accordance with the cash basis of accounting, the University's Ship Operations specialized service facility ("Ship Ops") was operating at a cumulative deficit of approximately \$1.8M in revolving accounts maintained at RCUH at December 31, 2016. Furthermore, we noted as of the completion of fieldwork for our 2017 audit, Ship Ops was projecting an operating deficit for the 2017 calendar year.

Section 200.468 of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, states:

- (a) The costs of services provided by highly complex or specialized facilities operated by the non-Federal entity, such as computing facilities, wind tunnels, and reactors are allowable, provided the charges for the services meet the conditions of either paragraphs (b) or (c) of this section, and, in addition, take into account any items of income or Federal financing that qualify as applicable credits under §200.406 Applicable credits.
- (b) The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:
  - (1) Does not discriminate between activities under Federal awards and other activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes, and
  - (2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (F&A) costs. Rates must be adjusted at least biennially, and must take into consideration over/under applied costs of the previous period(s).
- (c) Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.
- (d) Under some extraordinary circumstances, where it is in the best interest of the Federal Government and the non-Federal entity to establish alternative costing arrangements, such arrangements may be worked out with the Federal cognizant agency for indirect costs.

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Failure to properly calculate the appropriate breakeven rate to be billed to users of Ship Ops will necessitate management of the University to identify outside sources of working capital to ensure the future operational viability of Ship Ops.

**Recommendation**

As the rates that can be billed to users of the vessels are regulated by the National Science Foundation, we recommend that management continue to evaluate the operational feasibility of the vessels and develop a long-term plan to subsidize the accumulated deficit of Ship Ops.

We also recommend that management continue to identify additional sources of working capital that can be designated to assist in funding the daily operating costs of the vessels, including designating currently available working capital maintained in revolving accounts at RCUH to be used specifically to support the operations of Ship Ops.

**Comment No. 17-06: Subrecipient Risk Assessment**

During our audit, we noted 3 out of 40 subrecipients selected for testing were not included in the Office of Research Services' ("ORS") quarterly risk assessment report that was used to select subrecipients for during-the-award monitoring procedures. However, we noted that a risk assessment of each subrecipient was performed prior to the execution of the subaward in accordance with ORS' subaward processing procedures.

Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, requires a pass-through entity to perform during-the award monitoring of a subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

To fulfil the requirements of Title 2 U.S. CFR Part 200, ORS Compliance Specialists are assigned to perform during-the-award monitoring procedures over those subrecipients that receive a higher risk rating. For the first half of fiscal 2017, ORS risk ranked subrecipients based upon encumbrances recorded in the previous six-month period. Beginning in the third quarter of fiscal 2017, ORS utilized a new report generated from the myGRANT Subaward module to identify higher risk subrecipients based upon risk assessments performed by the ORS Compliance Specialists at the time of the initial processing of the subaward or amendment. The application of an inappropriate filter applied to the quarterly myGRANT report resulted in the improper exclusion of certain transactions from the report.

Failure by ORS to perform risk assessment procedures in a complete and timely manner exposes the University to an undue risk of noncompliance with Title 2 U.S. CFR Part 200.

**Recommendation**

We recommend that ORS ensure that reports utilized to select higher risk rated subrecipients for during-the-award monitoring procedures are complete and accurate.

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**Comment No. 17-07: Centralization of Student Financial Aid Packaging**

During our prior audits, we noted that the University began to evaluate centralization of its student financial aid processing functions for the Community Colleges. We believe, with a reallocation of resources and permanent staffing of this system office, centralization can be further expanded to include packaging of aid, compliance reporting and other back office functions.

During our 2017 audit, we noted that the University has further implemented certain application processes and computerized procedures, and is also evaluating additional financial aid processes that could be centralized. Additionally, the current centralized Financial Aid Office has moved from the Community College System Office and now reports to the System Wide VP for Student Affairs Office. The System Financial Aid Office is in the process of hiring permanent full time positions while maintaining support and services to all 10 campuses.

**Recommendation**

We recommend that the University continue to form the System Financial Aid Office to centralize many of the compliance monitoring and reporting functions to ensure a consistent review of compliance requirements are done for all 10 campuses. We believe that the focus of the campus financial aid officer and counselors should be to counsel their students and attend to their specific needs.



## **Summary Schedule of Prior Comments and Observations**

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<b>Finding</b>	<b>Description</b>	<b>Type</b>	<b>Status</b>		<b>Current Year Finding</b>
			<b>Resolved</b>	<b>Unresolved</b>	
16-01	Procurement Testing	Control Deficiency ("CD")		X	17-02
16-02	Other Postemployment Benefit Census Data Review	CD	X		
16-03	Untimely Execution of Purchase Orders	CD		X	17-03
16-04	Lack of Delegation of Signing Authority	CD	X		
16-05	Untimely Submission of Travel Completion Report	CD		X	17-04
16-06	Untimely Approval of Travel Request Form	CD	X		
16-07	Improper Use of Authorization for Payment Form	CD	X		
16-08	Ship Operations	CD		X	17-05
16-09	Uniform Guidance Classification	CD	X		
16-10	Centralization of Student Financial Aid Packaging	CD		X	17-07