

STAND. COM. REP. NO.

3148

Honolulu, Hawaii

MAR 24 2006

RE: H.B. No. 1866
H.D. 1
S.D. 1

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committees on Higher Education and Education and Military Affairs and Transportation and Government Operations, to which was referred H.B. No. 1866, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO EDUCATION,"

beg leave to report as follows:

The purpose of this measure is to repeal the sunset date of Act 321, Session Laws of Hawaii 1986, which would give the Department of Education and the University of Hawaii permanent autonomous authority over accounting systems, and purchases of goods and services.

Your Committees received testimony in support of this measure from the University of Hawaii System; University of Hawaii at Manoa; University of Hawaii at Hilo; University of Hawaii - West Oahu; Honolulu Community College; Kapiolani Community College; Kauai Community College; Maui Community College; Leeward Community College; Hawaii Community College; Windward Community College; Department of Education; The Chamber of Commerce of Hawaii; The Hawaii Business Roundtable; and one individual. The only testimony in opposition was to the University of Hawaii by four individuals. Comments were received from the Department of Accounting and General Services.

Act 321, Session Laws of Hawaii 1986, provided for the University of Hawaii and the Department of Education to have greater autonomy over internal operations. The University and the

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department assumed authority and responsibility for all matters relating to the acquisition of goods and services, pre-audit payments, fund accounting, and business and accounting processes.

Your Committees recognize that Auditor Report No. 05-15, *Systemwide Financial Audit of the University of Hawaii System: Phase 1*, December 2005, raised many concerns about the University of Hawaii's fiscal responsibility. The report stated, in pertinent part:

[stemming] from the university's failure to incorporate certain ePurchasing procedures into existing procedures for purchases under \$25,000, payments can be processed without verification of proper authorization. [The] Disbursing and Payroll Office simply assumes that small purchases are properly authorized since the purchase orders lack this documentation. This flaw in the design of current operating procedures could allow unit fiscal officers to bypass appropriate approvals for purchases of up to \$25,000.

[During] our review of Manoa's administration of general and tuition funds, we found instances in which the requisitioner or initiator of a purchase also signed off as the approving authority. The functions of both initiating and approving a purchase should be segregated. [The] university's failure to update its policies and procedures increases the risk that the improper usage of funds will occur and go undetected.

Once again, no reliable, adequate system of internal financial reporting exists for the Manoa campus. This makes it difficult for campus administration to monitor and evaluate unit and program performance, reducing accountability at those levels.

Without formal policies and procedures governing the administration of funds, including reporting process from the campus units to the Manoa campus management, improprieties may go undetected. Furthermore, without the proper controls and financial reporting tools in place, the university will have difficulty identifying financial problems and addressing those problems in a timely manner.



The report concluded:

Although the University of Hawai`i currently benefits from a considerable amount of administrative flexibility, it has been striving toward greater autonomy. However, along with greater autonomy comes greater responsibility to the people of Hawai`i and the need to be fiscally accountable. As such, future recommendations for further autonomy must be carefully thought through by the Legislature and university in order to ensure that the appropriate resources and accountability mechanisms are available for the university to undertake added responsibilities.

Your Committees find that the university needs more time to demonstrate consistent fiscal responsibility.

Your Committees have amended this measure by extending the current exemption to June 30, 2010, as it applies to the University of Hawaii, and to repeal the sunset date of Act 321 as it applies to the Department of Education.

As affirmed by the records of votes of the members of your Committees on Higher Education and Education and Military Affairs and Transportation and Government Operations that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 1866, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 1866, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.



Respectfully submitted on
behalf of the members of the
Committees on Higher Education
and Education and Military
Affairs and Transportation and
Government Operations,



NORMAN SAKAMOTO, Chair



CLAYTON HEE, Chair



LORRAINE R. INOUYE, Chair



