

S.B. NO. 1028

JAN 25 2017

A BILL FOR AN ACT

RELATING TO THE UNIVERSITY OF HAWAII ACCOUNTING AND FINANCIAL
MANAGEMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the University of
2 Hawaii has maintained a separate accounting system since 1986,
3 which has been compatible with both Hawaii accounting system
4 requirements and generally accepted accounting principles. The
5 legislature further finds that the University of Hawaii, with
6 authorization from the legislature and after significant
7 commitment of human and financial resources, has recently
8 upgraded its accounting system through its participation in the
9 Kualii Financial System consortium, a university-based financial
10 management software that better meets the unique needs of
11 university systems throughout the United States. Since the
12 implementation of the Kualii Financial System, the University of
13 Hawaii continues to provide bi-monthly payroll feeds to the
14 state department of accounting and general services, in addition
15 to routine and annual financial reports that are included in the
16 State of Hawaii's Annual Consolidated Financial Statements. The
17 use of the Kualii Financial System has benefited and served the

1 needs of the university without in any way negatively impacting
2 the State or its financial reporting.

3 June 30, 2016, was the sunset date for the authorization of
4 the University of Hawaii to maintain a separate accounting and
5 financial management system.

6 The purpose of this Act is to affirm the express authority
7 of the University of Hawaii System to maintain a separate
8 accounting and financial management system that is compatible
9 with the State of Hawaii accounting and financial systems.

10 SECTION 2. Section 40-1, Hawaii Revised Statutes, is
11 amended by amending subsection (b) to read as follows:

12 "(b) With respect to the executive branch, except the
13 University of Hawaii [~~until June 30, 2016,~~] and the department
14 of education, the comptroller shall have complete supervision of
15 all accounts. The comptroller shall preaudit all proposed
16 payments of \$10,000 or more to determine the propriety of
17 expenditures and compliance with executive orders and rules that
18 may be in effect. When necessary, the comptroller shall
19 withhold approval of any payment. Whenever approval is
20 withheld, the department or agency concerned shall be promptly
21 notified. With respect to the University of Hawaii and the
22 department of education, the comptroller shall issue warrants
23 for the release of funds for the operating costs of the

1 university or the department of education, as applicable, in
2 amounts and at times mutually agreed upon by the governor or
3 director of finance and the university or department of
4 education, as applicable; provided that:

5 (1) The amounts released shall not exceed the allotment
6 ceilings for the respective funding sources of the
7 university's or the department of education's
8 appropriations established by the governor for an
9 allotment period pursuant to section 37-34; and

10 (2) The comptroller may issue warrants as an advance from
11 the state treasury to the University of Hawaii and the
12 department of education to establish a checking
13 account and provide working capital in amounts and at
14 times mutually agreed upon by the governor or director
15 of finance and the University of Hawaii and the
16 department of education.

17 The University of Hawaii and the department of education shall
18 preaudit all proposed payments of \$10,000 or more and shall
19 preaudit samples of the population of proposed payments of less
20 than \$10,000; provided that the sample size comprises at least
21 five per cent of the population, and is of a size that the chief
22 financial officers of the University of Hawaii and the
23 department of education, as applicable, determine appropriate,

1 to determine the propriety of expenditures and compliance with
2 applicable laws, executive orders, and rules. The University of
3 Hawaii and the department of education shall make disbursements
4 for operating expenses from the amounts released by the
5 comptroller and maintain records and documents necessary to
6 support those disbursements at times mutually agreed upon by the
7 university president or the superintendent of education, as
8 applicable, and the comptroller; provided that when requested by
9 the university or the department of education, the comptroller
10 shall make all disbursements for the university or the
11 department of education, as applicable, subject to available
12 allotment. Funds released pursuant to this section shall be
13 deposited by the university or the department of education, as
14 applicable, in accordance with the provisions applicable to the
15 director of finance by chapter 38. Any interest earned on the
16 deposit of funds released pursuant to this section shall be
17 deposited in the state treasury at the end of each fiscal year."

18 SECTION 3. Section 40-2, Hawaii Revised Statutes, is
19 amended by amending subsection (a) to read as follows:

20 "(a) The accounting system installed by the commission on
21 public accountancy under Act 181, Session Laws of Hawaii 1923,
22 as amended by Act 220, Session Laws of Hawaii 1925, for use in
23 the offices of the comptroller, director of finance,

1 departmental and agency services of the State, and the auditors,
2 treasurers, departmental and agency services of the several
3 counties shall be the accounting and reporting systems of the
4 State and counties; provided that the University of Hawaii [~~7~~
5 ~~until June 30, 2016,~~] may install a different accounting system
6 that shall be in conformity with generally accepted accounting
7 principles as applied to colleges and universities; and provided
8 further that the department of education may install a different
9 accounting system that shall be in conformity to generally
10 accepted accounting principles. The comptroller shall make such
11 changes and modifications in the accounting system as shall from
12 time to time appear to be in the best interest of the State and
13 counties. "

14 SECTION 4. Section 40-4, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "**§40-4 Publication of statements.** The comptroller shall
17 prepare and submit to the governor, immediately following the
18 close of each fiscal year, a statement of income and expenditure
19 by funds, showing the principal sources of revenue, the function
20 or purpose for which expenditures were made, together with a
21 consolidated statement showing similar information for all
22 funds; also a statement showing the balance in each fund at the
23 beginning of the fiscal year, plus the receipts, minus the

1 disbursements, and the balance on hand at the close of the
2 fiscal year after deducting outstanding warrants and vouchers.
3 The comptroller may request all agencies, the judiciary, the
4 University of Hawaii [~~until June 30, 2016~~], the department of
5 education, and the legislature to provide such information as
6 may be required for the preparation of statements."

7 SECTION 5. Section 40-6, Hawaii Revised Statutes, is
8 amended to read as follows:

9 "§40-6 **Approval of business and accounting forms.** The
10 comptroller shall determine the forms required to adequately
11 supply accounting and statistical data for the state government.
12 The comptroller shall require heads of departments and
13 establishments of the state government to submit proposed new
14 forms or proposed changes in current business and accounting
15 forms for review and approval before ordering the same printed;
16 except that the University of Hawaii [~~until June 30, 2016,~~] and
17 the department of education shall be subject to this requirement
18 only with respect to uniform business and accounting forms of
19 statewide use in the State's accounting system. All standard
20 state forms shall be classified, numbered, and standardized in
21 design, dimensions, color, and grade of paper and recorded in a
22 catalogue of accounting and statistical forms by the
23 comptroller."

1 SECTION 6. Section 40-58, Hawaii Revised Statutes, is
2 amended to read as follows:

3 " §40-58 In favor of assignees. No assignment of moneys by
4 a person to whom the State is directly indebted shall be
5 effective unless the assignment is first approved by the
6 comptroller or, in the case of the University of Hawaii [~~until~~
7 ~~June 30, 2016,~~] and the department of education, by their
8 respective chief financial officers. The comptroller or the
9 chief financial officers of the University of Hawaii and the
10 department of education may prescribe the form for an
11 assignment, and may approve the assignment within a reasonable
12 time period if, in their respective discretion, the rights or
13 obligations of the State, the University of Hawaii, or the
14 department of education under any contract or other undertaking
15 or under any law, rule, or order by a competent authority will
16 not be prejudiced thereby. Upon approval of the assignment, the
17 comptroller or the respective chief financial officers of the
18 University of Hawaii and the department of education shall draw
19 a warrant payable to the assignee. Except as to contracts
20 encumbered by the comptroller, the University of Hawaii, or the
21 department of education, each expending agency, upon
22 notification of the comptroller's approval of an assignment,

1 shall prepare a claim for payment in accordance with the terms
2 of the assignment."

3 SECTION 7. Section 40-81, Hawaii Revised Statutes, is
4 amended to read as follows:

5 " §40-81 Report by agencies receiving special moneys. All
6 state officers, departments, boards, bureaus, commissions, or
7 agencies collecting or receiving any moneys not required by law
8 to be deposited in the state treasury shall report to the
9 comptroller all receipts and disbursements on account thereof
10 for each quarterly period of the calendar year not later than
11 the fifteenth day following the end of each quarterly period on
12 such forms and under such rules as may be prescribed by the
13 comptroller; provided that with respect to all moneys held
14 outside the state treasury by the University of Hawaii [~~until~~
15 ~~June 30, 2016,~~] or the department of education pursuant to the
16 authority granted to the university and the department of
17 education by this chapter, the University of Hawaii and the
18 department of education shall report to the comptroller all
19 transactions for each quarterly period not later than the
20 fifteenth day following the end of each quarterly period on such
21 forms and under such rules as may be prescribed by the
22 comptroller. "

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1 SECTION 8. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 9. This Act shall take effect upon its approval.

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5

INTRODUCED BY: AM N. M.

6

BY REQUEST

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Report Title:

University of Hawaii; Accounting and Financial Management System

Description:

Reinstates the authority of the University of Hawaii System to maintain a separate accounting and financial management system that is compatible with the State of Hawaii accounting and financial systems.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

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JUSTIFICATION SHEET

DEPARTMENT: University of Hawaii

TITLE: A BILL FOR AN ACT RELATING TO THE UNIVERSITY OF HAWAII ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM.

PURPOSE: Reinstate the authority of the University of Hawaii System (University) to maintain a separate accounting and financial management system that is compatible with the State of Hawaii accounting and financial systems.

MEANS: Amend sections 40-1(b), 40-2(a), 40-4, 40-6, 40-58, and 40-81, Hawaii Revised Statutes.

JUSTIFICATION: Act 321, Session Laws of Hawaii 1986 (Act 321), was one of several laws that provided authority to University leadership for the internal management and operations of the University System. Amongst various provisions, Act 321 authorized the University to implement its own accounting system in conformity with generally accepted accounting principles as applied to colleges and universities.

Since 1986, the University has twice updated its financial management system, the most recent of which was the implementation of the Kualii Financial System (KFS) beginning with Fiscal Year 2012-13. Since 2005, the University has been a co-founder and sustaining partner of the KFS Consortium. KFS is a comprehensive financial software system that has been developed by the KFS Consortium, which includes a number of universities throughout the United States using an open source and partner enhanced process. Thus, with authorization from the legislature and after significant commitment of human and financial resources, KFS now serves the unique needs of the University, while also having the flexibility to

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implement modifications allowing interaction with external partners. Since the implementation of KFS, the University's financial system data has become more relevant and useful to University System and campus administrations and provides more robust financial reports to the Board of Regents. The University has also continued to provide bi-monthly payroll feeds to the State Department of Accounting and General Services (DAGS), in addition to routine and annual financial reports that are included in the State of Hawaii's Annual Consolidated Financial Statements.

June 30, 2016, was the sunset date for authorization of the University to maintain a separate accounting and financial management system.

Thus, based in part on the University's recent implementation of KFS, the University is respectfully requesting the reinstatement of its express ability to maintain a separate accounting and financial management system that is compatible with the State of Hawaii accounting and financial systems set forth in various sections of chapter 40, Hawaii Revised Statutes. Such a comprehensive reinstatement would enable the University to continue to maintain a separate accounting and financial management system that efficiently serves the University's unique needs and is compatible with the State of Hawaii accounting and financial management system.

Impact on the public: Allowing the University to continue operating its own financial management system, such as KFS, will help the public and the University to continue to realize the short and long term benefits of KFS, including the efficiencies and accuracy in the handling of and accounting for University funds and the avoidance of additional expenditures to convert from KFS and migrate and adapt to using an older financial accounting system

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that will itself need updates to enable interaction and interface with the University.

Impact on the department and other agencies:

Under KFS, the University significantly improved its efficiencies and expanded its accounting capabilities. This in turn significantly reduced the DAGS workload in receiving, handling, and processing University financial information. Although the University has continued, on a temporary basis, to operate KFS following the June 30, 2016 repeal, the University anticipates that it would incur substantial costs and suffer potentially severe financial losses and other adverse financial impacts if the University is forced to shut down KFS and migrate to an older financial management system that is designed for traditional state government agencies and not to handle the unique needs of the University. Such an older system would itself need to be able to be updated and modernized to interface with the University.

GENERAL FUND: None.

OTHER FUNDS: None.

PPBS PROGRAM

DESIGNATION: UOH100, UOH110, UOH210, UOH220, UOH700, UOH800, UOH881 and UOH900.

OTHER AFFECTED

AGENCIES: Department of Budget and Finance, Department of Accounting and General Services.

EFFECTIVE DATE: Upon approval.