

**DEPT. COMM. NO. 84**

September 10, 2018

**VIA EMAIL & HAND DELIVERY** (senkouchi@capitol.hawaii.gov)

The Honorable Ronald D. Kouchi  
Senate President  
415 South Beretania Street  
Hawai'i State Capitol, Room 409  
Honolulu, Hawai'i 96813

Re: Follow-Up on Recommendations from Report No. 15-07, *Audit of the Research Corporation of the University of Hawai'i* (Report No. 18-10)

Dear President Kouchi:

We are attaching a copy of our "Follow-Up on Recommendations from Report No. 15-07, *Audit of the Research Corporation of the University of Hawai'i*", Report No. 18-10. The follow-up audit was performed pursuant to Section 23-7.5, Hawai'i Revised Statutes, which requires the Office of the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency.

The report is accessible through our website at:

<http://files.hawaii.gov/auditor/Reports/2018/18-10.pdf>.

If you have questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo  
State Auditor

LHK:emo

Enclosure

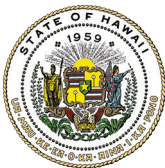
cc/encl: Senate Members (via email only)

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# Follow-Up on Recommendations from Report No. 15-07, *Audit of the Research Corporation of the University of Hawai'i*

A Report to the Governor  
and the Legislature of  
the State of Hawai'i

Report No. 18-10  
September 2018



**OFFICE OF THE AUDITOR**  
STATE OF HAWAII



## OFFICE OF THE AUDITOR STATE OF HAWAII

### Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

### Our Mission

*To improve government through independent and objective analyses.*

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

### Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

*For more information on the Office of the Auditor, visit our website:*  
<http://auditor.hawaii.gov>



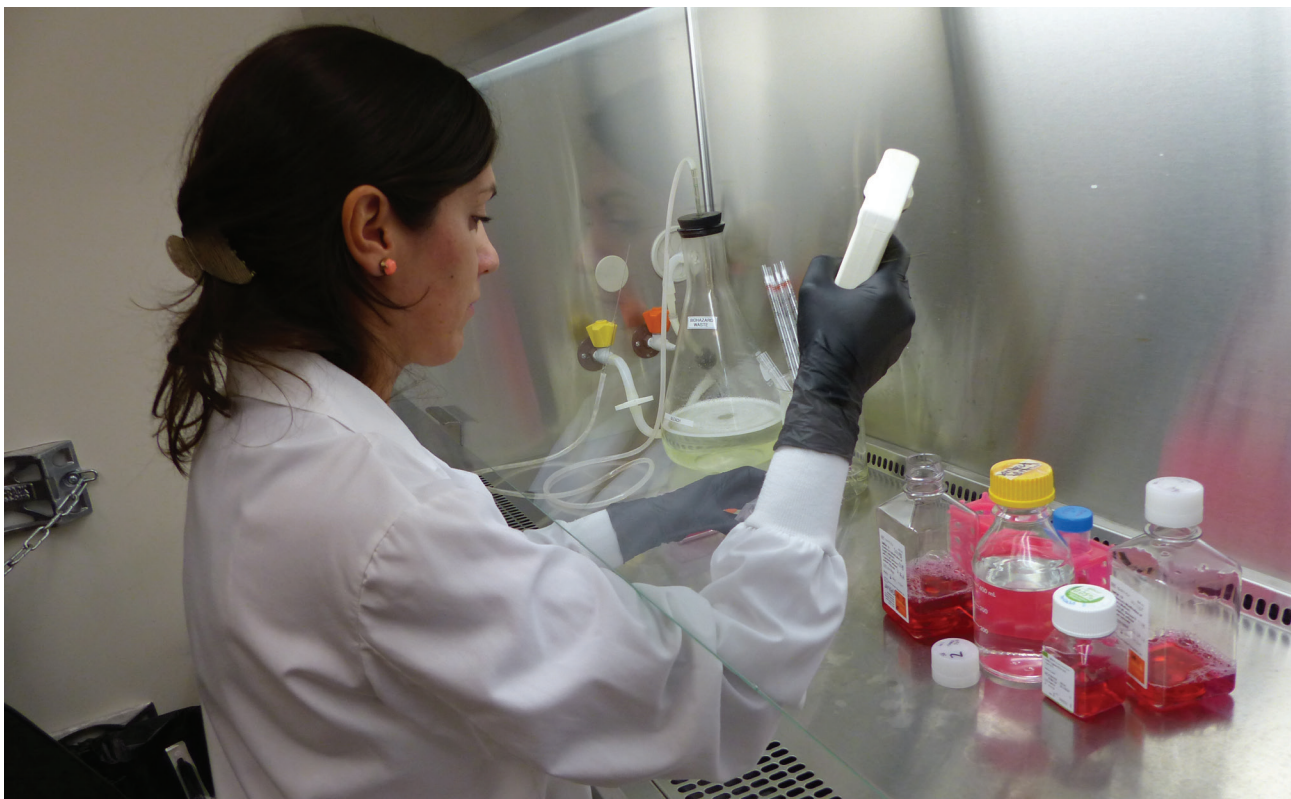


PHOTO: RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII

## Follow-Up on Recommendations from Report No. 15-07, *Audit of the Research Corporation of the University of Hawai‘i*

*Section 23-7.5, Hawai‘i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of eleven recommendations made to the Research Corporation of the University of Hawai‘i (RCUH) in Report No. 15-07, Audit of the Research Corporation of the University of Hawai‘i, which was published in June 2015.*

**We found that  
RCUH has  
implemented  
all eleven  
recommendations.**

### Why we did the 2015 Audit

The 2015 audit was performed pursuant to Article VII, Section 10 of the Hawai‘i State Constitution and Section 23-4, Hawai‘i Revised Statutes (HRS), which require the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

## The Research Corporation of the University of Hawai'i

RCUH was established by the Hawai'i State Legislature in 1965 as a body corporate, public instrumentality to support the University of Hawai'i's (UH) efforts to be a leader in research and to advance the State's economic growth and development. RCUH is attached to UH for administrative purposes, and the affairs of RCUH are under the general management and control of an eight-member Board of Directors. RCUH was designed to make UH more competitive in obtaining research grants by exempting the corporation from certain state procurement and employment laws. The flexibility was intended to allow RCUH to carry out federal government, UH, and state agency projects in a more effective and efficient manner. Among other things, RCUH was tasked with encouraging, initiating, aiding, developing, and conducting scientific investigations and research. RCUH is empowered to enter into and perform contracts; coordinate projects with state agencies for economic development purposes; stimulate and promote cooperative research projects; and retain patents, copyrights, and other rights arising from RCUH activities. RCUH also can set up a special account for depositing moneys received from either public or private contracts, or from private or public grants, awards, or gifts.

## What we found in 2015

In Report No. 15-07, *Audit of the Research Corporation of the University of Hawai'i*, we found that RCUH acted primarily as a provider of services to UH, which constituted \$9 out of every \$10 in RCUH business in FY2014.

We also found that RCUH's executive director and board took a cautious business approach that ignored plans to pursue more non-UH projects.

We further found that RCUH allowed state agencies to circumvent contract requirements, secure services without proof of governor approvals, and forgo required evaluations of \$4.3 million in projects. We also found that the corporation lacked clear policies and procedures for the review and acceptance of direct projects, and the department in charge of administering those projects lacked staff to ensure adequate project vetting and monitoring. We further found that written policies and procedures could improve RCUH's oversight of intramural and revolving account projects.

# What we found this year

Our follow-up on the implementation of recommendations made in Report No. 15-07, conducted between February and August 2018, included interviews with selected personnel, examining relevant documents and records, and evaluating whether RCUH’s actions appeared to fulfill our recommendations. We found that RCUH has implemented all eleven recommendations.

## Exhibit 1 Audit Recommendations by Status



Source: Office of the Auditor

## Recommendations and their status

Our follow-up efforts were limited to reviewing and reporting on the implementation of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. The following details the audit recommendations made and the current status of each recommendation based on our review of information and documents provided by RCUH.

### Definition of Terms

WE DEEM recommendations:

#### Implemented

where the department or agency provided sufficient and appropriate evidence to support all elements of the recommendation;

#### Partially Implemented

where some evidence was provided but not all elements of the recommendation were addressed;

#### Not Implemented

where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided;

#### Not Implemented - N/A

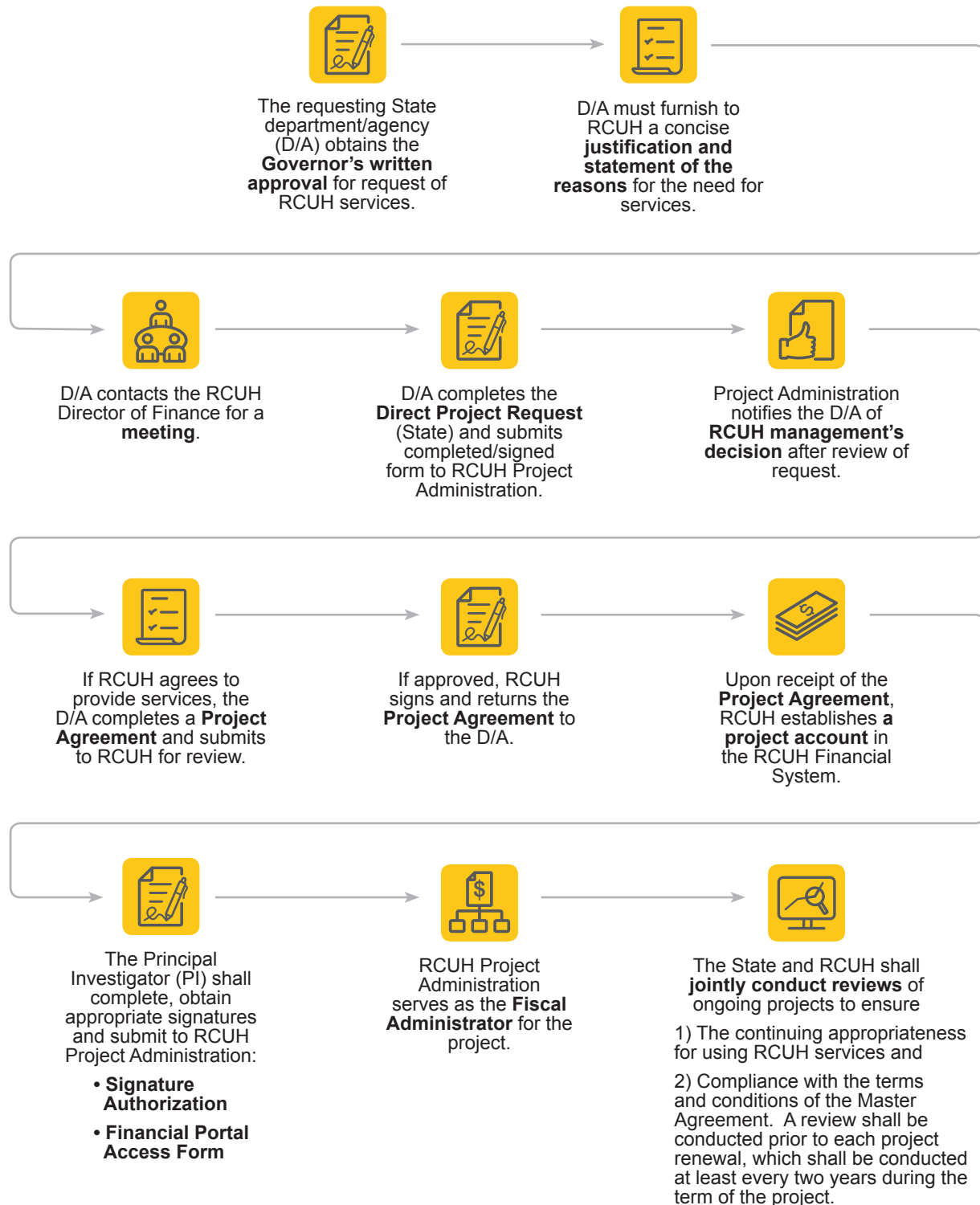
where circumstances changed to make a recommendation not applicable; and

#### Not Implemented - Disagree

where the department or agency disagreed with the recommendation, did not intend to implement, and no further action will be reported.

## Exhibit 2

### Process for Acceptance of Direct Projects for State of Hawai'i Department/Agency



Source: Office of the Auditor

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## Recommendation 1a

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**The RCUH Board of Directors should adopt a mission that more accurately reflects the corporation's statutory responsibility to initiate and promote research and development statewide. If the board no longer thinks RCUH can fulfill its broad mandate, it should request that the Legislature redefine the agency's role.**

**Implemented**

### Comments

The RCUH Board of Directors adopted a new mission statement on October 27, 2016, "to support and enhance research, development, and training in Hawai'i, with a focus on the University of Hawai'i."

Additionally, one of the goals and objectives stated in the RCUH Strategic Plan 2017-2021 is to expand services to and increase the number of non-UH research, development, and training projects.

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## Recommendation 1b

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**The RCUH Board of Directors should adopt a strategic plan that conforms to Act 100, SLH 1999, requirements by containing proper objectives and accounts for organizational changes needed to ensure fulfillment of all mandated duties.**

**Implemented**

### Comments

The RCUH Board of Directors adopted a five-year strategic plan on October 27, 2016, that conforms to Act 100, SLH 1999 requirements, by including short- and long-term goals, objectives, performance metrics, and a timetable indicating how objectives and policies will be implemented.



### Recommendation 1c

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**The RCUH Board of Directors should adopt and implement strategic planning and performance reporting policies and procedures.**

**Implemented**

#### **Comments**

The RCUH Board of Directors engaged in a strategic planning process that resulted in the adoption of the RCUH Strategic Plan 2017-2021 on October 27, 2016. The RCUH executive director's FY2017 annual report to the Board of Directors was aligned with the framework of this strategic plan, and included the progress made towards reaching the goals, objectives, and benchmarks in the strategic plan.

### Recommendation 1d

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**The RCUH Board of Directors should explicitly identify the corporation's executive director as being responsible for developing and implementing a strategic plan.**

**Implemented**

#### **Comments**

At its September 1, 2015, meeting, the RCUH Board of Directors designated the corporation's executive director as being responsible for developing and implementing a strategic plan.

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## Recommendation 1e

**The RCUH Board of Directors should develop and update policies to ensure projects are accepted in conformance with Chapter 304A, HRS, the UH/RCUH Internal Agreement, and the State/RCUH Master Agreement.**

Implemented

### Comments

RCUH developed and updated the following policies and procedures:

- 1.030 Project Acceptance Criteria;
- 1.100 University of Hawai‘i Extramural Service-Ordered Projects;
- 1.200 University of Hawai‘i Intramural Projects;
- 1.400 Direct Projects; and
- 1.410 Direct Projects - State of Hawai‘i Department/Agency.

These policies and procedures contain written guidance for the review, acceptance, monitoring, and oversight of projects to ensure projects are accepted in conformance with Chapter 304A, HRS, the UH/RCUH Internal Agreement, and the State/RCUH Master Agreement.

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## Recommendation 2a

**The corporation’s executive director should implement a training program for board members that familiarizes them with their oversight roles and responsibilities.**

Implemented

### Comments

The RCUH executive director developed an orientation and training program for board members which includes meeting with the executive director to delineate expectations of board members, discussing current issues relating to RCUH, and reviewing a binder containing information relating to RCUH, including, among other things, Chapter 304A, HRS, the UH/RCUH Internal Agreement, the State/RCUH Master Agreement, the bylaws of RCUH, and the RCUH annual report. The orientation and training program also includes visits to two RCUH facilities to tour offices and meet staff. The orientation and training program was initiated in 2016 with RCUH’s newest board member.

## Recommendation 2b

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**The corporation's executive director should develop, adopt, and report on performance measures for assessing RCUH's accomplishment of its goals, objectives, and mission.**

**Implemented**

### Comments

The RCUH executive director's FY2017 annual report to the Board of Directors was aligned with the framework of the RCUH Strategic Plan 2017-2021, and included the progress made towards reaching RCUH's mission, goals, objectives, and benchmarks through performance measures.

## Recommendation 2c

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**The corporation's executive director should consider and document whether added resources are needed to review incoming projects to determine whether they fall under the scope of RCUH services, and to monitor ongoing projects.**

**Implemented**

### Comments

RCUH management determined that added resources were needed to review and monitor direct projects. RCUH management amended the title and description of the Director of Finance position to Director of Finance & Project Administration to include the responsibility for administration of direct projects, and also hired a Project Administration Fiscal Specialist to assist in the review and monitoring of projects. In addition, RCUH management revised RCUH's policies and procedures for direct projects for State of Hawai'i departments and agencies.

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## Recommendation 2d

**The corporation's executive director should develop and implement procedures that include:**

- Detailed guidance for monitoring all projects;
- Ensuring periodic review of direct projects; and
- Reviewing and approving projects.

### Implemented

#### Comments

RCUH developed and implemented the following policies and procedures:

- 1.030 Project Acceptance Criteria;
- 1.100 University of Hawai'i Extramural Service-Ordered Projects;
- 1.200 University of Hawai'i Intramural Projects;
- 1.300 Revolving Accounts; and
- 1.400 Direct Projects

These policies and procedures contain written guidance for the review, acceptance, monitoring, and oversight of projects, and to ensure periodic reviews of direct projects and appropriate use of RCUH services by State departments and agencies.

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## Recommendation 2e

**The corporation's executive director should ensure that requirements of the State/RCUH Master Agreement are complied with by agencies requesting services.**

### Implemented

#### Comments

RCUH developed and implemented policies and procedures to ensure compliance with the State/RCUH Master Agreement by agencies requesting services. We reviewed a sample of RCUH direct projects from FY2017 to FY2018. Since these policies and procedures were implemented, state departments and agencies in our direct projects sample complied with master agreement requirements by submitting their justification and statement of reasons and obtaining the Governor's written approval before projects were accepted by RCUH. RCUH conducted periodic reviews with State departments and agencies for ongoing projects to ensure appropriateness and compliance.



## Recommendation 2f

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**The corporation's executive director should request the Department of the Attorney General issue a written opinion on whether certain state agencies are exempted from the State/RCUH Master Agreement.**

**Implemented**

### Comments

In response to RCUH's request, the Department of the Attorney General issued a written determination on July 23, 2018, confirming that all executive branch state agencies, with the exception of UH, are required to comply with the provisions of the State/RCUH Master Agreement and that an exemption from the master agreement requires approval from the Governor or the Governor's designee.

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