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**Notice of Meeting
UNIVERSITY OF HAWAI'I**

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Members: Regents Miyahira (Chair), Akitake (Vice-Chair), Abercrombie, Higaki, and Paloma

Date: Thursday, September 19, 2024

Time: 1:00 p.m.

Place: Leeward Community College
Education Building
ED-201
96-045 Ala 'Ike
Pearl City, HI 96782

See the Board of Regents website to access the live broadcast of the meeting and related updates: www.hawaii.edu/bor

ORDER OF THE DAY

- I. Call Meeting to Order**
- II. Approval of Minutes of the September 5, 2024 Meeting**
- III. Public Comment Period for Agenda Items:**

All communications from the Public to the Board of Regents is welcomed and distributed to all regents. To enable the Board to conduct its business, public comments at meetings may only be provided on agenda items noted below. Individuals who are unable to provide testimony at this time will be allowed an opportunity to testify when specific agenda items are called.

All written testimony on agenda items received after posting of this agenda will be distributed to the board. Written testimony may be submitted via the board's website through the testimony link provided on the Meeting Agendas, Minutes and Materials page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail at 2444 Dole Street, Bachman 103, Honolulu, HI 96822, or facsimile at (808) 956-5156.

Those wishing to provide oral testimony virtually may register [here](#). Individuals wishing to orally testify virtually are requested to register no later than 7:30 a.m. on the day of the meeting in order to be accommodated. Registration for in-person oral testimony on agenda items will also be provided at the meeting location 15 minutes prior to the meeting and closed at the posted meeting time. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier.

Although remote oral testimony is being permitted, this is a regular meeting and not a remote meeting by interactive conference technology under Section 92-3.7,

If you need an auxiliary aid/service or other accommodation due to a disability, contact the Board Office at (808) 956-8213 or bor@hawaii.edu as soon as possible. Requests made as early as possible have a greater likelihood of being fulfilled. Upon request, this notice is available in alternate/accessible formats.

Hawai'i Revised Statutes. Therefore, the meeting will continue notwithstanding loss of audiovisual communication with remote testifiers or loss of the public broadcast of the meeting.

All written testimony submitted are public documents. Therefore, any testimony that is submitted orally or in writing, electronically or in person, for use in the public meeting process is public information and will be posted on the board's website.

IV. Agenda Items

A. Waikiki Aquarium Update – Status of Corrective Actions

V. Adjournment

DISCLAIMER – THE FOLLOWING ARE DRAFT MINUTES AND ARE SUBJECT TO FURTHER REVIEW AND CHANGE UPON APPROVAL BY THE COMMITTEE

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

SEPTEMBER 5, 2024

A video recording of this meeting may be viewed at the Board of Regents website as follows:

[Meeting Video](#)

I. CALL TO ORDER

Chair Michael Miyahira called the meeting to order at 8:30 a.m. on Thursday, September 5, 2024, at the University of Hawai'i (UH) at Mānoa, Bachman Hall, 1st Floor Conference Room 106A/B, 2444 Dole Street, Honolulu, Hawai'i, 96822, with regents participating from various locations.

Committee members in attendance: Chair Michael Miyahira; Vice-Chair Lauren Akitake; Regent Neil Abercrombie; and Regent Wayne Higaki.

Committee members excused: Regent Diane Paloma

Others in attendance: Board Chair Gabriel Lee; Board Vice-Chair Laurie Tochiki Regent William Haning (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Academic Strategy Debora Halbert; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Hilo Chancellor Bonnie Irwin; UH-West O'ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Yvonne Lau; and others as noted.

II. APPROVAL OF MINUTES

Chair Miyahira inquired if there were any corrections to the minutes of the August 1, 2024, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Board Secretary Lau announced the Board Office's receipt of one piece of written testimony from Jill Nunokawa regarding the position description for the Director of Internal Audit. Ms. Nunokawa also provided verbal comments on the same subject matter.

Written testimony may be viewed at the Board of Regents website as follows:

[Written Comments Received](#)

IV. AGENDA ITEMS

A. Approval of the Revised Position Description for the Director of Internal Audit

VP Gouveia referenced the position description for the Director of Internal Audit contained within the meeting materials packet which, at the request of the committee, was being provided for review and approval before being formally posted. Once approved, the university's Office of Human Resources will follow normal continuous recruitment procedures to fill the position which will become vacant upon the retirement of the current Director of Internal Audit on October 1, 2024.

Regent Abercrombie arrived at 8:37 a.m.

Vice-Chair Akitake moved to approve the position description for the Director of Internal Audit, seconded by Regent Higaki, and noting the excused absence of Regent Paloma, the motion carried with all members present voting in the affirmative.

V. ADJOURNMENT

There being no further business, Chair Miyahira adjourned the meeting at 8:38 a.m.

Respectfully Submitted,

Yvonne Lau
Executive Administrator and Secretary
of the Board of Regents

UNIVERSITY OF HAWAI‘I AT MĀNOA

WAIKĪKĪ AQUARIUM

Status of Corrective Actions – Follow up

July 2024

DRAFT



University of Hawai'i
Office of Internal Audit



UNIVERSITY
of HAWAII®
SYSTEM

July 2, 2024

To the University of Hawai'i Board of Regents
and
The University of Hawai'i at Mānoa Provost

In May 2021, the University of Hawai'i Office of Internal Audit (Internal Audit) issued a report titled *University of Hawai'i at Mānoa Review of the Waikīkī Aquarium* dated January 29, 2021. In March 2022, May 2023 and March 2024, Internal Audit prepared Status of Corrective Action reports noting that the Aquarium had not yet addressed all risks and challenges described in the January 29, 2021 report. The March 2024 report identified pending corrective actions for five (5) of the 15 identified risks. Accordingly, Internal Audit recommended that UHM senior leadership actively manage and monitor the Aquarium's implementation of corrective actions on a monthly basis.

The March 2024 report was presented to the Committee on Independent Audit (Audit Committee) at its June 6, 2024 Audit Committee meeting. During this meeting, the Audit Committee Chair requested that Internal Audit prepare two Aquarium reports during the year ended June 30, 2025 addressing the Aquarium's implementation status of corrective actions. The first would report on the implementation status of four (4) pending corrective actions not related to the luau concession revenue audit. The second would report on the luau concession revenue audit.

The accompanying report is the first report requested by the Audit Committee Chair. As summarized in **Table 1**, corrective actions remain pending for six (6) of the 15 identified risks, one of which relates to the concession revenue audit. The increase in pending corrective actions relates to the Aquarium's installation of a new point-of-sale inventory system in March 2024 and the Aquarium not fully understanding the functionality of this system. This lack of understanding was evidenced in inventory reports provided to Internal Audit with negative quantities for all classes of inventory. This report also describes the Aquarium's non-compliance with Administrative Procedure 8.701, *Receipting and Depositing of Funds Received by the University* requiring cash and check deposits by the next business day. The Aquarium deposited private event payments one to three weeks after receipt. The Aquarium resumed hosting private events in March 2024.

Sincerely,

Glenn Shizumura
Director

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

I. Background

Founded in 1904 and administered by the University of Hawai‘i (University) at Mānoa (UHM) since 1919, the Waikīkī Aquarium (Aquarium) is located on the shoreline of Waikīkī Beach across from Kapi‘olani Park. According to the Aquarium website, the Aquarium has in excess of 500 exhibits displaying more than 3,500 marine specimens. The Aquarium’s exhibits, education programs, and research focus on the unique aquatic life of Hawai‘i and the tropical Pacific. As a result of the COVID-19 pandemic, the Aquarium closed during March 2020, re-opened in late June 2020, closed for a second time in late August 2020 and re-opened again on July 1, 2021.

As noted in the *University of Hawai‘i at Mānoa Review of the Waikīkī Aquarium* report issued by the Office of Internal Audit (Internal Audit) dated January 2021, Internal Audit identified various financial, operational and compliance risks and challenges including the performance of incompatible financial duties by Aquarium personnel, the lack of comparing and reconciling financial information from Aquarium financial systems to the University’s Kuali Financial System (KFS), inconsistent preparation of accurate and complete financial results, non-compliance with various University policies and procedures and uncertainties regarding the resolution of the Aquarium’s wastewater discharge system.

In March 2022, Internal Audit issued a Status of Corrective Action report noting that the Aquarium had addressed certain risks and challenges including the segregation of incompatible duties, comparing and reconciling financial information from Aquarium financial systems to the University’s KFS and preparation of accurate and complete financial results. However, the risks and challenges associated with the implementation of procedures to gift shop inventory adjustments, recordation of third-party vendor payments on behalf of the Aquarium and ensuring compliance with University policies and procedures were either not implemented or were in process of resolution. In November 2022 and again in December 2022, Internal Audit informed Aquarium personnel that audit procedures in connection with this audit would commence in January 2023. Internal Audit issued a report dated May 2023 noting that corrective actions were not implemented for eight (8) of the 15 identified risks.

At the September 7, 2023 Committee on Independent Audit (Audit Committee) meeting, the UHM Provost committed to the implementation of all corrective actions documented in the Aquarium’s written response dated April 28, 2021 to Internal Audit’s January 2021 report by December 22, 2023. From September 2023 to January 2024 Internal Audit was provided with various documents to address corrective action implementation. In addition, the UHM Provost issued memorandums dated November 29, 2023, January 29, 2024 and March 13, 2024 to the Audit Committee Chair and Internal Audit documenting their progress with respect to corrective action implementation.

As described in Internal Audit’s Status of Corrective Action report dated March 13, 2024 and presented at the June 6, 2024 Audit Committee meeting, corrective actions remained pending for five (5) of the 15 identified risks. The March 2024 report was Internal Audit’s third (3rd) Status of Corrective Action report for the Aquarium. Accordingly, this report also recommended that UHM senior leadership actively manage and monitor the Aquarium’s implementation of corrective actions on a monthly basis.

Subsequent to the presentation of the March 2024 report at the June 6, 2024 Audit Committee meeting, the Audit Committee Chair requested that Internal Audit prepare two Aquarium reports during the year ended June 30, 2025 addressing the Aquarium’s implementation status of corrective actions. The first would report on the implementation status of four (4) pending corrective actions noted in Internal Audit’s March 2024 report. The second would report on the fifth pending corrective action related to the luau’s concession revenue audit.

The Audit Committee Chair also requested that UHM administration provide an update on the status of the luau concession revenue audit at the August 2024 Audit Committee meeting. The UHM Provost stated that corrective

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

actions for all pending corrective actions items with the exception of the luau contract audit were completed as of June 6, 2024 and that all documentation supporting corrective action implementation would be provided to Internal Audit by June 30, 2024.

II. Corrective Action Status

Table 1 summarizes the observations/recommendations from Internal Audit’s January 2021 report and corrective action status of each observations/recommendations as of March 2022, May 2023, March 2024 and July 2, 2024. Condensed text of Internal Audit’s January 2021, March 2022, May 2023 and March 2024 reports are included in this report for reference and context purposes.

As of July 2, 2024, six (6) of the fifteen Aquarium corrective actions are pending compared to five (5) as of March 2024. The increase of pending corrective actions relates to the Aquarium’s installation of a new point-of-sale inventory system (RocketRez) in March 2024. As described more fully in Section D.2. *Gift shop periodic and financial reports*, the Aquarium does not fully understand the functionality of the RocketRez system. This lack of understanding was evidenced in inventory reports provided to Internal Audit with negative quantities for all classes of inventory. In addition, Aquarium personnel could not demonstrate the migration of inventory (quantity, description, cost basis, retail price, etc.) from their former NCR system to the new RocketRez system in addition to the manner of establishing retail prices.

In connection with this July 2024 Corrective Action Status audit, Internal Audit prepared a written information request listing that was sent via e-mail to the UHM Office of Business and Finance Chief Business Officer (CBO) and UHM Office of Business and Finance Fiscal Administrator (FA) on June 12, 2024 to assist Aquarium personnel in the gathering, preparation and forwarding of appropriate auditable information. An updated information request status listing highlighting open items and including comments and questions with respect to information provided by the Aquarium was sent via e-mail on June 18, 2024. The June 18, 2024 listing was discussed via teleconference on June 19, 2024 with the CBO and FA. Internal Audit prepared and e-mailed updated information request status listings to the CBO, FA, Aquarium Administrative Officer and Aquarium Administrative and Fiscal Support Specialist on June 21, 2024, June 24, 2024, June 26, 2024 and June 28, 2024.

University of Hawai‘i at Mānoa
Waikiki Aquarium Status of Corrective Actions
July 2024

Table 1: Summary of Corrective Action Status

Observations/Recommendations	March 2022	May 2023	March 2024	July 2024
A. Segregation of duties				
1. Visitors Services Supervisor and Events Coordinator	Implemented	Remains implemented	Remains implemented	Remains implemented
2. Upon re-opening of gift shop	Implemented	Remains implemented	Remains implemented	Remains implemented
B. Altru POS system				
1. Compare and investigate differences in Altru and posted to KFS	Not implemented	Implemented	Remains implemented	Remains implemented
2. Solution allowing online admission sales proceeds be credited directly to the University bank account	Not implemented	Implemented	Remains implemented	Remains implemented
C. Operating deficit				
1. Plan to address current and potential ongoing financial challenges	Not implemented	Implemented	Remains implemented	Remains implemented
D. Financial analysis				
1. Evaluate the adequacy of private events and luau events revenues	Not implemented	Not implemented	Implemented	Remains implemented
2. Prepare gift shop periodic and annual financial reports comparing actual to target gross margins	Not implemented	Not implemented	Implemented	Not implemented
E. Processes and procedures				
1. Invoicing and recording luau revenues to KFS	Not implemented	Not implemented	Not implemented	Not implemented
2. Administrative Officer to review and approve gift shop inventory adjustment	Not implemented	Not implemented	Not implemented	Not implemented
F. FOWA and UHF				
1. MOU compliance monitoring	Not implemented	Not implemented	Not implemented	Not implemented
2. Record FOWA and UHF vendor payments made on behalf of WAQ in KFS	Not implemented	Not implemented	Not implemented	Not implemented
G. Executive Policies and Administrative Procedures				
1. Monitor financial results				
a) Prepare and distribute internal monthly and annual budget to actual financial results	a) Implemented	a) Remains implemented	a) Remains implemented	a) Remains implemented
b) Explain significant financial year-to-year variances, budget to actual variances	b) Not implemented	b) Not implemented	b) Implemented	b) Remains implemented
2. Comply with applicable University policies and procedures	Not implemented	Not implemented	Not implemented	Not implemented
H. Wastewater Discharge				
Consultation with University leadership regarding salt water discharge	Implemented	Remains implemented	Remains implemented	Remains implemented

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

A. Segregation of duties

2021 report:

Internal Audit Observation and Recommendation

The Visitor Services Supervisor and Events Coordinator perform incompatible duties within the admissions and private event rental processes, respectively. Custody of assets (sales proceeds), recording of transactions, and comparing proceeds to recorded transactions performed by a single employee result in a lack of segregation of duties and increase the risk of errors or fraud related to these revenue sources. The gift shop may experience a similar segregation of duties issue upon its re-opening with the Assistant Manager as a result of the dismissal of the Manager.

Corrective Action Status reports as of March 2022 and May 2023

The Administrative Officer determined that reassignment of incompatible duties was not practical and accordingly implemented corrective action by comparing sales reports from its admissions and the gift shop systems to sales recorded in KFS on a daily basis.

Internal Audit requested and reviewed sales reports dated May 15, 2022 and compared these reports to KFS noting no differences supporting the Administrative Officer’s representation.

The Administrative Officer also informed Internal Audit that a gift shop manager was hired in December 2022. The hiring of the gift shop manager coupled with the hiring of gift shop employees (two full time and one part time) as well as the Administrative Officer’s additional involvement with gift shop operations should allow for the mitigation of incompatible duties performed by a single employee.

March 2024 Corrective Action Status report:

1. Visitors Services Supervisor and Events Coordinator

Internal Audit noted that the Administrative and Fiscal Support Specialist assumed the Administrative Officer’s duty of comparing daily sales reports from the Aquarium’s admissions and gift shop system to sales recorded in KFS. Internal Audit requested and reviewed sales reports dated December 5, 2023 and compared these reports to KFS noting no differences.

Conclusion

Corrective action remains implemented.

2. Reopening of gift shop

The Administrative Officer stated that the performance of incompatible duties (authorization of transactions, custody of assets, transaction recordation and control functions) at the gift shop has been mitigated. Internal Audit verified this assertion by examining the December 2023 gift shop summary reports in KFS noting that duties performed by gift shop manager and gift shop employees (one full time and two part time) are adequately separated.

Conclusion

Corrective action remains implemented.

July 2024 Status:

1. Visitors Services Supervisor and Events Coordinator

Internal Audit noted that the Administrative and Fiscal Support Specialist continues to compare daily sales reports from the Aquarium’s admissions and gift shop system to sales recorded in KFS. Internal Audit requested and reviewed admission sales and gift shop sales reports dated May 14, 2024 and compared these reports to the KFS noting no differences.

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

Conclusion

Corrective action remains implemented.

2. Reopening of gift shop

The Aquarium provided documentation supporting the continued segregation of duties (custody of assets, transactions recording and review responsibilities) in connection with the operations of the gift shop.

Conclusion

Corrective action remains implemented.

B. Altru POS system (Altru)

2021 report:

Internal Audit Observation and Recommendation

Admission fees recorded in Altru and KFS did not agree. These differences could not be explained by the Administrative Officer and would have been detected if Aquarium personnel compared transactions summarized in Altru and posted in KFS on a monthly basis. The asserted Altru limitations requiring online ticket sales proceeds to be credited to a Friends of the Waikīkī Aquarium (FOWA) bank account appear unreasonable. Private event rental fees are also processed by Altru. However, and contrary to the posting of admission fees to KFS, private event rental fees are posted to KFS from a manual spreadsheet.

Corrective Action Status reports as of March 2022 and May 2023:

The Administrative Officer performs a daily comparison of transactions summarized in Altru and posted in KFS. Internal Audit requested and reviewed an Altru to KFS comparison dated May 15, 2022 noting no differences supporting the Administrative Officer’s representation.

March 2024 Corrective Action Status report:

1. Compare and investigate differences

Internal Audit was informed that the Aquarium implemented the RocketRez system for admission sales on December 14, 2023. The Administrative and Fiscal Support Specialist assumed the Administrative Officer’s duty of comparing and investigating differences between RocketRez and KFS daily deposits. Internal Audit requested and reviewed the December 20, 2023 daily deposits noting an incorrect deposit amount recorded by a cashier in KFS. The Administrative and Fiscal Support Specialist reviewed and corrected the deposit amount in KFS.

Conclusion

Corrective action remains implemented.

2. Admissions sales credited to University bank account

Internal Audit was informed by the Administrative Officer that with the implementation of RocketRez, online ticket sales proceeds are now directly deposited into the University general bank account. Internal Audit reviewed the deposit slip in KFS noting that the ticket sales proceeds were deposited to the University’s general bank account based on the deposit slip account number under the University Treasury Office which is the University general bank account number stated in AP 8.701, *Receipting and Depositing of Funds Received by the University*.

Conclusion

Corrective action implemented.

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

July 2024 Status

1. Compare and investigate differences

The Administrative and Fiscal Support Specialist continues to compare and investigate differences in connection with RocketRez and KFS admission sale daily deposits. Internal Audit requested and reviewed the May 14, 2024 bank deposit slip consisting of admission sales received in cash, credit card (admission booth and online) and travelers checks. Internal Audit compared the bank deposit slip amounts to KFS noting no differences.

Conclusion

Corrective action remains implemented.

2. Admissions sales credited to University bank account

The Administrative and Fiscal Support Specialist reconfirmed that online ticket sales proceeds are directly deposited into the University general bank account. Internal Audit reviewed the May 2024 credit card deposit reconciliation noting that credit card sales transactions from the admission booth and website are listed separately. Internal Audit reviewed the May 14, 2024 bank deposit slip in KFS noting that the ticket sales proceeds [cash, credit card (admission booth and website), travelers checks] were deposited to the University’s general bank account based on the deposit slip account number under the University Treasury Office.

Conclusion

Corrective action remains implemented.

C. Operating deficit

2021 report:

Internal Audit Observation and Recommendation

The Aquarium projects a cashflow deficit for the year ended June 30, 2021 and has incurred historical operating deficits. However, the Aquarium has not developed a plan to address these deficits and the potential ongoing financial and operational challenges (i.e., restrictions on group size and social distancing requirements) presented by COVID-19. The development of a plan to address the Aquarium’s current and potential ongoing financial and operational challenges is critical. Immediate consultation with University senior leadership is warranted.

Corrective Action Status reports as of March 2022 and May 2023:

The Administrative Officer provided Internal Audit with Statements of Revenues and Expenses for the years ended June 30, 2022 and 2021. The Administrative Officer and FA continued to revise the year ended June 30, 2022 account balances through May 2023. Accordingly, the ability of the Aquarium to properly analyze financial results on a timely basis is negatively impacted by the Aquarium’s inability to finalize account balances until 10 months after year end.

March 2024 Corrective Action Status report:

Plan to address financial challenges

Table 2a provides a condensed summary of the Aquarium’s revenues and expenses from schedules prepared by the Administrative Officer for the five-year period ended June 30, 2023.

University of Hawai‘i at Mānoa
 Waikīkī Aquarium Status of Corrective Actions
 July 2024

Table 2a: Condensed Financial Results (unaudited)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues	\$4,519,593	\$ 3,297,074	\$1,065,126	\$3,576,555	\$4,424,174
Expenses	3,920,600	2,902,145	2,241,422	4,107,119	4,126,212
Revenues in excess (deficiency) of expenses prior to non-recurring item	598,993	394,929	(1,176,296)	(530,564)	297,962
Non-recurring revenues					
COVID 19 relief funds	1,991,626	1,000,000	-	-	-
Revenues in excess (deficiency) of expenses	<u>\$2,590,619</u>	<u>\$ 1,394,929</u>	<u>\$(1,176,296)</u>	<u>\$ (530,564)</u>	<u>\$ 297,962</u>

Conclusion

Corrective actions remain implemented with respect to financial challenges. Refer to Section G. *Executive Policies and Administrative Procedures* conclusion with respect to explaining significant year to year financial variances and effectively managing and monitoring its financial results.

July 2024 Status

Plan to address financial challenges

Table 2b provides a condensed summary of the Aquarium’s revenues and expenses (actual and projected) from schedules prepared by the Administrative and Fiscal Support Specialist as of May 2024.

Table 2b: Condensed Financial Results (unaudited)

	<u>11-mths ended May 2024 Actual</u>	<u>FY 2025 Projections</u>	<u>FY 2026 Projections</u>	<u>FY 2027 Projections</u>
Revenues	\$3,944,396	\$2,705,203	\$4,207,910	\$4,815,017
Expenses	3,805,798	4,321,118	4,698,357	4,924,574
Rev. in excess (deficiency) of exp	<u>\$138,598</u>	<u>\$(1,615,915)</u>	<u>\$(490,447)</u>	<u>\$(109,557)</u>

The Aquarium stated that the decrease in projected FY 2025 revenues is due to an anticipated reduction in visitors to the Aquarium resulting from construction associated with the wastewater discharge system (See Section H. *Wastewater discharge*).

The Aquarium believes its June 2024 cash balance in excess of \$3 million is sufficient to cover financial losses during the construction of the wastewater discharge system. The excess cash was primarily the result of the Aquarium’s receipt of COVID-19 relief funds approximating \$2 million and \$1 million during the fiscal years ended June 30, 2023 and 2022, respectively.

Conclusion

Corrective action remains implemented.

D. Financial analysis

2021 report:

Internal Audit Observation and Recommendation

The Aquarium has not evaluated the adequacy of private event rental fees and luau revenues to cover the associated expenses. With respect to the gift shop, the Administrative Officer does not review and analyze financial results including comparing actual to target gross margins on a periodic or annual basis. The Aquarium

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

also does not prepare accurate and complete financial reports as well as monthly budget to actual reports documenting explanations for significant revenue and expense fluctuations.

The Aquarium must evaluate the adequacy of private event rental fees and luau revenues to cover the associated expenses to determine if the amounts charged provide the Aquarium with sufficient profit or any profit. The Administrative Officer must also prepare periodic and annual financial reports for the gift shop to analyze financial results including comparing actual to target gross margins on a periodic and annual basis. The Aquarium must also quantify the financial impact of admission fee discounts to determine if the discounts increase revenues and profits.

Corrective Action Status reports as of March 2022 and May 2023:

The Aquarium is in the process of evaluating the appropriate pricing for private event facility rentals including the luau.

The Administrative Officer provided a gross margin analysis for the quarter ended December 31, 2022 compared to the quarter ended September 30, 2022. However, an analysis comparing actual gross margins to target gross margins (periodic or annual) was not performed.

March 2024 Corrective Action Status report:

1. Adequacy of private events and luau events revenues

The Aquarium’s luau events resumed in July 2023 pursuant to a new luau contract executed on June 30, 2023. Internal Audit was informed by an Associate General Counsel from the Office of General Counsel (OGC) that OGC and Office of Risk Management (ORM) were involved with the preparation and review of the new Aquarium luau concession contract effective from July 1, 2023 through June 30, 2024.

The luau concession fee pursuant to the luau contract for the period from July 1, 2023 through June 30, 2024 is the greater of \$4,000 per event or 15% of gross revenues earned by the vendor. The luau contract does not specify if the 15% of gross revenues is on a per event basis. Internal Audit believes it is reasonable to interpret the intent of the contract as 15% of gross revenues on a per event basis. Accordingly, Internal Audit will utilize this interpretation for the purpose of this review.

Internal Audit was informed that the contracted luau concession fee was not the result of a financial analysis previously recommended by Internal Audit but an amount negotiated between the luau vendor and UHM’s Hawai‘i Institute of Marine Biology Associate Director (appointed by the UHM Provost) in consultation with the Aquarium Director, Aquarium Administrative Officer, Aquarium Events and Membership Coordinator, and CBO. The Aquarium prepared a financial analysis dated September 2023 that did not include utility expenses and updated that analysis in January 2024 noting that the \$4,000 concession fee (\$4,000 or 15% of gross revenues) would exceed the associated expenses.

The Administrative Officer is uncertain as to the timing of finalizing a facility rental agreement. Internal Audit was informed that the anticipated facility rental fee of \$3,200 per event was approved by the University President via a memo dated October 2023.

Conclusion

The January 2024 financial analysis indicates that luau revenues pursuant to the 2023 luau contract exceed the associated costs. However, the financial analysis was not prepared to determine an appropriate fee amount as was the intent of Internal Audit’s 2021 recommendation.

Corrective action implemented.

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

2. Gift shop periodic and financial reports

Internal Audit was informed that the gift shop manager performs a quarterly gross margin analysis but no quarter to date or year-to-date analysis to match the quarterly, quarter to date and year to date budget to actual gift shop financial analysis prepared by the Administrative and Fiscal Specialist. Internal Audit requested and reviewed the gross margin analysis for the quarter ended December 31, 2023 comparing the Aquarium’s actual gross margins to the quarter ended September 30, 2023. Internal Audit noted that written variance explanations did not analyze or provide the rationale for gross margin variances. Internal Audit noted that the quarter ended December 2023 combined gross margins by inventory category ranged from 54% to 71% while the minimum target gross margins by inventory category ranged from 52% to 66%.

Internal Audit reviewed the December 2023 gift shop reconciliation from the NCR POS system to KFS and noted that the NCR gift shop sales agreed to the December 2023 gift shop sales reported in KFS without exception.

The Administrative and Fiscal Specialist prepares gift shop monthly, quarterly, quarter to date and year to date budget to actual reports with written variance explanations. Similar to the gift shop gross margin analysis, the budget to actual financial results analysis does not analyze or provide a rationale for significant revenue and expense variances. See explanation of budget to actual variances in Section G. *Executive Policies and Administrative Procedures*.

Conclusion

Corrective actions implemented pending preparation of an annual gross margin analysis for the year ended June 30, 2024 and improving written explanations analyzing and providing sufficient rationales for gross margin variances.

July 2024 Status

1. Adequacy of private events and luau events revenues

Internal Audit was informed that the Aquarium hosted the following three private events through May 2024.

Table 3

Organization	Fee	# attendees	Date				Alcohol served
			Event	Contract signed	Check	Bank deposit	
Kaiser High School	1)\$3,200 2)\$1,172	181	March 2, 2024	March 1, 2024	1) Feb 26, 2024 2) April 25, 2024	1) April 23, 2024 2) May 3, 2024	No
Eye Productions Inc	\$6,500	325	April 4, 2024	April 3, 2024	April 23, 2024	May 3, 2024	Yes
Hawaii Firefighters Association	\$6,000	300	April 9, 2024	April 3, 2024	April 5, 2024	April 23, 2024	Yes

Internal Audit reviewed each private event’s facility rental agreement noting that the Aquarium charged the rate of \$3,200 (includes one security staff) per 100 attendees, \$12 per attendee exceeding 100, and \$200 per security staff for each 100 attendees in excess of the initial 100. These rates were consistent with the rates noted in the University President’s October 2023 memo.

The Aquarium’s financial cost analysis for the luau and private events indicates that charged revenues exceed estimated costs. However, Internal Audit’s review of this cost analysis noted inconsistencies in the cost components for the luau in comparison to private events (e.g., no utility cost estimate for private events). In addition, the utility cost estimate includes electricity but not water/sewer and no costs were included for garbage removal. Internal Audit also noted that the cost analysis lacked the flexibility to vary the estimated cost based

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

on the number of attendees. See Section G.2. *Compliance with University policies and procedures* regarding non-compliance with University policies with respect to payment receipt and timely bank deposits.

Conclusion

Corrective action remains implemented.

2. Gift shop periodic and financial reports

Internal Audit was informed that the Aquarium’s gift shop migrated from the NCR point-of-sale system to the RocketRez point-of-sale system in March 2024. In addition, Internal Audit was informed that The Aquarium performed a physical count of the gift shop’s inventory on April 18, 2024.

The Aquarium did not provide various Internal Audit requested gift shop documents and reports evidencing the Aquarium’s understanding of the functionality of the RocketRez point-of-sale system. Reports provided to Internal Audit included an inventory report comparing physical count to RocketRez system count with negative RocketRez quantities for all classes of inventory. In addition, the Aquarium could not demonstrate the migration of inventory (quantity, description, cost basis, retail price, etc.) from their former NCR system to RocketRez nor support the cost basis of inventory and thus the related retail price. Accordingly, reports analyzing and comparing target to actual gross margins to evaluate the gift shop’s operations and financial results would not be reliable.

Conclusion

Corrective action not implemented.

E. Processes and procedures

2021 report:

Internal Audit Observation and Recommendation

The Aquarium lacks processes and procedures related to the invoicing and recording of luau revenues to KFS. In addition, gift shop inventory adjustments are not required to be reviewed and approved by the Administrative Officer. Accordingly, the risk of potential errors increases with respect to luau revenues and gift shop inventory.

In order to decrease the risk of potential errors with respect to luau revenues, the Aquarium should develop processes and procedures related to the invoicing and recording of luau revenues to KFS. With respect to gift shop inventory, the Administrative Officer should review and approve inventory adjustments to the NCR POS system.

Corrective Action Status reports as of March 2022 and May 2023:

The Administrative Officer provided Internal Audit with a document with the proposed process for invoicing and recording luau revenues. Internal Audit reviewed the document noting significant gaps and process deficiencies. Examples of these gaps and deficiencies include the following:

- Lack of procedures and controls to validate number of luau guests.
- Inadequate segregation of duties.
- Lack of procedures describing the manner of invoice distribution.
- Lack of procedures to follow-up on unpaid invoices.

The Aquarium has not implemented procedures requiring the Administrative Officer to review and approve inventory adjustments to the NCR POS system.

**University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024**

March 2024 Corrective Action Status report:

1. Invoicing and recording luau revenues

The Aquarium entered into a new luau contract with King’s Luau LLC (King’s or luau vendor) for the period July 1, 2023 through June 30, 2024. King’s is authorized to hold luaus at the Aquarium up to five (5) days per week (Monday, Wednesday, Thursday, Friday and Sunday) between 3:00 p.m. and 10:00 pm. The Aquarium’s updated process narrative for invoicing and recording luau revenue is as follows:

Aquarium luau staff use a clicker to count guests as they enter the luau area to ensure that the maximum guest count of 350 is not exceeded. The guest count is documented in a manual monitoring sheet. The luau concession contract states that the luau vendor pays the Aquarium a concession fee of the greater of:

- \$4,000 per event or
- 15% of the gross revenues generated from all revenue generating activities, including but not limited to, luau dinner packages, alcoholic beverages, photography, video, apparel, transportation services, and tour packages.

The prior contract that expired on December 31, 2019 required the vendor to pay \$2,100 per event plus \$5 per guest that exceeded 150. On the 10th of each month, the Events and Membership Coordinator prepares and e-mails an invoice for the prior month’s events. The invoice charges the luau vendor \$4,000 per event since the Aquarium is unaware of the luau vendor’s gross revenues per event. On or about the 20th of each month, the Administrative and Fiscal Support Specialist picks up the luau vendor’s concession report (profit and loss statement) for the prior month’s events from the mail at the Aquarium’s Visitor Services secured office. A check accompanies the concession report for the amount of the invoice e-mailed on the 10th. The Events and Membership Coordinator compares the check amount to the invoice. The Administrative and Fiscal Support Specialist records payment in KFS. The only information included on the concession report is the luau vendor’s total gross revenues for the prior month’s events. Gross revenues by event for the month are not provided. The check will be kept in the Visitor’s Services secured safe until pick up for the following day. The Visitor Services Supervisor prepares the deposits to be picked up by an armored vehicle and sent directly to the bank. Revenue is recorded in KFS when payment is deposited.

The Events and Membership Coordinator follows-up via e-mail for invoices not received by the 20th of the month. The invoice notes that a late fee of \$100 plus interest will be charged to the luau vendor for payments not received within 30 days of the invoice date.

The luau contract requires the concession report to include King’s daily cash register totals. Internal Audit was informed that concession reports submitted to date do not include daily cash register totals. Aquarium personnel and the UHM CBO informed Internal Audit that the contract’s requirement to include the luau vendor’s daily cash register totals in the concession report was in error. As previously noted in this report, the luau contract does not specify the timeframe to apply the 15% of the luau vendor’s gross revenue. Internal Audit believes the luau vendor providing daily cash register totals allows the Aquarium to calculate 15% of gross revenues on a per event basis. The Aquarium’s luau revenue process does not include procedures to determine if the proper concession fee is remitted to the Aquarium (greater of \$4,000 per event or 15% of gross revenues).

The luau contract allows the Aquarium to request other financial reports to reflect King’s financial operating results pursuant to the terms and conditions of the luau contract. The luau contract also states that the Aquarium may request the luau vendor to engage an independent certified public accounting firm to conduct an annual audit of concession revenues at the luau vendor’s expense.

Conclusion

Corrective actions not implemented.

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July 2024

Although the Aquarium has revised their process to invoice and record luau revenues, the process does not include an evaluation to assess whether the luau vendor is paying the appropriate concession fee. Internal Audit recommends that the Aquarium clarify the timeframe to apply the 15% of the luau vendor’s gross revenue then design procedures to assess whether the appropriate concession fee is paid in addition to requiring King’s to engage an independent certified public accountant to audit and issue a report attesting to King’s compliance with the monthly concession fee requirement pursuant to the luau contract.

2. Administrative Officer review and approval of inventory adjustment

The Aquarium has prepared updated gift shop processes related to their new gift shop POS system (RocketRez). However, timing for the implementation of the new POS system is not known.

An annual physical inventory is scheduled every fiscal year end (June 30 or July 1). However, the Administrative Officer informed Internal Audit that a physical inventory was not performed as of June 30, 2023 nor have any physical inventory counts been performed during the current fiscal year. In addition, there were no periodic reviews of the inventory to ensure that the price changes, receipts, chargebacks, and adjustments were properly reviewed and posted to their current system, NCR.

Conclusion

Corrective actions not implemented.

July 2024 Status

1. Invoicing and recording luau revenues

The UHM Provost sent a memorandum dated April 25, 2024 to King’s noting the Aquarium’s decision to not renew the concession agreement or extend the initial term beyond June 30, 2024. Consistent with Internal Audit’s March 2024 report recommendation, the memorandum requested that King’s engage an independent certified public accountant (CPA) to conduct an audit of the concession revenues for the year ended June 30, 2024 at King’s expense. Internal Audit’s review of the audit request described in the memorandum noted the lack of specificity with respect to addressing the concession fee issue of the greater of 15% of the gross revenues or \$4,000 per event.

Section 6b(4) “Other reports” of the luau agreement states that the University may request that King’s submit its financial position and results, in such form and detail as the University may reasonably direct including showing separately in detail the results of King’s operations under this Agreement, prepared by an independent CPA. Accordingly, Internal Audit recommended that the Aquarium consider requesting that King’s independent CPA prepare a report of Concession Revenues (by category such as luau, vendor sales, photo, etc.) by Concession Event for the year ended June 30, 2024. Aquarium staff should then ensure that the gross revenues per this report agrees to the audited concession revenue report.

The Aquarium Administrative Officer sent an e-mail to King’s dated June 21, 2024 requesting that King’s CPA prepare a report of the concession revenues (by category such as luau, vendor sales, photo, etc.) by concession event for the year ended June 30, 2024 pursuant to Internal Audit’s recommendation.

Conclusion

Corrective action not implemented as evaluation of the appropriate concession fee is pending.

2. Administrative Officer review and approval of inventory adjustment

See Section D.2. *Gift shop periodic and financial reports* above regarding the Aquarium’s inability to provide gift shop documents and reports including inventory system reports with negative quantities.

**University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024**

Conclusion

Corrective action not implemented.

F. FOWA and University of Hawai‘i Foundation (UHF)

2021 report:

Internal Audit Observation and Recommendation

Net assets of the FOWA may represent an additional source of funding for the Aquarium. However, the Aquarium has not secured a funding commitment from the FOWA. Additionally, the Aquarium does not monitor the FOWA’s compliance with the terms and conditions of the Aquarium/FOWA Memorandum of Understanding (MOU) or reflect FOWA and UHF payments (capital improvements and expenses) directly to vendors on behalf of the Aquarium in KFS or the Aquarium’s financial reports.

The Aquarium should establish processes and procedures to monitor the FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support.

The Administrative Officer should, at minimum, record FOWA and UHF vendor payments made on behalf of the Aquarium in the Aquarium’s internal financial reports to provide a comprehensive representation of the Aquarium’s net position and results of operations. Exclusion of these on behalf payments may result in improper budgeting guidance for subsequent years.

Corrective Action Status reports as of March 2022 and May 2023:

The Aquarium has not established processes and procedures to monitor FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support.

FOWA and UHF vendor payments made on behalf of the Aquarium remain unrecorded in either the Aquarium’s internal financial reports or KFS.

March 2024 Corrective Action Status report:

1. MOU compliance monitoring

The Aquarium’s process for managing and monitoring MOU compliance consist of attending at least two (2) FOWA meetings annually, maintaining a record of the FOWA meeting agenda and preparing an annual report summarizing the terms of the FOWA agreement. Internal Audit noted that the annual summary report is not comprehensive and does not address all FOWA MOU compliance requirements. A significant FOWA commitment is to disburse 50% of annual membership revenues to the Aquarium in addition to a significant portion of FOWA net revenues for Aquarium exhibits. The Aquarium’s financial statements for the fiscal years ended June 30, 2023 and 2022 do not reflect any receipts from FOWA.

Conclusion

Corrective actions not implemented since the Aquarium’s financial statements reflect no FOWA receipts for the fiscal years ended June 30, 2023 and 2022.

2. Record FOWA and UHF vendor payments

The Aquarium stated that no FOWA or UHF vendor payments were made on behalf of the Aquarium for the year ended June 30, 2023 or the six months ended December 31, 2023. Pursuant to Internal Audit inquiries, it was determined that the Aquarium has not yet recorded capital asset improvements paid for by FOWA that benefit the Aquarium.

Conclusion

Corrective actions not implemented.

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July 2024 Status

1. MOU compliance monitoring

Internal Audit was informed that 50% of annual FOWA membership revenues for the calendar years ended 2021 and 2022 were received by the Aquarium in September 2022 (\$18,000) and November 2023 (\$56,000). Internal Audit reviewed and requested copies of the check payment and deposit slips noting payments were received and recorded in the Aquarium’s financial reports and KFS.

The Administrative Officer believes 50% of annual FOWA membership revenues for calendar year 2023 will be received by the Aquarium in Fall 2024. Internal Audit did not receive documentation supporting the Aquarium’s monitoring of FOWA compliance with all MOU requirements including FOWA’s commitment to provide a significant part of its net revenues to fund Aquarium exhibits.

Conclusion

Corrective action not implemented.

2. Record FOWA and UHF vendor payments

Internal Audit noted that Aquarium capital assets (air water chillers and commercial grade shade structure) amounting to approximately \$40,000 were purchased with FOWA funds during the fiscal year ended June 30, 2019. The Aquarium recorded these capital assets in KFS and the University capital improvement tracking system on March 22, 2024.

The Aquarium did not provide a listing or correspondence of FOWA vendor payments made on behalf of the Aquarium as of May 2024. The Aquarium’s revised process is to prepare GALC (General Accounting and Loan Collection) Form Z-99 annually to record FOWA and UHF payments made on behalf of the Aquarium in KFS. The Aquarium did not provide Internal Audit with Form Z-99 related to FOWA and UHF on-behalf payments for the year ended June 30, 2024.

Conclusion

Corrective action not implemented.

G. Executive Policies and Administrative Procedures

2021 report:

Internal Audit Observation and Recommendation

The Aquarium does not monitor its financial results in accordance with Administrative Procedure (AP) 8.025 or the Aquarium’s functional statement. Monthly internal financial and budgetary statements are not prepared, transactions and accounts are not reconciled from Aquarium sub-systems to KFS on a regular basis and reporting of transactions lack accuracy and completeness. The Aquarium is also in noncompliance with various University policies and procedures with respect to the use of the Aquarium’s facilities for private events, luau and photography services as follows:

- Executive Policy (EP) 8.200 - exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
- EP 11.202 – no University approval and vendor/customer liquor commission license for the service of alcoholic beverages
- AP 1.200 – facility rental competes with privately owned facilities; no University approval for not utilizing the University’s food and beverage vendor

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July 2024

- AP 8.230 –luau and photography agreements not reviewed and approved by Office of Procurement Management
- AP 8.400 – lack of indemnification clauses and minimum insurance coverage requirements
- AP 8.710 – indefinite retention and storage of credit cardholder data

Noncompliance with University policies and procedures exposes the University to significant financial, operational, and reputational risk that would be mitigated by adherence to these requirements. The prevalence of verbal agreements creates additional issues of enforcing agreed upon terms and conditions.

Preparation of accurate and complete financial reports (financial results and budget to actual) on a monthly and annual basis is critical for financial planning, assessing operations and determining future strategies. These reports should be distributed to appropriate University personnel for review and comment. In addition, transactions and accounts recorded to Aquarium sub-systems must be reconciled to KFS on a monthly and annual basis. Reconciliations will assist in the detection of errors in Aquarium financial reports or transactions posted to KFS.

The Aquarium must become more knowledgeable with respect to University policies and procedures and ensure compliance with all applicable policies and procedures impacting the Aquarium’s operations.

Corrective Action Status reports as of March 2022 and May 2023:

Monthly financial results are prepared, reconciled to KFS and distributed to the Aquarium Director and department leaders for review and comment on a monthly basis. Budget to actual results are reviewed monthly by the Administrative Officer.

The Administrative Officer stated that the financial results are compared to KFS monthly.

March 2024 Corrective Action Status report:

1. Monitor financial results
 - a) Prepare and distribute monthly and annual budget to actual financial results
The Administrative and Fiscal Support Specialist prepares monthly, quarterly, quarter to date and year-to-date budget to actual reports and distributes monthly financial results and monthly budget to actual results to the Aquarium Director, Administrative Officer and department leaders.
 - b) Explanation of year-to-year and budget to actual variances
The Administrative and Fiscal Support Specialist uses a template prepared by UHM Office of Business and Finance personnel that has all of the Aquarium’s accounts. This template is manually updated on a monthly, quarterly, and year-to-date basis. The Administrative Fiscal Support Specialist prepares written explanations for variances of 5% or greater.

Internal Audit reviewed the six-months ended December 31, 2023 budget to actual report noting variance explanations such as budgeted admissions and gift shop revenues exceeding actual due to the months of October through December generally having less guests when compared to the rest of the year. With respect to expenses, an increase in personnel costs is due to the 5% salary increase for Administrative Professional and Technical (APT) employees was not considered when establishing the budget for the year ended June 30, 2024.

University of Hawai‘i at Mānoa
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July 2024

Internal Audit believes that the Aquarium’s budgeting process requires improvement given that the decrease in admissions and gift shop revenues is consistent with historical results and the increase in personnel costs were expected because of collective bargaining agreements.

Conclusion

- a) Corrective action remains implemented.
- b) Corrective action is implemented. However, improvement with respect to the Aquarium’s budgeting process is warranted.

2. Compliance with University policies and procedures

The Aquarium resumed luau events in July 2023. Internal Audit noted the following with respect to compliance with University EPs and APs:

- EP 8.200 – Internal Audit was informed by the Administrative Officer that the Aquarium will be using the “Facilities Use Agreement for Short-Term Use” template described in EP 8.200. This template includes terms and conditions required in the facilities use and insurance coverage requirements (commercial general liability, automobile, worker’s compensation, etc.).

Use of University facilities by outsiders such as Aquarium’s luau contractor requires OGC to review the contract. Internal Audit noted that the luau concession contract dated June 30, 2023 was reviewed and approved by OGC and ORM. The luau concession contract also includes the required University insurance coverage.

- EP 11.202 – The University President delegated approving authority to the CBO via a memo dated March 2020 with respect to various UHM matters including facility use agreements and sales, service, and consumption of alcoholic beverages. The Aquarium’s luau concession contract includes the sale and service of alcoholic beverages which was approved and signed by the CBO prior to contract signing in June 2023.
- AP 1.200 – AP 1.200 requires written approval from the Environmental Health and Safety Office (EHSO) and the Vice President for Finance and Operations (Note: Not a currently recognized title at the University) or designee regarding the use of University facilities for an event where food is distributed or consumed except when food is supplied by the UHM food contractor (Sodexo). The Aquarium has not received approval from the EHSO or any University senior management personnel.
- AP 8.230 – Internal Audit was informed that the Aquarium continues to utilize a photography agreement executed in 2018. The issuance of this photography agreement did not comply with the University’s procurement policies. In addition, this 2018 agreement lacks required terms pursuant to University policies (required minimum insurance coverage, indemnification clauses limiting/eliminating the University’s exposure, etc.).
- AP 8.400 – Internal Audit reviewed the Aquarium’s luau concession contract reviewed and approved by OGC and ORM which contains indemnification clauses and the required minimum insurance coverages.
- AP 8.710 – Internal Audit was informed by the Administrative Officer that the Aquarium plans to continue to shred credit card information included in facility rental agreements.

Conclusion

Corrective action not implemented.

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

July 2024 Status

1. Monitor financial results

- a) Prepare and distribute monthly and annual budget to actual financial results
 Internal Audit was provided a copy of an e-mail sent by the Administrative Officer on June 24, 2024 evidencing distribution of financial reports to the Aquarium Director, Administrative Officer and department leaders.
- b) Explanation of year-to-year and budget to actual variances
 Internal Audit reviewed the distributed financial reports noting written financial variance explanations.

Conclusion

Corrective action remains implemented.

2. Compliance with University policies and procedures

Internal Audit noted that the Aquarium complied with the above noted University EPs and APs except for AP 1.200. AP 1.200, *University of Hawaii Manoa Facilities Use and Practices and Procedures* was abolished in April 2024 and replaced by Manoa Policy M1.200 *UHM Interim Guidelines on UHM Facilities Use Practices and Procedures*. Internal Audit noted various non-compliance matters associated with UHM M1.200.

The stated objective of M1.200 is to regulate short-term occasional use of UHM facilities by organizations with and without university affiliation. M1.200’s significant requirements with respect to UHM facilities include, but are not limited to:

- a) The use of UHM facilities for an event where food is to be consumed or distributed is prohibited without specific written approval of the CBO except when food is to be supplied by the UHM food contractor.
- b) Prior CBO written approval is required to distribute and consume alcoholic beverages at events and activities.
- c) Facility rental agreements are to include appropriate indemnity/insurance clauses and evidence of adequate insurance.
- d) Prior to the scheduled event, the organization is required to make payment in full for the use and services.

In relation to the three private events described in Section D.1, *Adequacy of private events and luau events*:

- a) Food distributed at each private event was approved by the CBO.
- b) Alcohol consumption was approved by the CBO for the Eye Productions and Hawai‘i Firefighters Association private event. No alcohol was served at the Kaiser High School private event.
- c) Indemnity/insurance clauses were included in each facility rental agreement and appropriate insurance was obtained.
- d) **Table 3** in Section D.1, *Adequacy of private events and luau events revenues*, lists the Aquarium’s private events. Internal Audit was informed that payment was received on the event date for all events except for Eye Productions, Inc. **Table 3** also notes that the bank deposit dates were well after the check dates.

The Aquarium did not comply with UHM M1.200 requiring full payment prior to the scheduled event. In addition, the Aquarium did not comply with AP 8.701, *Receipting and Depositing of Funds Received by the University* that requires cash and checks to be deposited by the next business day.

Conclusion

Corrective action not implemented.

H. Wastewater discharge

2021 report:

Internal Audit Observation and Recommendation

University of Hawai‘i at Mānoa
Waikīkī Aquarium Status of Corrective Actions
July 2024

The Aquarium has incurred a significant financial obligation with respect to its discharge of salt water. Current financial results indicate an inability to pay these obligations. The Aquarium must determine its total financial obligation and identify a source of funding. Consultation with University leadership and OGC is essential.

Internal Audit noted that the University’s fiscal year 2021-2023 capital improvement budget included \$10.5 million (\$1.5 million in fiscal year 2022 and \$9 million in fiscal year 2023) for repairs and the design and construction of a new wastewater discharge system. The \$10.5 million supplemented \$600,000 appropriated by the State of Hawai‘i Legislature during the 2019 legislative session.

Management Response

Regulatory issues regarding wastewater discharge at the Aquarium has been the subject of numerous meetings with the City and County Department of Environmental Services and the State Department of Health involving the Aquarium, UH Environmental Health and Safety Office, the UH Office of Project Delivery and OGC. Planning already underway includes the design and planning components of wastewater system modifications to better measure water flow.

Corrective Action Status reports as of March 2022 and May 2023:

University leadership was consulted as evidenced by the Vice President of Administration’s FY 2022-2023 6-Year Capital Improvement Project (CIP) Supplemental Budget Request requesting \$11.5 million to remediate the salt water discharge issue. The CIP Supplemental Budget Request was approved by the BOR at its November 18, 2021 meeting.

Internal Audit reviewed the *FY 2022-2023 First Quarter CIP Status Report (as of 9/30/22)* presented at the November 3, 2022 BOR Committee on Planning and Facilities Committee meeting. This report stated that the design phase of the upgrade to Aquarium’s system wastewater discharge system was 61% completed with expected award date for the construction contract in March 2024

March 2024 Corrective Action Status report

Internal Audit reviewed the *FY 2023-2024 First Quarter CIP Status Report (as of 9/30/23)* presented at the November 2, 2023 BOR Committee on Institutional Success meeting. This report stated that the design phase of the upgrade to Aquarium’s system wastewater discharge system was 100% completed as of March 31, 2023. The design for phase 2 commenced on June 30, 2023 and was 60% completed as of September 30, 2023.

Conclusion

Corrective action remains implemented.

July 2024 Status

The VP of Administration’s FY23-FY24 Quarterly CIP status report as of March 31, 2024 presented at the June 6, 2024 Committee on Institutional Success meeting states that the design phase for phase 2 is 90% completed as of December 31, 2023. In addition, the Quarterly CIP status report notes that the University’s \$10 million CIP request was not appropriated by the Legislature.

Internal Audit was informed that the University anticipates funding construction of the wastewater discharge system with Renew, Improve and Modernize (RIM) monies. The University anticipates providing an expenditure plan, that includes the wastewater discharge system, to the BOR in September 2024.

Conclusion

Corrective action remains implemented.



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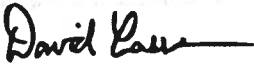
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'24 SEP 12 P2:39


September 9, 2024

MEMORANDUM

TO: Mike Miyahira
Chair, Committee on Independent Audit

VIA: David Lassner 
President

FROM: Michael Bruno 
Provost

Sandy French 
Chief Business Officer

SUBJECT: Response to July 2024 Office of Internal Audit Status of Corrective Actions Report, Waikiki Aquarium

The Office of Internal Audit July 2024 Status of Corrective Actions – Follow Up Report regarding Waikiki Aquarium found that six of the recommended corrective actions have not been fully implemented. Management's response for each of these items will be detailed in this document. However, before we address each item, we believe that it is important to discuss the larger issues facing the Waikiki Aquarium, and our action to address these issues.

Since well before this internal audit was initiated, and prior to the pandemic forcing the closure of the facility and the release of nearly the entire staff, we recognized that change was necessary. The primary concern was the need to better align the programs and activities at the Waikiki Aquarium with the mission of the university: education, research, and service to the community. In order to address this need, the Provost (then Vice Chancellor for Research and interim Vice Chancellor for Academic Affairs) initiated discussions in 2017 with the Aquarium leadership, the board of the Friends of Waikiki Aquarium (FOWA), and the Dean of the School of Ocean and Earth Science and Technology (SOEST) with the aim of exploring possible organizational structures that could accomplish this goal.

The tragic death, in late 2018, of the Director of the Hawaii Institute of Marine Biology (a research unit within SOEST), forced us to pause the effort. Only partial progress was made before, in March, 2020, the pandemic forced the complete closure of the Aquarium. The reopening of operations in July, 2021 was anything but normal. From this moment on, the very limited staff at the Aquarium were focused on keeping the facility running, keeping the animals alive, and seeking to boost revenues to recover from the severe financial impact of the pandemic shutdown. No other unit at the university faced this severe a challenge to its survival.

In late 2022, the Provost re-initiated the discussions with the interim Dean of SOEST about the

2500 Campus Road, Hawaii Hall
Honolulu, Hawaii 96822
Telephone: (808) 956-8447

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 September 9, 2024
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possible re-structuring of the Aquarium in a way that could align the Aquarium with the university's mission while also expanding the capabilities of the various SOEST departments and centers - in particular those with educational, research, and public outreach programs that can benefit from the Aquarium's collections, facilities, expertise, and location. The serious findings of the Internal Audit added urgency to this effort, as it is clear that by strengthening the Aquarium's ties to the campus we can also strengthen the operational capacity and management culture at the Aquarium.

We are here informing the Board that as of September 1, 2024, the Director of the Waikīkī Aquarium will report to the Dean of SOEST. The Office of the Mānoa Chief Business Officer will assist the administrative offices of SOEST and its component units in the transition during academic year 2024-2025. The Office of the Provost will work closely with the Dean of SOEST and the management team at the Waikīkī Aquarium on a strategy to align the programs and activities at the Aquarium with the mission of the university and the world renowned educational, research and community service programs in SOEST.

We will here address the remaining items identified in the July 2024 report of the Internal Auditor.

Item D.2: Gift shop periodic and financial reports

From Internal Audit Report:

Internal Audit was informed that the Aquarium's gift shop migrated from the NCR point-of-sale system to the RocketRez point-of-sale system in March 2024. In addition, Internal Audit was informed that The Aquarium performed a physical count of the gift shop's inventory on April 18, 2024.

The Aquarium did not provide various Internal Audit requested gift shop documents and reports evidencing the Aquarium's understanding of the functionality of the RocketRez point-of-sale system. Reports provided to Internal Audit included an inventory report comparing physical count to RocketRez system count with negative RocketRez quantities for all classes of inventory. In addition, the Aquarium could not demonstrate the migration of inventory (quantity, description, cost basis, retail price, etc.) from their former NCR system to RocketRez nor support the cost basis of inventory and thus the related retail price. Accordingly, reports analyzing and comparing target to actual gross margins to evaluate the gift shop's operations and financial results would not be reliable.

And

Item E.2: Administrative Officer review and approval of inventory adjustment

From Internal Audit Report:

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Page 3

See Section D.2. Gift shop periodic and financial reports above regarding the Aquarium's inability to provide gift shop documents and reports including inventory system reports with negative quantities.

Management Response:

The Aquarium implemented a new Point of Sale system in April 2024. As of the date of inquiry from Internal Audit, the system implementation was not complete as Aquarium staff identified data inconsistencies and the remaining need to validate information on the new system. As such, management was not able to address all the Internal Audit questions regarding inventory processes and inventory value. As the Aquarium is currently utilizing the POS system for its business operations, corrective actions will be iterative, requiring additional time to complete implementation.

Management is working on three fronts to resolve the inventory valuation issues and the POS system discrepancies:

1. Addressing the primary causes of inventory variances;
2. Working with the Point of Sale system vendor to resolve discrepancies in vendor reports that are impeding progress towards inventory reconciliation;
3. Manually recalculating purchases and costs since implementation of the POS to correct the cost of sales and inventory; and
4. Updating the processes to align with the new system requirements on inventory receiving and monitoring/tracking.

Management is in consultation with the UH Financial Management Office to assess the efficacy of the corrective steps taken to date, provide recommendations on additional steps needed, and assess the materiality of the inventory discrepancy. Analysis of overall inventory show that most inventory turns over within a year or less and variances that developed as part of the system conversion are immaterial to the University. Inventory, on a going-forward basis, will be tracked and balanced under the new processes being developed.

We note that Item D.2. was listed in the March 2024 Internal Audit Report as implemented, pending gross margin analysis for the year ending June 30, 2024. While target gross margins were incorporated into the new POS system, the need to complete the transition process impacted the ability to conduct analysis and this item was reported as not implemented in the July 2024 report.

Item E.1; Invoicing and recording luau revenues

The minutes of the June 2024 meeting of the Board of Regents Committee on Independent Audit reflect the luau concession issue could not be concluded until the luau contract is closed and the concessionaire completes its own audit of luau revenues. The concession contract calls for the audit of concession revenues to be submitted to

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the Aquarium no later than July 31, 2024, after which time Aquarium staff will evaluate whether the appropriate concession fee was received.

The luau concession vendor has not responded to requests for final payment or for the concession fee audit. A Notice of Default was sent to the concessionaire and the surety on September 3, 2024. The Office of General Counsel will continue to advise on further steps.

Item F.1: MOU compliance monitoring

From Internal Audit Report:

Internal Audit was informed that 50% of annual FOWA membership revenues for the calendar years ended 2021 and 2022 were received by the Aquarium in September 2022 (\$18,000) and November 2023 (\$56,000). Internal Audit reviewed and requested copies of the check payment and deposit slips noting payments were received and recorded in the Aquarium's financial reports and KFS.

The Administrative Officer believes 50% of annual FOWA membership revenues for calendar year 2023 will be received by the Aquarium in Fall 2024. Internal Audit did not receive documentation supporting the Aquarium's monitoring of FOWA compliance with all MOU requirements including FOWA's commitment to provide a significant part of its net revenues to fund Aquarium exhibits.

Management Response:

The March 2024 Internal Audit Report stated:

Corrective actions not implemented since the Aquarium's financial statements reflect no FOWA receipts for the fiscal years ended June 30, 2023 and 2022.

Documentation of FOWA revenue receipts referenced in the March 2024 report were provided to Internal Audit in March 2024, and compliance is noted in the first paragraph of the July 2024 Internal Audit Report excerpt above.

In June 2024, Internal Audit requested additional information regarding the Aquarium's actions to monitor FOWA's compliance with the MOU, especially with regard to providing a significant share of FOWA annual net revenue to the Aquarium. The need to maintain a close and collegial working relationship with FOWA members unavoidably limits the type of documentation available to demonstrate monitoring of FOWA's compliance with the terms of the MOU. It bears remembering that FOWA is not part of the University of Hawai'i at Mānoa, but is instead a 501(c)(3) founded to support the Aquarium's mission and members.

Management reviewed the amount of financial support provided by FOWA to the Aquarium since 2020 to determine whether this could demonstrate that FOWA is fulfilling the MOU provision regarding annual net revenue sharing. The result of this review was

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shared with Internal Audit, and showed that FOWA has provided funding through direct payments and transfer of funding in amounts that **exceeded** the MOU agreement concerning significant annual net revenue for the years 2020 – 2022. Information for 2023 is pending finalization of FOWA financial statements for that year. Most importantly, FOWA's support was essential to supporting the Aquarium's basic operating costs during the pandemic closure and we value this partnership.

Nevertheless, the Provost requested that the Board of FOWA provide an annual accounting of the net revenues and the amount that the FOWA Board provides to WAQ. This request was well received by the Board, and perceived to offer a framework for tracking and reporting that also could be advantageous to FOWA as well.

Item F.2: Record FOWA and UHF vendor payments

From Internal Audit Report:

Internal Audit noted that Aquarium capital assets (air water chillers and commercial grade shade structure) amounting to approximately \$40,000 were purchased with FOWA funds during the fiscal year ended June 30, 2019. The Aquarium recorded these capital assets in KFS and the University capital improvement tracking system on March 22, 2024.

The Aquarium did not provide a listing or correspondence of FOWA vendor payments made on behalf of the Aquarium as of May 2024. The Aquarium's revised process is to prepare GALC (General Accounting and Loan Collection) Form Z-99 annually to record FOWA and UHF payments made on behalf of the Aquarium in KFS. The Aquarium did not provide Internal Audit with Form Z-99 related to FOWA and UHF on-behalf payments for the year ended June 30, 2024.

Management Response:

The March 2024 Internal Audit Report stated:

The Aquarium stated that no FOWA or UHF vendor payments were made on behalf of the Aquarium for the year ended June 30, 2023 or the six months ended December 31, 2023. Pursuant to Internal Audit inquiries, it was determined that the Aquarium has not yet recorded capital asset improvements paid for by FOWA that benefit the Aquarium of approximately \$359,000. These Aquarium capital improvements were identified in Internal Audit's 2021 report.

Documentation of recording applicable capital improvements was provided to Internal Audit in March 2024, and compliance is noted in the first paragraph of the July 2024 Internal Audit Report excerpt above.

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In June 2024, Internal Audit requested additional information regarding payments made by FOWA and/or UHF on behalf of the Aquarium as of May 2024. Information for FOWA and UHF was provided, and discussion ensued regarding whether items were required to be recorded in the university's financial system.

With regard to capital assets, management has received clarification from the UH General Accounting Office that assets that have not yet been placed in service may be recorded in the financial system. WAQ staff identified a small number of on-behalf payments made by FOWA/UHF for capital items not yet placed in service; these items have been recorded in the financial system. WAQ staff are updating their procedures to include recording of capital items not yet placed in service. The UH General Accounting Office does not require on-behalf payments for non-capital items to be recorded in the university's financial system. On a prospective basis, such items will be tracked on the WAQ internal financial statements.

Item G.2: Compliance with University policies and procedures

From Internal Audit Report:

Internal Audit noted various non-compliance matters associated with UHM M1.200.

The stated objective of M1.200 is to regulate short-term occasional use of UHM facilities by organizations with and without university affiliation. M1.200's significant requirements with respect to UHM facilities include, but are not limited to:

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- d) Prior to the scheduled event, the organization is required to make payment in full for the use and services.***

In relation to the three private events described in Section D.1, Adequacy of private events and luau events:

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- d) Table 3 in Section D.1. Adequacy of private events and luau events revenues, lists the Aquarium's private events. Internal Audit was informed that payment was received on the event date for all events except for Eye Productions, Inc. Table 3 also notes that the bank deposit dates were well after the check dates.***

The Aquarium did not comply with UHM M1.200 requiring full payment prior to the scheduled event. In addition, the Aquarium did not comply with AP 8.701, Receipting and Depositing of Funds Received by the University that requires deposit by the next business day.

Management Response:

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To ensure compliance with this policy, WAQ staff has updated their Fiscal Process for Cash and Credit Card Receipts policy with additional instructions regarding timely deposit of payments for private events. The revised policy was distributed to all relevant WAQ staff and was followed by refresher training.

c: Glenn Shizumura, Director, Office of Internal Audit
Andrew Rossiter, Director, Waikīkī Aquarium