Notice of Meeting

UNIVERSITY OF HAWAI‘I
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT
Members: Michael McEnerney (Chair), Randy Moore (Vice-Chair),
and Regents Higaki, Portnoy

Date: Wednesday, April 4, 2018
Time: 10:00 a.m.
Place: University of Hawai‘i at Mānoa
        Information Technology Building
        1st Floor Conference Room 105A/B
        2520 Correa Road
        Honolulu, Hawai‘i 96822

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the March 8, 2018 Meeting

III. Public Comment Period: All written testimony on agenda items received after
posting of this agenda and up to 24 hours in advance of the meeting will be
distributed to the board. Late testimony on agenda items will be distributed to the
board within 24 hours of receipt. Written testimony may be submitted via US
mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting
written testimony are not automatically signed up for oral testimony. Registration
for oral testimony on agenda items will be provided at the meeting location 15
minutes prior to the meeting and closed once the meeting begins. Oral testimony
is limited to three (3) minutes. All written testimony submitted are public
documents. Therefore, any testimony that is submitted verbally or in writing,
electronically or in person, for use in the public meeting process is public
information.

IV. Agenda Items

A. For Action:
   1. Recommendation to Approve Selection of External Auditor and Delegation
      of Authority to President to Finalize Agreement Fee Schedule

V. Adjournment
March 29, 2018

TO: Jan Naoe Sullivan  
Chairperson, Board of Regents

Michael McEnerney  
Chair, Committee on Independent Audit, Board of Regents

VIA: David Lassner  
President

FROM: Kalbert K. Young  
Vice President for B&F/CFO

SUBJECT: Request Approval of Selection of External Auditor

SPECIFIC ACTION REQUESTED  
Pursuant to Section 304A-321, Hawaii Revised Statutes (HRS), the Board of Regents of the University of Hawaii is requested to approve the selection of Accuity LLP as external auditors to conduct work for:

1. Audited consolidated annual financial statements of the University.
2. Single Audits of the University to comply with Office of Management and Budget (OMB) Uniform Guidance.
3. Audit of UH Manoa Athletics.
5. UH Hilo NCAA Procedures review.
6. Other services related to the completion of schedules, financial statements, reviews, etc., for the construction of audited reports.
RECOMMENDED EFFECTIVE DATE
Board of Regents approval of the selection of Accuity LLP, is requested to be effective as soon as procedurally executed by the Board of Regents but not later than May 31, 2018 so that audit work for the fiscal year to conclude June 30, 2018 can begin immediately.

Work by Accuity LLP, as the external auditor is operationally necessary to conduct financial audits for the fiscal year ending June 30, 2018.

ADDITIONAL COST
The contract with Accuity LLP, is estimated to cost:

- $807,489 for the FY18 audits (anticipated to be expended FY19)
- $827,733 for FY19 audits (anticipated to be expended in FY20)
- $869,890 for FY 20 audits (anticipated to be expended in FY21)
- At the University's discretion, Accuity LLP, can be extended for the FY 21 audits (with cost anticipated to be expended in FY 22) for an amount to be negotiated and mutually agreed upon.

PURPOSE
As a governmental business entity of the State of Hawai'i, the University of Hawai'i ("University") is required to produce audited financial statements on an annual basis. The Consolidated Annual Financial Statements (CAFS) of the University and other related annual audits are required by HRS and expected as a matter of governance and transparency. In order to produce the CAFS and other related annual audits, the University has contracted with external auditing and accounting firms to assist with the work, review, compilation, and production of financial schedules or components to be included as part of audit reports and the CAFS.

The audit reports are used for a variety of purposes and are intended for general public audience, which includes Regents, management, legislature, investors, and the public at-large. In general, such audit reports are expected as standard financial reporting governance – of which timely review is expected as part of normal management procedures.

BACKGROUND INFORMATION
Accuity LLP is the currently contracted external auditors of the University for producing and auditing the annual financial statements. The current contract with Accuity LLP has been in place for the last three years, but the current contract concluded for audit work for the year ended on June 30, 2017 (FY17). Accuity LLP had been the contracted external auditor for a number of years on the prior contract as well. With conclusion of their current contract with the FY17 audit, it was necessary to procure for a new contract for external auditing services.
The University advertised to procure for auditing services in conformance with Chapter 103D-104, HRS. Three auditing firms did respond to the advertisement. A selection committee comprised of eight university personnel evaluated the submittals and based on their collective evaluations, selected Accuity LLP, as the finalist. Attached is a presentation that highlights the selection process, criterion, and estimated fee schedule provided under the intended contract.

**ACTION RECOMMENDED**
University Administration recommends the Board of Regents – Committee on Independent Audit recommend to the Board of Regents the selection of Accuity LLP as the University’s contracted external auditors for a contracted period to complete audits pertaining to fiscal years FY2018, FY2019, and FY2020. University Administration recommends the Board of Regents – Committee on Independent Audit to authorize the President or designee to sign a contract with Accuity LLP for audit services.

Attachments

c: University Internal Auditor (w/o Attachments)
   University Controller (w/o Attachments)
External Audit Services Contract

Kalbert K. Young
Vice President for Budget & Finance / CFO
University of Hawai‘i System
Procurement for External Auditor

• Professional services pursuant to HRS Section 103D-104 are those services within the scope of the practices of architecture, engineering, law, medicine, accounting, etc.

• UH management conducted the following steps in accordance with HRS Section 103D-104:
  • A solicitation notice was sent out to invite accounting firms to submit service proposals.
  • Three firms submitted their proposals for the UH external audit services and were included in the qualified list for the evaluation of the External Audit Services Selection Committee.
    • Accuity LLP, KMH LLP, Moss Adams
Selection Criteria

- Pursuant to HRS Section 103D-104, the following selection criteria were employed

- Evaluation Items
  - A. Experience and professional qualifications relevant to the engagement
  - B. Past performance on projects of similar scope
  - C. Ability to meet project schedule
  - D. Audit plan and audit approach
  - E. Interest in required services
Selection Results

• External Audit Services Selection Committee evaluation recommended Accuity LLP for selection.

Accuity LLP

• Accuity LLP is a local firm in Hawaii, employing 94 professionals and offers a full range of assurance, tax and advisory services.
• Accuity LLP has been the University’s independent auditor for the past eleven years.
There is no statutory or regulatory requirement for the University to rotate audit firms.

The Government Accountability Office (GAO) does not require government agencies to rotate the lead auditor/partner.

Accuity LLP’s internal audit quality procedures require engagement leader / lead auditor rotation on government audits every 7 to 10 years.

- Accuity LLP has rotated the lead auditor twice in the past 11 years.
- Cory Kubota has been the engagement leader / lead auditor for the last six years and will serve in this capacity for one more year. However, if the University desires to accelerate the engagement partner rotation, Accuity LLP is prepared to accommodate the request.
• UH management recommends Accuity LLP to be the audit firm to performs the UH external audit services for the next three fiscal years with the option to extend for one additional year:
  • Fiscal year July 1, 2017 to June 30, 2018
  • Fiscal year July 1, 2018 to June 30, 2019
  • Fiscal year July 1, 2019 to June 30, 2020
  • Fiscal year July 1, 2020 to June 30, 2021 (option to extend)
## Scope of External Audit Services and Estimated Costs

<table>
<thead>
<tr>
<th>Services</th>
<th>FY 2014 Hours</th>
<th>FY 2014 Fee</th>
<th>FY 2015 Hours</th>
<th>FY 2015 Fee</th>
<th>FY 2016 Hours</th>
<th>FY 2016 Fee</th>
<th>FY 2017 Hours</th>
<th>FY 2017 Fee</th>
<th>FY 2018 Hours</th>
<th>FY 2018 Fee</th>
<th>FY 2019 Hours</th>
<th>FY 2019 Fee</th>
<th>FY 2020 Hours</th>
<th>FY 2020 Fee</th>
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<tbody>
<tr>
<td><strong>Consolidated Financial Statements &amp; Supplemental Schedules (Bond)</strong></td>
<td>2,276</td>
<td>$374,178</td>
<td>2,665</td>
<td>$331,413</td>
<td>2,420</td>
<td>$337,749</td>
<td>2,592</td>
<td>$366,073</td>
<td>2,750</td>
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<td>$384,440</td>
<td>2,750</td>
<td>$392,136</td>
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<tr>
<td><strong>Single Audit (formerly A-133 Compliance Audit)</strong></td>
<td>2,533</td>
<td>314,675</td>
<td>2,319</td>
<td>281,989</td>
<td>2,919</td>
<td>295,372</td>
<td>2,672</td>
<td>307,707</td>
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<td>2,280</td>
<td>322,816</td>
<td>2,280</td>
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<td><strong>Subtotal</strong></td>
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<td>768,764</td>
<td>5,714</td>
<td>689,004</td>
<td>5,832</td>
<td>687,519</td>
<td>5,617</td>
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<td>5,385</td>
<td>765,235</td>
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<td>776,565</td>
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<td><strong>UH Hilo NCAA Agreed Upon Procedures (only conducted every three years)</strong></td>
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<td>25,583</td>
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<td><strong>A-133 Compliance Additional Programs</strong></td>
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<td>58,022</td>
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<tr>
<td><strong>Audit Assistance (Preparation of Report and Footnote Schedules)</strong></td>
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<td>30,387</td>
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<td>24,084</td>
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<td><strong>Campus Supplemental Schedules</strong></td>
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<td>36,805</td>
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<td><strong>University Bond System Procedures</strong></td>
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<td><strong>Total Fees</strong></td>
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<td>$804,095</td>
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<td>6,021</td>
<td>$827,733</td>
<td>6,204</td>
<td>$869,890</td>
</tr>
</tbody>
</table>

**Notes:**
- Proposed and actual hours include 1,000 hours of assistance provided by internal audit (IA). 500 additional Accuity staff hours would be required if 1,000 hours of audit assistance were not provided by internal audit.
- 2% inflation is built into the contract each year.
- Increased Out-of-pocket expenses due to: 1) $3,500 expense incurred each year to have the pdfs of the Financial and Compliance reports prepared in compliance with Section 508 ADA Compliance; 2) Testing approach is to visit campuses every other year (with the exception of Manoa). As such, expense increases in FY 2019 to cover visits to the neighbor island campuses.
Conclusion