MINUTES OF THE REGENTS’ COMMITTEE
ON UNIVERSITY AUDITS

Date: Thursday, September 9, 2004

Place & Time:
Kaua’i Community College
Performing Arts Center
11:36 a. m.

Committee Members Present:
Regents
Yamasato (presiding)
Albano
Kai
Kakuda
Kawakami
Lee (ex-officio)

Other Regents Present:
Regents
Bender
Haynes
Lagareta
Tanaka
Tatibouet

Others Present:
David McClain, Acting President, University of Hawai‘i
Walter S. Kiritmitu, Vice President and University General Counsel
Sam Callejo, Chief of Staff
Alex Uyeda, Director, Internal Audit
David Iha, Executive Administrator and Secretary of the Board
Carl H. Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Kakuda moved to approve the minutes of the meeting of the Regents’ Committee on University Audits held on June 3, 2004, June 16, 2004, and July 15, 2004. The motion was seconded by Regent Kai and unanimously carried.

Audit Plan for FY 2004-2005

Director Uyeda proposed the Audit Plan for FY 2004-2005. By policy, the Board of Regents and President are responsible for the proper and effective financial operation of the University, and independent audits and reviews of University organizations and activities are conducted to assist management in carrying out their fiduciary responsibilities.
Minutes of the Regents’ Committee
on University Audits
September 9, 2004
Page 2

No requests were received from the Senior Management Team and Council of Chancellors
for external audits. Therefore, external audits for this period will be limited to mandatory external
audits.

Mandatory audits have been scheduled in accordance with the Board’s approval of June 8,
1984, authorizing the Administration to appropriately dispatch future mandatory and annually-
required audits.

The proposed Audit Plan for FY 2004-2005 is as follows:

**Mandatory External Audits**

**General Audit (U.S. OMB Circular A-133) - University of Hawai’i**

Under the provisions of the U.S. Office of Management and Budget Circular A-133, colleges
and universities are required to undergo a comprehensive review by independent certified public
accountants. Specifically, it requires an audit of the financial statements, extensive testing and
certification of the University’s internal control structure and the performance of compliance reviews.

<table>
<thead>
<tr>
<th>Type of Engagement:</th>
<th>Financial Statement/Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period of Engagement:</td>
<td>July 1, 2003 - June 30, 2004</td>
</tr>
<tr>
<td>Engagement Cost:</td>
<td>$397,531</td>
</tr>
</tbody>
</table>

**University Bond System**

The nine programs of the University Bond System (Bookstore System; Mānoa Campus
Center including Hemenway Hall; Mānoa Kau’iokaha’ao Nui Faculty Housing; Mānoa Faculty
Housing at Wa’ahila; Mānoa Parking; Mānoa Food Services; Student Housing Programs at Mānoa,
Hilo and Maui Community College; and Mānoa Telecommunications) will undergo an annual
financial audit in accordance with Section 6.08 of the Bond Resolution adopted by the Board of
Regents.

<table>
<thead>
<tr>
<th>Type of Engagement:</th>
<th>Financial Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period of Engagement:</td>
<td>July 1, 2003 - June 30, 2004</td>
</tr>
<tr>
<td>Engagement Cost:</td>
<td>$116,691</td>
</tr>
</tbody>
</table>

**Intercollegiate Athletics - University of Hawai’i at Mānoa**

The National Collegiate Athletic Association requires that intercollegiate athletic programs
of member institutions be independently audited on an annual basis. It also mandates an audit of
the records of all support groups, athletic foundations, and booster organizations of the University
of Hawai’i at Mānoa Intercollegiate Athletics program. This audit encompasses both the Mānoa
Intercollegiate Athletics program and its booster organizations administered by the University of
Hawai’i Foundation.
Minutes of the Regents’ Committee
on University Audits
September 9, 2004
Page 3

Type of Engagement: Financial Statement/Agreed-Upon
Period of Engagement: July 1, 2003 - June 30, 2004
Cost: $31,378

Review of Selected University Non-General Funds and Accounts

Pursuant to HB200 HD1 SD1 CD1, Sec. 55, PricewaterhouseCoopers was contracted to
perform a follow-up review of selected University non-general funds and accounts for the period
December 1, 2002 to November 30, 2003. The review disclosed several deficiencies and the
auditors recommended areas for improvement. A review will be conducted to report on the extent
of corrective actions taken by the University.

Type of Engagement: Financial/Compliance
Period of Engagement: December 1, 2003 - June 30, 2004
Estimated Cost: $80,000

Sales Audit of the Hanauma Bay Gift Shop

The University entered into a concession agreement with the City and County of Honolulu
for the management and operation of the gift shop concession at the Hanauma Bay Nature
Preserve for a period of five (5) years. As part of the agreement, the University is required to furnish
a sales audit report prepared by an independent certified public accountant within 180 days of the
close of each fiscal year.

Type of Engagement: Sales Audit
Period of Engagement: July 1, 2003 - June 30, 2004
Estimated Cost: $4,375 per year
(Second year of a five-year contract)

Internal Audits to be Performed by the Office of the Internal Auditor

Review of the Financial Statements of the Associated Students of University of Hawai‘i at Mānoa
(ASUH)

The ASUH Constitution requires that an annual audit be performed of the financial
statements of ASUH and Senate Resolution 7-84 stipulates that a certified audit be performed every
three years. A certified audit was conducted for year ended June 30, 2002. The Office of the
Internal Auditor performed a review of the ASUH financial statements for year ended June 30, 2003,
and will conduct a review for fiscal year ended June 30, 2004.

Sales Audit of Rainbowtique at Ward Centre

The University entered into a lease agreement for the operation of a gift shop at Ward
Centre. As part of the agreement, the University is required to furnish a sales audit report prepared
by the University’s Office of Internal Auditor within 60 days of the close of the calendar year.
Financial and Compliance Audits of Selected University Organizations

Internal control and compliance audits are planned for programs and activities not externally audited, which will provide the Regents and management an assessment of accounting and management controls over assets, liabilities, revenues and expenditures, and compliance with policies and procedures of the University. Audits scheduled for this period are:

a. School of Architecture
b. School of Travel Industry Management
c. School of Nursing

Follow-Up Review of the School of Medicine

A follow-up review will be performed of the corrective measures taken by the School of Medicine to the recommendations contained in the State Auditor's financial audit for fiscal year ended June 30, 2002.

Follow-Up Review of University Health Services-Mānoa

A follow-up review was performed of the financial audit of the University Health Services for fiscal year ended June 30, 2001. However, the implementation of the perpetual drug and medical supplies inventory system was not fully completed when the follow-up audit was performed by external auditors in August 21, 2002; therefore, a follow-up review will be conducted to evaluate the internal controls and accuracy of the perpetual inventory system.

Regent Tanaka recalled that there were plans to increase the Internal Auditor's staff as recommended in a study conducted by PricewaterhouseCoopers (PWC). Director Uyeda explained that the study had recommended that additional personnel be added but that it could be done on a gradual basis, phasing in a few positions at a time depending on the University's budget capabilities.

Regent Yamasato asked for an updated report by the next meeting, to include cost, benefits, and additional audits.

Regent Lagareta inquired about auditing at the request of "whistle blowers." Director Uyeda informed that there had been a few such audits. They tend to be complex audits because of the volume of work that needs to be done in such cases. One such audit was conducted at the Mānoa Campus. Director Uyeda added that due to the requirements of some audits independent external auditors need to be retained. He added that there were about five whistle-blower requests in the last year, most of which were complaints from disgruntled employees.

Regent Kawakami moved to approve the execution of the proposed Audit Plan for FY 2004-2005 as presented. The motion was seconded by Regent Albano and unanimously carried.
Minutes of the Regents' Committee
on University Audits
September 9, 2004
Page 5

There being no further business before the Committee, the meeting was adjourned at 11:47 a. m.

Respectfully submitted,

[Signature]

David Iha, Secretary

Dated: October 5, 2004

c: Chairperson Patricia Y. Lee
Members, Committee on University Audits
Acting President David McClain