Minutes of the Meeting of the Board of Regents  
Committee on University Audits  

Date: Tuesday, March 27, 2007  
Place: Bachman 113, University of Hawai‘i at Mānoa  

Regents in Attendance: Chair Allan Landon, Vice Chair Jim Haynes, Ronald Migita, Byron Bender  
Others in Attendance: President David McClain; Vice President for Budget and Finance and Chief Financial Officer Howard Todo; Russell Miyake; other FMO staff, Auditors from Accuity, LLP; and Interim Executive Administrator and Secretary Presley Pang, Esq.  

I. CALL TO ORDER  
The meeting of the Board of Regents Committee on University Audits was called to order at 10:45 a.m. on Tuesday, March 27, 2007, at room 113 of Bachman Hall.  

II. APPROVAL OF MINUTES  
The minutes of the Committee’s meeting held on February 16, 2007, were discussed, and were approved with certain amendments.  

III. AGENDA ITEMS  

A. UH Consolidated Financial Statements, University Bond System Financial Statements and the External Auditors Reports  

Drafts of the Consolidated Financial Statements, the University Bond System Financial Statements, and the OMB Circular A-133 Financial and Compliance Audit Report were presented to the Audit Committee for review and discussion. VP Howard Todo explained that the reports do not require formal regent approval prior to being filed with the appropriate body. The final versions of the statements and report will be presented to the Board at a future meeting.  

VP Todo summarized the draft Consolidated Financial Statements for June 30, 2006. He directed the Committee’s attention to pages 5 and 6 of the Draft Management’s Discussion and Analysis showing an increase in the Net Assets. Regent Landon suggested that the losses of University buildings due to fire, such as a UH Lab
School building, or a flood might be presented in a manner to distinguish between the value of the “accounting” loss of a fully depreciated building and the value of the economic loss and replacement costs. VP Todo noted that reporting separately the net assets for the community college systems, at page 68, was made in response to guidance from the accrediting body for the community colleges.

Cory Kubota, of Accuity, reviewed the handout setting forth the required auditor communications regarding the Financial Statements. He echoed the concern over the number of positions and level of experience in the UH’s Financial Management Office. He noted that the unadjusted differences, expressed as percentages, were not material.

With respect to the Financial Statements for the University Bond System, there was an increase in net assets from 2005 to 2006. It was noted that a debt of the University via a revenue bond is not technically a debt of the State of Hawai’i; the Bond Revenue system is established by statute, and revenues generated from bond projects are pledged to debt service. VP Todo noted that the transaction described at page 17 regarding the Student Information system is more appropriately seen as an investment of the “float” and not a diversion of fund from housing to the student banner system. He also noted that the MDA contains a $74 million estimate of the total deferred maintenance for FY 2007 to FY 2012. It was also noted that assembling this report presented the most challenge to the UH FMO because 2 of the 4 positions are vacant.

Cory Kubota reviewed the PowerPoint and handout on required communications to the Board for the University Bond System. He observed that it is a major task to convert from a cash basis to accrual basis at closing. The University and the other state agencies use a cash basis because of the legislative budget appropriation system. He also pointed out that the unadjusted differences, as noted on page 8 of his report, were not material.

B. OMB Circular A-133 Audit Report and Related Corrective Action Responses

Regarding the OMB Circular A-133 Compliance Report, Accuity noted that federal expenditures at the University have nearly tripled over the past nine years and continue to grow. Accuity examines the compliance of approximately 60% of the $322 million in federal funds received by the University. Accuity concluded that no matters involving the internal control over financial reporting and its operations were considered to be material weaknesses. It was also Accuity’s opinion that the University complied, in all material respects with applicable federal requirements, but there is one “reportable” condition. See Finding No. 06-01: “Untimely cost Sharing Certification Reports (Reportable condition). The federal government requires that the University must comply with the matching of federal funds and must certify that it has provided this match on a timely basis. For example, one researcher is funded by a federal grant, but 25% of another researcher’s salary must be supported by state funds. The problem with the University’s certifications is timeliness, and Accuity deems this condition “reportable” because the certifications are frequently untimely, even though the certifications are eventually made. Prior year’s findings regarding subrecipient
monitoring (05-01) was deemed reportable but not a material weakness, and late FTE certifications (05-02) was no longer considered reportable. Overall, there was improvement with respect to the OMB A-133 requirements. VP Todo noted the Corrective Action Plan responding to the findings.

Regent Allan Landon, Chair of the Committee on University Audits, concluded the meeting by noting that the Committee has reviewed and discussed the proposed reports and statements, has noted the challenges in producing the reports because of the shortages in UH staff, and expresses its appreciation to the FMO staff for making the extra effort to meet the deadlines.

**IV. ADJOURNMENT**

The Committee meeting adjourned at 11:25 a.m.

Respectfully submitted,

[Signature]

Presley Pang
Interim Executive Administrator
and Secretary