Regents in attendance: Committee Chair James Haynes; Michael Dahilig; Ronald Migita; Allan Landon

Others in attendance: President David McClain; Vice President Howard Todo; Vice President James Gaines; Interim Executive Administrator and Secretary of the Board Presley Pang; and others as noted.

Chair Haynes convened the meeting at 10:00 a.m. on February 22, 2008.

Approval of Minutes of Meeting of January 18, 2008

Upon motion by Regent Migita and second by Regent Dahilig, the minutes of January 18, 2008 was unanimously approved.

Recommendation of Approval of Bond System Audit Reports

Vice President Todo requested that the Committee on University Audits recommends to the full Board at the upcoming March 2008 meeting to accept the following audit reports:

1. Bond System, which includes the UH Bookstore, Wa’ahila Faculty Housing, Kau Nui Faculty Housing, UHM Campus Center, UHM parking, and UHM student housing.

2. Consolidated Financial Statements for the University, which include both RCUH and UH Foundation.

3. OMB Circular A-133, a report required by federal audit regulations.

Bond System

Mr. Cory Kubota of Accuity reported that the accounting policies of the University bond system conform to GAAP for government institutions.

Discussion ensued over an arbitrage rebate, which Mr. Kubota explained arises because the investment earnings from the proceeds will exceed the
planned expenditure. The University has to pay taxes to the IRS to preserve the tax-exempt status of the bonds.

Mr. Kubota indicated that Accuity is prepared to issue a clean, unqualified opinion on the University bond system’s financial statements. He said that the bond system has a discrete set of activities that generate revenue to pay the debt service on the revenue bonds.

Mr. Kubota explained that there was a drastic increase in net assets for the bond system primarily because of the 2006A bond issuance of $100 million.

Regent Migita requested Mr. Kubota’s perspective on the significant amount of deferred maintenance. Mr. Kubota responded that the bond system provides an opportunity to address the deferred maintenance issues. The system must comply with the State’s Procurement Code with respect to expenditures. Vice President Todo noted that the most visible deferred maintenance in the bond system is related to student housing.

Accuity recommends that management work with the bond system’s management to identify a long-range plan for faculty housing. Regent Landon observed that faculty housing is able to maintain below market rental income by deferring maintenance.

Regent Migita’s motion to recommend acceptance of the bond system audit report to the full Board, seconded by Regent Dahilig, was unanimously approved.

Consolidated Financial Statements

Mr. Kubota reported that the University’s Consolidated Financial Statements have not been completed, in large part because the final statements for the UH Foundation have not been completed. The delay is caused by the valuation of the Foundation’s alternative investments and the collectability problems related to pledges and contributions. The Audit Committee acknowledged the work done to date, and accepted the reports with the understanding that the audited statements from the UH Foundation have not been provided.

OMB Circular A-133 Report

Mr. Kubota said that the University is subject to the requirements of OMB Circular A-133. Recipients of federal funds must be audited to ensure prudent use of such funds. There are two reports: interim control over financial reporting and compliance and other matters based on an audit of financial statements; and compliance.

Accuity is prepared to issue an unqualified opinion on. Mr. Kubota noted that the new auditing standards that Accuity must follow lower the threshold for an internal control matter to be considered a significant deficiency or a material weakness. Accuity did not consider any of the findings to be material weaknesses, but did find significant deficiencies.
Among the items reported, Accuity noted that the University expended a little over $332 million in federal expenditures in 2007, which is double the amount spent five years ago.

JABSOM had about a $2.6 million receivable from UCERA, the faculty practice plan. This amount has been outstanding for some time. $1.4 million will be written off. JABSOM has recently acquired a chief financial officer who will address this problem.

Accuity has cited improper preparation and untimely submission of cost-sharing reports.

The remaining findings are related to student financial aid, none of which are considered significant matters.

The Committee recommended that the report be submitted to the full Board for acceptance and approval, with the understanding that the Consolidated Financial Statements are currently incomplete.

**Selection of an External Auditor for FY 2008-2010**

In response to Regent Landon’s invitation for comments, Cory Kubota of Accuity said that Accuity has been working with the University for quite some time now, and they feel that they have been candid and straightforward with their reports. They have access to resources specializing in higher education.

Vice President Todo explained that the University, via a professional services procurement process, solicited vendors to submit their qualifications, and asked Secretary Pang to provide further details of the process.

Secretary Pang explained that he served on a selection committee along with Regent Haynes and Russell Miyake. Members of the selection committee independently rated the prospective audit firms from a pre-qualified pool of firms. By consensus of the selection committee Accuity was the top-ranked firm. The ranked list was passed to the President, who designated VP Todo to negotiate an agreement with the top-ranked firm, Accuity.

Vice President Todo negotiated a contract with Accuity. The proposed contract, as compared to a previous contract, calls for a 4 percent increase a year for three years. VP Todo believes that Accuity’s fees have been reasonable; they do charge more for increases in scope, but they have been very accommodating in not fully charging for extra time spent due to delays caused by the University.

Regent Migita moved that the Committee recommend that the full Board approve retaining Accuity for external audit services. Following a second by Regent Dahilig, the motion was unanimously approved.
Discussion of the Proposed University Audit Plan for 2008-2009

Secretary Pang, in his role as interim coordinator of the Internal Audit Office, reviewed an outline of proposed external and internal audits planned for the upcoming fiscal year. He noted that in light of the change in leadership at the Mānoa Athletics Department, the President wanted to include an external management audit of that Department. Vice President Todo explained that an agreed upon procedures audit would examine the operations of the Athletics Department.

Secretary Pang reviewed the various audits proposed for the fiscal year:

Mandatory external audits: OMB Circular A-133; University bond system; Intercollegiate athletics; Community colleges; Hanauma Bay gift shop; ASUH, an annual audit, (with every third year done by an external auditor).

Discretionary external audits: Athletics; University Press.

Internal audits: Rainbowtique at Ward Centre; UH President’s travel and protocol expenses; campus treasury operations.

David Sakamoto of the Internal Audit Office explained that they audit departments that have special revolving fund revenues not covered by other audits. He estimated that with the current staff, approximately 10 to 15 percent of the applicable programs are thus audited each year. Due to limited staffing of two, audits of neighbor island campuses are not done. The Office is in the process of filling two more positions, and the director position is unfilled.

Regent Haynes expressed his concern over the understaffing of the Office.

ADJOURNMENT

Upon motion by Regent Migita and second by Regent Dahilig, the meeting was adjourned at 1:31 p.m.

Respectfully Submitted,

Presley Pang, Esq.
Interim Executive Administrator and Secretary of the Board