

Minutes of the Audit Committee

May 19, 2009

**University of Hawaii at Mānoa,
Bachman Hall 113, Honolulu, Hawai'i 96822**

Present were a quorum consisting of Committee Chair Regent James Haynes II and Committee member Regent Howard Karr.

Excused was committee member Regent Ron Migita.

Others in attendance: President David S. McClain, VP Howard Todo, and staff from the Internal Audit Office.

I. CALL TO ORDER

The meeting was called to order at 9:05 a.m.

II. APPROVAL OF MINUTES

The minutes of the Committee meeting of March 20, 2009, were unanimously approved.

III. ITEMS FOR ACTION

Review and Recommendations for Acceptance of the External Auditor's Reports on the 2008 UH Financial & Compliance Audit in Accordance with OMB Circular A-133 and University Bond System's Financial Statements for the Year Ended June 30, 2008, and Internal Control and Business Issues Reports relating to the A-133 and Bond System Audits.

a. OMB Circular A-133

Cory Kubota, of the Accuity LLP firm that was retained for this engagement, reviewed the draft report on the financial and compliance audit of the University for the year ended June 30, 2008. These reports conclude Accuity's audit activity for the University for the year ending June 30, 2008.

Accuity is prepared to issue unqualified opinions on the consolidated financial statements and compliance with OMB Circular A-133. Mr. Kubota reviewed the "required communications" including certain "deficiencies in the internal control" (PowerPoint, p.4). Mr. Kubota indicated that the

Unadjusted Differences (PowerPoint, p.6) were determined to be immaterial.

Mr. Kubota reviewed the report on internal control over financial reporting and on compliance based on an audit of financial statements. This report noted that the deficiency described as Finding No. 08-01 (financial accounting, reporting and oversight) is considered to be a significant deficiency. However, this deficiency is not considered to rise to the level of a material weakness. Mr. Kubota emphasized that his report is a report only, and not an opinion.

With respect to the report on compliance with requirement applicable to each major program, and on internal control over compliance in accordance with OMB Circular A-133, Mr. Kubota commented that this report contains an opinion that the University complied, in all material respects, with the applicable requirements, but there are instances of non compliance as identified in Findings Nos. 08-02 through 08-13 and 07-02 through 07-04. The University deadline for this report was extended to June 30, 2009.

Among the information Mr. Kubota highlighted in his report is that the total expenditure of federal awards is approximately \$325,705,699 as of June 30, 2008 (p. 16). There was discussion regarding the collectibility of revolving fund loans (p.17).

Mr. Kubota reviewed Section 3, Section I - Summary of Auditor's Results (p. 20), noting the \$3 million threshold to distinguish Type A and Type B programs. He also reviewed the Schedule of Findings and Questioned Costs, Section 3, pages 21-40, specifically Section II, Financial Statement Findings, Finding No. 08-01 (financial accounting, reporting and oversight), Section III, Federal Award Findings and Questioned Costs, pages 24-40, specifically Finding No. 08-02 (untimely submission of disposal application form), and Finding No. 08-03 (improper categorization of expenditure) which are all regarded as "significant deficiencies."

Concerning prior year findings, Section 4, pages 41-57, Mr. Kubota noted that Finding No. 07-01 (lack of monitoring over long outstanding receivables) is resolved. Finding No. 07-02 (improper preparation and untimely submission of cost sharing reports) is partially resolved and the resolution is ongoing. He noted that it may take 12-18 months to resolve this particular finding fully. Finding No. 07-03 (Mauna Kea Astronomy Education Center untimely submission of reports) is unresolved, but this matter does not meet the materiality threshold of \$3 million. The resolution of Finding No. 07-04 (subrecipient monitoring) is ongoing.

Regent Karr commented that the Administration needs to assign responsibility to specific persons with clear deadlines to meet. The responsible person should give status reports on the progress to the Audit Committee.

VP Howard Todo observed that Finding No. 07-05 regarding job order system billing rates are being resolved and that it may take a one or two year cycle to fully resolve.

Findings Nos. 07-06 through 07-08 were not considered material.

Mr. Kubota noted that Section 5 of the report concerning consolidated financial statements were previously reviewed by the Board.

Regent Haynes asked how the federal government views late submissions. VP Todo responded that the University prefers not to ask for deadline extensions. This year other universities also needed more time to comply with the new GASB 45 standard.

Russell Miyake provided an updated management's response to Finding No. 06-07 (untimely submission of "Travel Completion Report").

In its "Corrective Action Responses for the Internal Control and Business Issues Report", according to VP Todo, the University generally agreed with Accuity's findings and recommendations.

b. Bond System

Mr. Kubota reviewed his PowerPoint-formatted presentation Report to the Board of Regents concerning the financial statements for the Year Ended June 30, 2008 for the University Bond System. He also discussed the three comments contained in the related Internal Control and Business Issues Report.

The Financial Reporting and Inventory Management for the UH Bookstore was identified as a "Material Weakness." Various detailed conclusions and findings under this topic were discussed. The Bookstore had difficulty implementing the transition to a new system of inventory; lack of proper training was compounded by retirement of key managers.

With regard to Mānoa Student Housing, there was a finding that MSH lacked a process to ensure that inter-departmental receivables and revenues for student athlete housing charges were accrued and collected in a timely manner. This failure to accrue was sufficiently large to require a restatement of the financial statement, and was thus considered a "material weakness." A representative from the Mānoa Student Housing

indicated that the process has been reviewed and fixed to record room blocks for the athletic department.

The third comment regarding the Bond System was to improve the overall quality of the financial reporting processes. In addition to the observations concerning the Bookstore and the Mānoa Student Housing, the University needed assistance in properly classifying unspent bond proceeds related to the \$100 million in revenue bonds that were issue in fiscal 2007. The Bond System comprises many individual projects, each controlled by a campus, but all aggregated into a system. There needs to be more overall control and coordination in preparing the closing and financial statements.

The Audit Committee unanimously approved recommending acceptance of the foregoing reports to the full Board at the Board's next meeting in Hilo on May 29th.

1. Proposed Internal Audit Plan for FY 2009-2010

An audit plan comprising mandatory and discretionary audits to be preformed either externally or internally was presented for discussion. The Audit Committee decided to recommend that the full Board approve only a portion of the activities constituting mandatory and discretionary audits performed by "external auditors" under contracts for services. The Committee deferred action on proposed internal audits to be performed by the staff of the Internal Audit Office, and requested more information concerning the selection for the proposed internal audit activities.

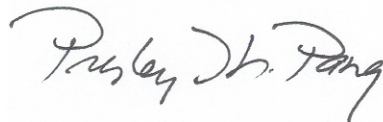
2. Status of Recruitment for Director, Internal Audit Office

The Audit Committee deferred discussion on the status of the search and selection to fill the position of the Director of the Internal Audit Office.

IV. ADJOURNMENT

The Audit Committee adjourned at 10:45 a.m.

Respectfully Submitted,



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