MINUTES

BOARD OF REGENTS’ COMMITTEE ON UNIVERSITY AUDITS MEETING

November 10, 2010

I. CALL TO ORDER

Committee Chair James Lee called the meeting to order at 2:00 p.m. on
Wednesday, November 10, 2010, at University of Hawai‘i, Bachman 113, 2444 Dole
Street, Honolulu, Hawai‘i 96822.

Committee members in attendance: Chair James Lee; Clifford Dias; James Haynes;
and Eric Martinson.

Others in attendance: Regents Chair Howard Karr (ex officio committee member);
Vice President for Academic Planning and Policy, Linda Johnsrud, Ph.D.; Vice
President for Budget & Finance/Chief Financial Officer, Howard Todo; Director of the
Office of Internal Audit, Glenn Shizumura; and others as noted.

II. PUBLIC COMMENT PERIOD

No persons submitted written testimony or signed up to testify regarding today’s
agenda items.

III. APPROVAL OF MINUTES OF SEPTEMBER 16, 2010 MEETING

Regent Haynes moved and Regent Martinson seconded the motion to approve the
minutes of the September 16, 2010 meeting, which were unanimously approved.

IV. AGENDA ITEMS

Review of Draft University of Hawai‘i at Mānoa Intercollegiate Athletics
Financial Statements and Related Reports for Year Ended June 30, 2010

Accuity LLP’s Cory Kubota said that Accuity is prepared to issue a clean, unqualified
opinion on the financial statements of UH-Mānoa Athletics. However, Accuity is waiting
for UH Foundation to issue its audited financial statements since there are certain
amounts under the control of the Athletics Department that are maintained by the UH
Foundation. Accuity does not audit the UH Foundation; the UH Foundation is audited by
KPMG LLP. The actual release of the opinion on the financial statements of UH-Mānoa
Athletics will depend on when the UH Foundation issues its audited financial statements
and whether there are any significant changes that impact the financial statements of
UH-Mānoa Athletics.
Kubota reported that UH-Mānoa Athletics lost $1.6 million in FY 2010, which was consistent with what the department had planned.

Kubota highlighted the changes between 2009 and 2010:

2. Cash overdraft due to the University: $6,437,860 (2010) from $4,783,084 (2009). Operating advances UH-Mānoa Athletics is receiving from other university units.

UH-Mānoa was able to reduce its operating losses, but there was an overall decrease in revenue.

UH-Mānoa Athletic Director Jim Donovan addressed questions from the Committee members, including, but not limited to:

1. Fundraising expenses. Donovan said the increased difference from 2009 to 2010 was likely from the Centennial Celebration to celebrate 100 years of UH-Mānoa football, a one-time event. Most of the other events are repeated every year. The net amount raised from that event was more than $200,000.
2. Bringing royalty revenues current, or estimate the amount the athletic department would receive instead of waiting for one year. Vice President for Budget & Finance/Chief Financial Officer, Howard Todo, said the delay is due to an allocation issue.
3. The composition of receivables, and the difference in the allowance for doubtful receivables from 2009 ($16,353) to 2010 ($104,919). Donovan said that some of the differences were due to carrying over accounts such as Hawai‘i Winter League Baseball and marketing agreements with companies like Pricebusters and Mauna Loa Macadamia Nuts, which are no longer sponsors and refused to pay.
4. Scholarship costs and limits, and waivers versus dollars. UH-Mānoa Vice Chancellor for Administration, Finance and Operations, Kathy Cutshaw, said UH-Mānoa fully funds a scholarship differential out of tuition revenues.
5. Television and radio royalties under sales and services revenues is flat. Donovan said there’s degradation across the board, because of poorer win-loss records and the tough economy. Going forward, UH-Mānoa may lose TV revenue depending on several factors.
6. Postseason tournaments and travel costs, and disbursement amounts. Donovan said for WAC Tournaments, all team members travel. Cost is dependent upon distance traveled and number of team members.
7. How does UH-Mānoa compare to other WAC institutions in terms of operational efficiency (100 employees, 19 sports, 500 student athletes)? Donovan said UH-Mānoa compared favorably to Boise State, Fresno State, Nevada, Utah, Brigham
Young, and New Mexico. Others may have had similar ratios but smaller numbers.

Donovan added that in 2010, UH-Mānoa projects a deficit of about $800,000. It can go down to breaking even, depending on Boise State’s BCS chances and the results of men’s and women’s basketball, to as high as $1 million. For the following fiscal year, UH-Mānoa has a net gain of $900,000 coming from student fees, but also has an increase of salaries on June 30, 2011 estimated at about $500,000.

The accumulated deficit at the end of June 30, 2010 is $9.584 million.

In the Internal Control and Business Issues Report, Kubota said that there are two current year comments, with one (10-01) highlighting the fiscal deficit and the fragility of the Athletics Department, and the other (10-02) involving inadequate communication between Mānoa Athletics and the University of Hawai‘i Foundation, specific to the Clarence T.C. Ching Foundation gift, which resulted in an inappropriate classification of Foundation receivables. One item was resolved from the previous year: Net Asset (Deficit) Financial Statement Presentation.

UH-Mānoa Athletics drafted a Corrected Action Responses letter for the FY 2010 Audit, stating that it has worked to increase revenues and reduce costs regarding 10-01, and that the UH-Mānoa Athletics fiscal officer and the Foundation controller will meet after the fiscal year end, but prior to the commencement of the UH-Mānoa Athletics audit, to ensure that closing entries to the Foundation accounts recorded in conjunction with the Foundation’s audit and events that occur subsequent to the fiscal year are considered for recognition in the UH-Mānoa Athletics financial statements to address 10-02.

In the Report on Agreed-Upon Procedures, there were no exceptions identified, according to Kubota.

Accuity LLP provided the required auditor communication for the athletics audit to the Committee on University Audits.

The Committee agreed to bring this item to the Board and the Committee Chair would recommend that the statements be accepted.

**Review of draft University of Hawai‘i Bond System Financial Statements and Related Reports for Year Ended June 30, 2010**

Kubota said that Accuity is prepared to issue a clean, unqualified opinion on the Bond System Financial Statements.

Management’s Discussion and Analysis is unaudited by Accuity, but provides a good explanation of the major events that occurred during FY 2010 in comparison to the previous year.
In the Statements of Net Assets, Kubota pointed out that the Bond System is increasing its capital assets. Restricted cash held by the University represents unspent bond proceeds, with a decrease between 2009 ($124,619) and 2010 ($105,676), that is directly correlated with money spent on capital projects. There was an increase in accounts payable from 2009 ($8,371) to 2010 ($15,999), primarily related to payables for construction and progress.

Kubota said there was nothing that Accuity would consider of significance. Consistent with the additional debt offerings, interest expense is expected to increase. Cash-flow wise, the Bond System continues to generate positive operating cash flows, which it was designed to do to fund debt service.

Chair Karr asked a question about net assets and who determines designated versus undesignated, and should the Board approve it. VP Todo said it was internal and left up to management, but could be brought before the Board for formal designation. Kubota said that he sees it both ways, but typically the governing body would authorize management. Chair Karr said that because the System is currently updating/revising its policies, they should include a provision to allow the Board to delegate its authority to management.

Kubota and VP Todo addressed questions from the Regents, including items about ceded lands, analog/digital telecommunications, accounts renewable and merchandise credits, and management’s estimates.

Accuity LLP provided the required auditor communication for the Bond System Financial Statements and Related Reports to the Committee on University Audits.

The Committee agreed to bring this item to the Board and the Committee Chair would recommend that the statements be accepted.

**Briefing on FY 2010 Audits**

Kubota said Accuity is progressing well on the consolidated financial statement audit. It hasn’t received a draft yet, but is looking at reports. It is 80% done with the compliance piece of the audit, and is on track to discuss it at a Committee on University Audits meeting in January. VP Todo pointed out that, like athletics, this audit is way ahead of schedule.

**Enterprise Risk Assessment Briefing Summary**

Director of the Office of Internal Audit, Glenn Shizumura, said his office did a survey of the Vice Presidents and Chancellors/Vice Chancellors. His office received feedback that was used to rank issues in high impact and significant risk categories. Most of the problems dealt with insufficient funding and lack of personnel.
According to Shizumura, many of the items are too broad for the Office of Internal Audit to be responsible for, and few are from a financial standpoint, but instead deal with current policies and procedures.

Therefore, Shizumura said that his office needs feedback to determine what items should be identified for action, as the Enterprise Risk Assessment would be broader than the Risk Assessment that the external auditors currently perform.

Chair Karr asked if the Enterprise Risk Assessment should be geared towards the financial risk involved, as much of it is operational as well as strategic. VP Todo said that normally, the purpose of an Enterprise Risk Assessment is not financial specifically, but the broad risks the University faces. Many other institutions have separate groups to handle it, instead of having the Office of Internal Audit perform an Enterprise Risk Assessment.

VP Todo thinks that the results should be shared with the VPs and Council of Chancellors. Chair Karr thinks that the Office of Internal Audit should design its audit plan for the risks on the list, and from there come back to the Committee with recommendations, instead of coming to the committee with requests for how to proceed.

Chair Karr said that the intent behind the request to perform a Risk Assessment was to design an audit plan for the Internal Auditor. Shizumura asked that, going forward, should his office continue at an entire enterprise standpoint or reduce the scope. VP Todo said that he thought the instruction was to do an Enterprise Risk Assessment, not just a financial audit risk assessment.

Regent Martinson suggested that UH form a management or executive committee to address other broader issues. VP Todo suggested bringing the findings back to President Greenwood and other senior managers and see where they want to go with the broader risk management issues. He suggested that Shizumura focus only on the aspects that impact the audit plan and form an audit plan based on it.

Kubota said Accuity was never consulted by Internal Audit, and was thus confused as he tried to understand what the questionnaire was going to achieve. He did expect more operational issues as opposed to fiscal- or compliance-oriented risks. He also thought that Accuity would be participating in the process and work together with Internal Audit, because Accuity performs a risk assessment as part of its audit from a financial and compliance aspect. VP Todo said that there would be a benefit for Accuity and the Office of Internal Audit to work together and share information.

Regent Martinson said that it is appropriate for the findings to go to the senior leadership because the findings can be incorporated into plans going forward.
IV. ADJOURNMENT

There being no further business, on the motion of Regent Martinson and second by Regent Karr, and with unanimous approval, the meeting was adjourned at 4:34 p.m.

Respectfully Submitted,

[Signature]

Keith Y. Amemiya, Esq.
Interim Executive Administrator and Secretary of the Board of Regents