MINUTES

BOARD OF REGENTS’ COMMITTEE ON UNIVERSITY AUDITS MEETING

January 10, 2011

I. CALL TO ORDER

Committee Vice Chair Mark Fukunaga called the meeting to order at 9:00 a.m. on Monday, January 10, 2011, at University of Hawai‘i, Bachman 113, 2444 Dole Street, Honolulu, Hawaii 96822.

Committee members in attendance: Committee Chair James Lee; Mark Fukunaga; and James Haynes.

Others in attendance: Regents Chair Howard Karr (ex officio committee member); President M.R.C. Greenwood, Ph.D.; Vice President for Budget & Finance/Chief Financial Officer, Howard Todo; Vice President for Information Technology and Chief Information Officer, David Lassner, Ph.D.; Director of the Office of Internal Audit, Glenn Shizumura; Executive Administrator and Secretary of the Board of Regents Keith Amemiya, Esq., 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 NOVEMBER 10, 2010 MEETING

Regent Haynes moved and Chair Karr seconded the motion to approve the minutes of the November 10, 2010 meeting, which were unanimously approved.

IV. AGENDA ITEMS

Review and Recommendation to the Board of Regents for Acceptance of the University of Hawai‘i at Hilo Athletics Department Report on Agreed Upon Procedures for the Year Ended June 30, 2010 and related Internal Control and Business Issues Report

Regarding the Report on Agreed Upon Procedures, which UH-Hilo is required to perform every three years as specified by NCAA bylaws, Accuity LLP’s Cory Kubota said it has been a while since the procedures were performed at the UH-Hilo Athletics Department. Therefore, Accuity was pleased with the results, given the high employee turnover rate at the UH-Hilo Athletics Department. Accuity had some observations and findings in terms of areas of improvement, but nothing that it would consider to be a cause for great concern.
Chair Karr said that there were problems in the past at the UH-Hilo Athletic Department, such that previous donors and other supporters were reluctant to donate. His current concern is whether or not the athletic department or booster clubs are using outside checking accounts of non-501(c)(3) organizations. UH-Hilo Athletics Director, Dexter Irvin, said that the athletic department now handles all of its donations through the UH Foundation. More specifically, all 13 sports and general endowments now run their donations and other related funds through the UH Foundation. Additionally, the athletic department now receives a monthly report from the UH Foundation. Chair Karr asked AD Irvin if he was satisfied with the controls on expenditures and AD Irvin said he is, but that the department could still do a better job educating coaches on financial procedure issues.

Regarding the Internal Control and Business Issues Report, Accuity’s Kubota said that the matters discussed in this report are not indicative of non-compliance with NCAA bylaws. Instead, they are merely observations during the performance of the Agreed-Upon Procedures report, in which Accuity made recommendations. Per Kubota, UH-Hilo agreed with the observations and has already come up with action plans to address them.

Regent Fukunaga asked about the follow-up on the reconciliation issue of the $2,900 in unaccounted ticket sales. AD Irvin said that the UH-Hilo Athletics Department has an archaic ticketing system, and lack of funding has previously held the department back from upgrading the ticketing system. However, the athletic department is currently in the process of updating the ticketing system to give the UH-Hilo Athletics Department more accurate reports.

Chair Karr asked if there are policies in place regarding complimentary tickets for administration and the athletics department. AD Irvin said that there are policies in place, although they don’t have the complexities of UH-Mānoa because UH-Hilo doesn’t have football bowl games and high attendance numbers.

Chair Karr asked if boosters travel to the Big Island and AD Irvin said people do travel with visiting teams, but they are usually smaller groups. Nonetheless, Chair Karr suggested contacting the Hawai‘i Tourism Authority or Hawai‘i County about possible financial support.

UH-Hilo Vice Chancellor for Administrative Affairs, Debra Fitzsimons, said that although the Agreed-Upon Procedures report is required every three years by the NCAA, could the audit be completed annually? Accuity’s Kubota said that the fee for such a service is about $25,000. Fitzsimons said that UH-Hilo Chancellor Donald Straney is supportive of an annual report, at least for the next year or two. Regent Fukunaga asked if UH’s Internal Audit department could handle it. Director of the Office of Internal Audit, Glenn Shizumura, said he would look into it. Regent Lee said that given the “unintentional” errors found in the 2010 audit, an annual audit is a good idea.
for the near future. Regent Lee told UH-Hilo to review a proposal from Accuity first before looking to UH’s Internal Audit department for assistance.

Chair Karr moved to accept the reports related to UH-Hilo Athletics for the year ended June 30, 2010, with a recommendation to the Board of Regents for acceptance of such reports as well. Regent Haynes seconded the motion, which was approved unanimously.

**Review and Recommendation to the Board of Regents for Acceptance of the University’s Bond System Internal Control and Business Issues Report for the year ended June 30, 2010**

Accuity’s Kubota said that there is one comment in the Internal Control and Business Issues Report, which is an accounting-related matter on capitalized interest. Under accounting rules, when issuing tax-exempt debt specifically for construction, interest costs associated with that debt are required to be capitalized from the issuance of the debt through the date that the project is completed. Management determined that $2.7 million in interest costs should have been capitalized and a correcting adjustment to the Bond System’s fiscal 2010 financial statements should be recorded.

Vice President for Budget & Finance/Chief Financial Officer, Howard Todo, said that UH has already revised its accounting policy regarding capitalizing interest costs.

Regent Fukunaga pointed out that last year’s material weaknesses (financial reporting and inventory management of the bookstore and revenue cycle controls of UH-Mānoa Student Housing) were resolved. Internal Audit’s Shizumura said that both the bookstore and UH-Mānoa housing now have the proper personnel in place, but that he will continue to monitor and oversee them.

Chair Karr moved to accept the University’s Bond System Internal Control and Business Issues Report for the year ended June 30, 2010, with a recommendation to the Board of Regents for acceptance of such report as well. Regent Fukunaga seconded the motion, which was approved unanimously.

**Review and Recommendation to the Board of Regents for Acceptance of the University of Hawai‘i Financial and Compliance Audit Reports for the year ended June 30, 2010 including the audited Consolidated Financial Statements for the years ended June 30, 2010 and 2009**

Accuity’s Kubota said that Accuity is prepared to issue a clean, unqualified opinion on the consolidated financial statements and compliance with OMB Circular A-133. Accuity did not identify any material weaknesses or significant deficiencies, and did not identify any noncompliance issues relative to the financial statements. Also, Accuity did not identify any material weaknesses or significant deficiencies relative to federal awards and compliance.
However, Accuity did identify certain findings, or federal noncompliance, which are required by law to be reported. All federal noncompliance findings were related to student financial assistance, but none that Accuity would consider material weaknesses or significant deficiencies. Specifically, one area of concern pertained to Kaua‘i Community College, and it was primarily related to Kauai CC’s financial aid personnel turnover rate. Accuity’s Kubota did note that UH is already taking action to identify the source of this problem and possible solutions. Further, Kubota noted that there were no financial statement non-compliance findings and all prior year comments are considered to be resolved.

The consolidated financial statements include three organizations: UH, the Research Corporation of UH (RCUH), and the UH Foundation. The UH Foundation has its own auditor (KPMG, LLP), and thus Accuity relies on the opinion of KPMG in compiling UH’s consolidated financial statements. In Management’s Discussion and Analysis, there is one required supplementary information item, which is related to UH’s reporting of other post-employment benefits. It is included, unaudited, in the statement. The required supplementary information other than management’s discussion and analysis is not included in the packet. VP Todo said that there are drafts of the schedules; and the only incomplete schedule is for community colleges. In the past, the UH Community College’s accrediting organization wanted separate financial statements for each campus. However, this time, UH asked, and was granted, the ability to instead provide supplementary information schedules to UH’s consolidated audit.

The committee also discussed the bond premium interest rate, early retirement benefits, postemployment benefits other than pensions, and the snapback of faculty salaries.

Additionally, Accuity provided the required auditor communication to the Committee on University Audits.

Based upon the above, Regent Fukunaga moved to accept the University of Hawai‘i Financial and Compliance Audit Reports for the year ended June 30, 2010 including the audited Consolidated Financial Statements for the years ended June 30, 2010 and 2009, with a recommendation to the Board of Regents to accept same. Regent Haynes seconded the motion, which was approved unanimously.

**Review and Recommendation to the Board of Regents for Acceptance of the Office of Internal Audit’s fiscal 2011 Audit Plan**

Director of the Office of Internal Audit, Glenn Shizumura, went over the status of FY 2011 Projects, including completed projects such as external audits of Financial Statements and Compliance of General/A-133, Financial Statement Audit of University Bond System, and Agreed-Upon Procedures of UH-Mānoa and UH-Hilo athletics, for the year ended June 30, 2010, and Sales Audit of Natural Selection at Hanauma Bay.
Shizumura also went over internal audit projects, such as the mandatory audits of ASUH-Mānoa and sales of the Rainbow Tique at Ward Centre, as well as discretionary projects, such as the review of University bookstores accounting processes, follow-up on departmental checking account operations and purchasing card findings, and conflict of interest and outside employment.

One of the other projects is an Internet Security Assessment, and Shizumura said Internal Audit is collaborating with Information Technology. Vice President for Information Technology and Chief Information Officer, David Lassner, said UH wants to switch from having 10 campuses handle their own security to a system-centralized approach. A renowned security expert recently provided a final draft report to UH. The report said that UH is under-spending on information security, and UH needs to handle personal security in a more centralized manner than it has in the past. UH has developed a budget estimate, and is forming a plan of how to implement the changes. Shizumura reported that it was determined that an external entity should review the plan and monitor its progress, which is why Internal Audit is overseeing the implementation of the plan. Shizumura said that based upon what Internal Audit has to do to oversee the plan, its employees don't need a deep IT background. However, if they need expertise, they can bring in outside personnel to assist as necessary.

Based on a question posed by Regent Haynes, VP Lassner said that at this time UH is unaware of any data breach damage to individuals. The State Senate will be conducting a joint informational briefing on information security shortly. State Senators Jill Tokuda and Carol Fukunaga expressed some willingness to provide budgetary help for an information security program. Also, the IT department will likely bring to the Board of Regents a request to consider Board endorsement of the information security program proposal. President Greenwood reminded the committee that the last two security breaches would not have happened under UH's current policies and procedures, and added that UH may want to change the way it disseminates information about security breaches.

Continuing on the status of FY 2011 discretionary projects, Shizumura said that his office would review the status of the corrective action plan for the Office of Facilities and Grounds (Accuity performed the audit, but the Committee on University Audits did not see the results; Chair Karr said that any external audit report should come to the Committee on University Audits. A summary should go to the committee members, and a detailed report goes to the chair of the committee). Also, Shizumura said that his office is reviewing University Health Services Mānoa, University sub-recipient monitoring, University exemption from the state procurement code, enterprise risk management, and the Kuali (Financial Information System) project.

Chair Karr moved to accept the Office of Internal Audit's fiscal 2011 Audit Plan, with a recommendation to the Board of Regents to accept same. Regent Haynes seconded the motion, which was approved unanimously.
V. EXECUTIVE SESSION

Upon motion by Regent Chair and second by Regent Fukunaga, the Board unanimously approved convening in executive session, pursuant to HRS §92-5(a)(2)(3)(4). The Board convened in executive session at 10:50 a.m. and reconvened in public session at 10:51 a.m. following a motion to come out of executive session by Regent Haynes and second by Chair Karr, which was unanimously approved.

VI. ADJOURNMENT

There being no further business, on the motion of Regent Fukunaga and second by Regent Haynes, and with unanimous approval, the meeting was adjourned at 10:52 a.m.

Respectfully Submitted,

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