MINUTES

BOARD OF REGENTS’ COMMITTEE ON INDEPENDENT AUDIT MEETING

February 12, 2015

I. CALL TO ORDER

Committee Chair Ben Kudo, called the meeting to order at 2:45 p.m. on Thursday, February 12, 2015, at University of Hawai‘i, Bachman 113, 2444 Dole Street, Honolulu, Hawai‘i 96822.

Committee members in attendance: Committee Chair Ben Kudo; Committee Vice Chair Coralie Matayoshi; Regent Portnoy; Regent Helen Nielsen.

Others in attendance: Regent Chuck Gee, Regent Lee Putnam, Regent Jan Sullivan, Regent Michelle Tagorda, Regent Stanford Yuen, Regent Simeon Acoba (ex officio committee members); President David Lassner; Vice President for Legal Affairs and University General Counsel Darolyn H. Lendio; Vice President for Research Vassilis Syrmos; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH Mānoa Interim Chancellor Robert Bley-Vroman; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF THE MINUTES OF THE DECEMBER 4, 2014 MEETING

Regent Matayoshi moved and Regent Portnoy seconded the motion to approve the minutes of the December 4, 2014 meeting, as amended, which was unanimously approved.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received written testimony from one individual who had also signed up to give oral testimony.

Dr. Joe Ramos, Professor & Program Director of the Cancer Biology Program at the University of Hawai‘i Cancer Center (Cancer Center), testified that the team who put together the report did a good job and concurred that progress had been made with faculty governance, the faculty was very passionate about their work, and budgetary issues remain a concern.

IV. AGENDA ITEMS

1. Review and Acceptance of Associated Students at University of Hawai‘i at Mānoa (ASUH) Financial Statements July 1, 2013 – June 30, 2014

Director of the Office of Internal Audit Glenn Shizumura explained the review was less in scope than a full audit, consisting primarily of analytical review procedures and
inquiries. Nothing significant was found, but a few adjusting journal entries were noted in relation to accounts payable that are now properly reflected in the financials.

The format of the financials is similar to what the committee has seen previously. The Independent Accountant’s Review found that financial statements are fairly stated and in accordance with Generally accepted accounting principles (GAAP) General. The Management’s Discussion & Analysis provides a narrative explanation of ASUH’s financial performance for the past year in comparison with 2013, with a brief discussion of what they anticipate to occur in the future. The biggest asset on the balance sheet is investments, which are a little over $8 million and have been growing for the last several years due to market value increases. Endowment investments are approximately $8.3 million. The primary source of operating revenues is activity fees, which is the $5 fee they charge to all undergraduate students. The biggest source of revenues is the realized gains and interest and dividends in connection with the investment portfolio, which accounted for $1.3 million of their income for the past year. Director Shizumura explained the footnotes, which provide information related to costs; fair value of investments; required disclosures; investment, credit, interest rate, concentration and foreign currency risks; and policies with respect to concentration of investments, all of which have been consistent with a slight change to make the ASUH policies more aligned with UH policies. No real significant matters were noted in the financial statements as presented. He added that they perform this review once every three years, and perform operational audits as requested during the intervening years, and perform a financial statement audit every ten years.

Concerns were expressed about the amount of investments in foreign currency. Director Shizumura responded that the amounts were within guidelines, but it showed what the potential risks could be for currency exchange fluctuations. The committee asked if there were any guidelines or limitations on how the $8 million of investment income can be spent and if ASUH could choose to take some of that money to pay down the athletic department debt. Director Shizumura said there are investment guidelines and that ASUH is a student-run organization and its Senate would need to approve expenditures. President Lassner added that these funds were part of the legacy endowment pursuant to board policy. The board could certainly change the policy, but in general these funds were used to support student organizations and activities.

Committee Vice Chair Matayoshi moved that the Associated Students of the University of Hawai‘i at Mānoa Financial Statements July 1, 2013 – June 30, 2014 be accepted. Regent Nielsen seconded the motion, and the motion carried upon unanimous approval.

2. Review and Acceptance of the University of Hawai‘i A-133 Financial and Compliance Report for the Year Ended June 30, 2014

VP Kalbert Young introduced External Auditor Cory Kubota from Accuity LLP, its managing partner, that conducted the annual audit and provided the report in combination with the consolidated audited financial reports which the board previously accepted. Mr. Kubota said this report is required of all institutions with major federal programs who expend in excess of $500,000 in federal funds as required by the Office of Management &
Committee on Independent Audit Meeting Minutes of February 12, 2015 – p. 3/7

Budget (OMB) A-133 Compliance criteria. The university defines major federal programs as those federal programs with an excess of $3 million in expenditures.

In Fiscal Year 2014, UH had 9 major federal programs that expended more than $3 million in federal funds, as shown on page 26 of the report, that also provided a good summary of the audit results. As reported in December, Accuity has already issued the UH Audited Consolidated Financial Statements for the Year ended June 30, 2014, and a clean, unqualified opinion was issued, there were no internal control matters considered to be material weaknesses or significant deficiencies, and they did not identify any non-compliance material to the financial statements. With respect to federal awards, they are prepared to issue a clean, unqualified opinion on the university’s compliance with the OMB Circular A-133 criteria and no material weaknesses or significant deficiencies were identified. They did identify certain matters related to the expenditure of federal monies that are required to be reported in accordance with OMB Circular A-133, which are considered findings.

Mr. Kubota noted the largest of the 9 major federal programs was the Research & Development Cluster; then the Student Financial Assistance Cluster, which falls under Title IV of the Higher Education Act; the TRIO Cluster, which is administered by the U.S. Department of Education; the Broadband Technology Opportunities Program; the Trade Adjustment Assistance Community College & Career Training, which is administered by the U.S. Department of Labor; the Title III Higher Education – Institutional Aid, which is also administered by the U.S. Department of Education; the Gaining Early Awareness & Readiness for Undergraduate Programs; Title VII Native Hawaiian Education; and the State & Local Homeland Security National Training Program. For Fiscal Year 2014, the university expended $547 million in federal funds, a slight increase over 2013, which is a positive sign. Section 2 shows there were no financial statement findings required to be included in this report. Section 3 lists a Schedule of Findings & Questioned Costs related to compliance testing, all findings reported for 2014 pertained to Title IV and were related to student financial assistance. They do not consider any of the individual findings to be major, but findings are required to be reported by OMB Circular A-133 criteria. Section 4 is an update of prior findings and questioned costs, and he noted that the university resolved the majority of prior year findings, having only one repeat finding regarding the return of Title IV funds. Mr. Kubota added that it was a good report overall.

Comments raised regarded recurring issues with compliance with financial aid provisions on all campuses and whether there was any move to look at centralizing for efficiency. President Lassner said that VP Morton has been working on this, starting with the seven community colleges, to centralize some of the processing of financial aid. The community colleges tend to have very similar practices, and the goal is to expand this to UHM where many of the functions are more complex than at the community colleges. Work is underway to identify which functions can be centralized and automated to detect certain activities within the student information system and trigger actions for the financial aid officers on the campuses, with the ability for prompt follow up in order to get students through the financial aid process faster.

The committee asked for clarification regarding the Title IV issue and if it was related to students who leave mid-stream but received federal monies. Mr. Kubota explained that
a fairly detailed calculation needs to take place to determine if the student and the institution owe money back to the federal government. He indicated that in some unique circumstances, depending on the timing of the student's withdrawal, the student may actually be entitled to receive more money even though they dropped out of school.

Committee Vice Chair Matayoshi moved that the University of Hawai'i A-133 Financial & Compliance Report for the Year Ended June 30, 2014 be accepted. Regent Portnoy seconded the motion, and the motion carried upon unanimous approval.


Mr. Kubota explained this housekeeping report is also known as the management letter, which contains material items and internal control matters required to be reported in the A-133 report to the federal government. Observations made during the course of the audit are not necessarily non-compliance with laws or regulations, but are opportunities for the university to improve. There are seven comments in total, and Comment No. 14-07 relates to the issue regarding timeliness of financial aid documentation, which is already being addressed with an automated notification and centralized system. VP Morton added that efforts to comply with audit findings and improve services to students have resulted in significant improvements on compliance and service to students.

Concerns were raised regarding Comment No. 14-06 related to travel completion reports and the persistent problem of ensuring that sure travel completion reports are timely completed. President Lassner said there is an automated system that sends email notifications to travelers and indicated they should be able to figure out an escalation procedure. Mr. Kubota clarified that this comment was only related to filling out the forms and was not related to validity of travel, but since travel involves the expenditure of federal funds, this documentation is a key piece of substantiating the reimbursement. Documentation is key to avoid having to reimburse the federal government. There was no recollection of that ever occurring.

Committee Vice Chair Matayoshi moved that the Internal Control & Business Issues Report for the Year Ended June 30, 2014 be accepted. Regent Nielsen seconded the motion, and the motion carried upon unanimous approval.

4. **Review and Acceptance of University of Hawai'i Supplemental Schedules**

Mr. Kubota reported that two years ago the university took a proactive approach in responding to inquiries from the Western Association of Schools & Colleges (WASC) accreditation teams requests for campus-specific financial data. Last year, the university voluntarily started creating separate balance sheets and income statements for each of the four year campuses and the community college system. This is not mandated or required as part of the university financial statements, but facilitates the accreditation review process. WASC agreed that these separate schedules would satisfy individual institutional requirements, which has the added bonus of being a cost saving measure for the university by avoiding the costs of conducting seven separate audits.
Committee Vice Chair Matayoshi moved that the University of Hawai‘i Supplemental Schedules be accepted. Regent Nielsen seconded the motion, and the motion carried upon unanimous approval.

5. **Review and Acceptance of Sales Audit of the H-Zone, May 1, 2014 (Commencement Operations)- December 31, 2014**

Director Shizumura said this audit is required as part of the terms and conditions of the lease agreement because H-Zone pays minimum rent and if sales exceed 8% of the differential additional rent is required, which is similar to that done previously on the Rainbowtique. This report is due to the landlord at the end of every year, and provides the landlord with assurances that the percentage rent received for the past year was correct based on sales activity at H-Zone. The schedule on page 2 of the report breaks down the sales by month and the percentage rent was in instances where sales exceeded the monthly breakpoint of $68,430. He indicated nothing significant had come up during the audit, but there were a few operational matters raised and he was in the process of gathering information on before sharing with the athletics department later. He added that the numbers as reflected were confirmed and ready to submit.

Committee Vice Chair Matayoshi moved that the Sales Audit of the H-Zone, May 1, 2014 (Commencement Operations) – December 31, 2014 be accepted. Regent Nielsen seconded the motion, and the motion carried upon unanimous approval.


Mr. Kubota reported that the National Collegiate Athletic Association (NCAA) requires these procedures be performed regarding attendance at home football games. These procedures were carried out with no exceptions. The university will be filing a certificate of home game attendance. The average attendance exceeds the 15,000 minimum required to be considered a Division I program.

Committee Vice Chair Matayoshi moved that the University of Hawai‘i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2014 Football Season be accepted. Regent Nielsen seconded the motion, and the motion carried upon unanimous approval.


President Lassner thanked Dr. Ramos for his testimony, introduced VP Syrmos who led the task force that did an impartial external review of the Cancer Center, and said the focus today was on the path forward. VP Syrmos thanked the task force members for their input for the report and noted that his office provided administrative support and gathered the financials. He highlighted that all the task force members thought that National Cancer Institute (NCI) designation was paramount to the success of the Cancer Center and a cost benefit analysis needed to be performed regarding costs for maintaining that designation. Other observations of the task force were how clinical trials were performed, how to rejuvenate the consortium model to be functional, and, most
importantly, how the university can develop a credible plan going forward and executing that plan.

VP Syrmos summarized the parts of the review: (1) Finance & Administration review – showed a deficit, reserves are approximately $37 million, which could sustain the Cancer Center for another 3 years if nothing is done; (2) Cancer Center Management review – showed a lot of problems, there have been positive changes to management since Dean Hedges became Interim Director, but there still needs to be clarity of functions; (3) NCI Designation review – looked at importance of designation, how it related to clinical trials, the Hawai‘i Cancer Consortium (Consortium), and other NCI-designated centers, and what it will take to maintain designation.

The committee raised comments on status of raising extramural funds to help the budget; the need for alternative options as there are only 3 years until reserves are depleted; utilizing an external expert to oversee the review of the preliminary plan or package; the benefit of avoiding inherent conflict with an independent review; curtailing expenditures; decreasing lack of legislative support; cost benefit analysis of NCI designation before further commitment is made; clarification of necessity of clinical trials for NCI designation; concern that the most successful centers have a hospital; the role of the board to provide input and feedback for consideration of administration regarding the preliminary draft or status report, the responsibility for a policy that guides management and oversight, and though ultimately responsible, the board should not get involved in day-to-day decisions.

Regent Acoba disclosed that his son was an associate professor on a half time basis at the Cancer Center and his son’s wife was a full time employee at the John A. Burns School of Medicine (JABSOM). Since discussions were on policy only, he did not feel he had to recuse himself and no objections were raised.

Dean Hedges responded that the new Cancer Center building is now two years old, and though the center fell short of intramural funding forecasts, they are now seeking diverse sources of funding through the National Institutes of Health (NIH), new intellectual property commercialization of new potential therapeutics, and commercialization of certain space for future funding. Chancellor Bley-Vroman added that UH Mānoa is fully committed to maintaining NCI designation and to advance the quality of patient care and cancer research in the state. Revenue and cost issues need to be addressed, and reducing nonacademic expenses is the first step to strengthen the financial position. He intends to relocate the center as an Organized Research Unit (ORU) within JABSOM and will be initiating the required formal consultation processes immediately. As an ORU, the Cancer Center will have it owns integrity, direction, director, and programs, while benefiting from administrative savings in treating the Kakaako campus as a unit, which is similar to other research institutes having their own identities in a school, e.g., the School of Ocean and Earth Science and Technology (SOEST). It is common across the country to have ORU cancer centers within medical schools. JABSOM’s research portfolio exceeds that of the UHCC, which will strengthen the Cancer Center. Having the Cancer Center as an ORU will create operational efficiencies of non academic resources have projected savings; provide the ability to leverage clinical strengths of JABSOM to help the
Cancer Center; and be able to leverage research strengths of the Cancer Center to help JABSOM.

Dean Hedges noted that they have made tremendous progress with public-private ventures where JABSOM has partnered with the university’s affiliated hospitals, e.g., the Cancer Consortium. The Cancer Consortium is a unique and promising arrangement, but has experienced difficulties due to reductions in federal funding of hospitals, leadership changes at the university, and statewide financial challenges to keep everything on the right path. There is strong desire from Consortium hospitals to be a part of a NCI designated Cancer Center, and the Cancer Center receives $2.2 million per year from the Consortium. Some feel that is not enough, but the Consortium has put money on the table to help the Cancer Center succeed.

Chancellor Bley-Broman said the most notable challenge was the drop in cigarette tax revenues, and they need a business plan that lays out how they will support the activities they have committed to and maintain NCI-designation. Dean Hedges, as Interim Cancer Center Director, has been asked to take the lead in developing a plan, with an internal team and external expert advisors to achieve objectives. No options are off the table to improve the Cancer Center’s presence in Hawai’i and they are currently holding detailed discussions with NCI and are beginning discussions with community members and from cancer centers on the mainland. They have set an ambitious goal of having a plan by the end of March, with vetting anticipated for April.

The committee stressed the advantage of having a third party oversee the review to help build credibility and trust within the university and externally, and provide the benefits of having the objectivity of an outside consultant. Administration concurred and recognized that the aggressive timeline requires drawing on internal expertise and getting a core group working from within.

V. ADJOURNMENT

There being no further business, on the motion of Regent Matayoshi and second by Regent Nielsen and with unanimous approval, the meeting was adjourned at 4:19 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents