MINUTES

BOARD OF REGENTS’ COMMITTEE ON INDEPENDENT AUDIT MEETING

October 1, 2015

I. CALL TO ORDER

Committee Chair Stanford Yuen, called the meeting to order at 12:50 p.m. on Thursday, October 1, 2015, at the University of Hawai‘i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Hawai‘i 96822.

Committee members in attendance: Committee Chair Stanford Yuen; Committee Vice Chair Ben Kudo; Regent Wayne Higaki; Regent Michael McEnerney; Regent Jeffrey Portnoy.

Others in attendance: Board Chair Randy Moore; Board Vice Chair Eugene Bal; Regent Simeon Acoba; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President for Administration Jan Gouveia; Vice President for Academic Affairs Risa Dickson; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Vice President for Research Vassilis Syrmos; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE AUGUST 6, 2015 MEETING

Regent Portnoy moved and Regent Matayoshi seconded the motion to approve the minutes of the August 6, 2015 meeting, which was unanimously approved.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received no written testimony, and no individuals signed up to testify.

IV. AGENDA ITEMS

A. Enterprise Risk Management Update

VP Gouveia and John Hashimoto, UH Director of Risk Management, gave a presentation on Enterprise Risk Management (ERM); ERM vs. Traditional Risk Management; the Formal ERM process; the many ways the board engages in ERM today that is in compliance with Hawai‘i Revised Statutes; and the 12 month plan for moving toward ERM.

Administration will move towards a more programmatic and holistic approach to risk and is progressing with formalizing an ERM program that is customized to the university’s needs, beginning with a series of meetings to create an official formal framework analysis.
and mitigation plan. On review, at the unit and organization level, the university already engages in risk assessment on a more informal, ad hoc basis that have led to embedded processes, audits, and proposal templates, required legislative reports and control mechanisms, in full compliance with statute.

The next is creating the formal process that embeds the current informal processes. The 12 month process will begin with high level discussion around identification of risks, expand the types of risk to consider, and end with the findings and risk mitigation plan for high priority risks being presented to the board. This plan will help the board be more proactive and quantify risk to enable administration to make proper recommendations.

The committee appreciated the fact that both positive outcomes and downside risks would be looked at because too often the focus is on the negative implications. Committee Chair Kudo noted that in order to mitigate against the trend of decreasing state funding of the university, the university needs to rely on the ability to generate revenues through various activities and units. By proactively conducting audits of these units, the university can encourage maximum performance to enhance revenue production consistent with fiscal responsibility, which was evident in the recent audits of the culinary programs at Kapi’olani Community College and Leeward Community College. He proposed having the Office of Internal audit perform audits of both the parking operations at UH Mānoa (UHM) and the dormitory/housing operations at UHM and the University of Hawai’i at Hilo (UHH) to ensure the right financial and management controls are in place, and requested that be put on the agenda for discussion at the next committee meeting. Committee Chair Yuen agreed with the initiative and emphasized that it is not limited to these two programs, but all revenue producing functions and operations within the university system.

Regent McEnerney was pleased by the positive response of administration to this area because it was very important and explained that one purpose of ERM is to identify problem areas in advance rather on an ad hoc or anecdotal reactionary basic (e.g., putting fires out). Through the ERM process, the 10 areas of highest risk/reward would be identified and quantified. Ultimately, the ERM process becomes part of the decisionmaking tree and he was excited to see it going forward and hoped everyone would support it. He suggested regents who are interested read the AGB book entitled Risk Management: An Accountability Guide for University and College Boards, which is available on the Board’s online and office library.

Regent Portnoy commented other than financial audits during his time on the board, no risk audit (e.g., human capital, strategic, compliance, operational, and hazard) was ever presented to the regents. It is a very significant initial step that this committee expand its focus to look at non financial risks as well.

Committee Chair Yuen indicated he would like administration to look at ERM as a management tool to help managers and department heads to carefully asses their operations, and asked for everyone’s cooperation. As they begin the 12 month process, he asked VP Gouveia and others to be available to department heads to answer questions. Regent McEnerney added that ERM is a 10 year process; the first year is to set up the program to be followed by implementation over time.
B. Review and Approval of Amendments to Governance Documents

Glenn Shizumura, Director of the Office of Internal Audit, noted that the revised documents were included in the materials that were distributed to the committee. The revisions made the documents consistent with revisions that were already made to the Board’s Bylaws to ensure compliance with HRS §304A-321(f). There is some question as to whether a separate Audit Committee Charter is necessary, or if the language in the HRS gets incorporated into the bylaws to eliminate conflicting documents.

The committee pointed out that the Independent Audit Committee Charter had the chair and members of the committee being appointed by the Board of Regents, when the chair it actually elected by the members of the committee.

The committee asked the status of the Whistleblower program. Director Shizumura responded that administration is in the process of setting up the program and he was working with Secretary Quinn to finalize. There is currently no policy, and historically the informal process is to contact the board office or the president’s office if an issue comes up, and sometimes referrals from the Governor are received. There is a contract with a company to provide a hotline, and a website has been set up. Policies on how to handle calls and emails are underway. The committee asked the timetable for completions, and Director Shizumura estimated the program to be in place by the end of the upcoming fiscal year.

Regent Higaki moved to approve the amendments to the governance documents to reconcile the duties and responsibilities, Committee Vice Chair Kudo seconded the motion, and the motion was unanimously approved.

V. ADJOURNMENT

There being no further business, on the motion of Regent Higaki and second by Committee Vice Chair Kudo and with unanimous approval, the meeting was adjourned at 1:24 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents