MINUTES

BOARD OF REGENTS’ COMMITTEE ON INDEPENDENT AUDIT MEETING

FEBRUARY 10, 2016

I. CALL TO ORDER

Committee Chair Stanford Yuen, called the meeting to order at 2:45 p.m. on Wednesday, February 10, 2016, at the University of Hawai‘i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, 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; Regent Simeon Acoba; Regent David Iha; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernie Wilson, Jr. (ex officio committee members); Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Chancellor Robert Bley-Vroman; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE JANUARY 27, 2016 MEETING

Regent Higaki moved and Board Chair Moore seconded the motion to approve the minutes of the January 27, 2016 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 had signed up to give oral testimony.

IV. AGENDA ITEMS

A. For Information and Action:


External Auditor Cory Kubota of Accuity LLP presented the A-133 financial and compliance report for acceptance as the audit is complete and Accuity was prepared to issue a clean unmodified opinion. He explained how the report related to the university’s consolidated financial statements for the year ended June 30, 2015 that had been
reviewed and accepted at the December committee meeting. This report is required of all institutions with major federal programs who expend in excess of $500,000 in federal funds.

He noted pages in the report that provided a summary of the audit reports and that several individual, but not significant, compliance findings related to student financial assistance were reported in accordance with OMB Circular A-133 requirement; and the largest of the major federal programs was the Research & Development Cluster and other various grants from the U.S. Department of Education, including Federal Financial Aid and specific Native Hawaiian Education grants.

Questions and comments were raised regarding comparison to prior years, efforts to remedy repeated minor violations, extent of management cooperation, and subsequent penalties for noncompliance.

Mr. Kubota explained how Fiscal Year 2015 was a transition year involving implementing a new centralized system, training, and personal changes with an expectation of better results in 2016.

Regent McEnerney moved that the University of Hawai‘i A-133 Financial and Compliance Report for the Year Ended June 30, 2015 be accepted. Regent Higaki seconded the motion, and the motion carried upon unanimous approval.


Mr. Kubota explained how the internal control and business issues report is a compilation of additional observations and findings in Fiscal Year 2015 that are not required under federal regulations to be included in the A-133 report.

Comments and concerns were raised regarding status of mitigation efforts relating to recording and accounting noncompliance. It was reported that no penalties have been assessed to date and if inappropriate or unallowable expenditures are found the university immediately reimburses the federal government.

Regent McEnerney moved that the Internal Control & Business Issues Report for the Year Ended June 30, 2015 be accepted. Board Chair Moore seconded the motion, and the motion carried upon unanimous approval.

3. Review and Acceptance of University of Hawai‘i Supplemental Schedules

Mr. Kubota explained how supplemental schedules are conducted to comply with the university’s various revenue bond indenture requirements to account for the uses of the bond proceeds and the operations pledged as collateral on the revenue bonds. It was noted that each campus/unit in the aggregate differ from the system figures as the Employee’s Retirement System liability is not reflected at the campus level.
Regent Higaki moved that the University of Hawai‘i Supplemental Schedules be accepted. Committee Vice Chair Kudo seconded the motion, and the motion carried upon unanimous approval.

4. **Review and Acceptance of the University of Hawai‘i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2015 Football Season**

Mr. Kubota reported that the National Collegiate Athletic Association (NCAA) requires an audit of attendance at home football games because to be considered a Division I program, 15,000 in attendance is required. The average actual attendance provided and tracked by both UHM and Aloha Stadium Authority for the 2015 football season was approximately 16,000.

It was discussed how the consequences of falling below 15,000 attendance is probation and ineligibility to compete. Notwithstanding, the biggest concern is getting more paid seats so there is more revenue to support the program.

Regent Higaki moved that the University of Hawai‘i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2015 Football Season be accepted. Board Chair Moore seconded the motion, and the motion carried upon unanimous approval.

5. **Review and Acceptance of Sales Audit of the H-Zone for the Year Ended December 31, 2015**

Glenn Shizumura, Director of the Office of Internal Audit, reported on the sales audit that is required under the lease agreement and shows that $7 more in percentage rent is owed. Footnote information in connection with this lease was noted on pages 3 and 4.

A discussion ensued regarding current licensing revenue received from Aloha Stadium, and the limited opportunities to expand to include retail revenue because merchandising at Aloha Stadium is contracted to a third party, although there are ongoing discussions with the Stadium Manager on future opportunities.

Regent McEnerney moved that the Sales Audit of the H-Zone for the Year Ended December 31, 2015 be accepted. Board Chair Moore seconded the motion, and the motion carried upon unanimous approval.


Director Shizumura reported on the follow-up status of the 2015 audit of the H-Zone sales. Improvements were noted, although sales continue to decrease and plans need to be determined going forward to make H-Zone a more viable operation.

Discussion ensued regarding concerns about ensuring profit centers at the university operate to enhance the revenue generation and operations to offset operating costs;
disappointment that no significant changes have been made to improve the situation at H-Zone after the athletics department took control of the retail operations from the bookstore to generate more revenue; and serious consideration to return operations to the bookstore.

AD Matlin and his staff provided a PowerPoint presentation on the H-Zone Retail Operations Assessment and Recommendations. Extensive discussions ensued on options and limitations regarding merchandising and licensing activities, and the plan to conduct a three month evaluation to get H-Zone into compliance and breakeven as to the other operations cover the current losses, and the timing with the current lease term at Ward Center. The plan allows time to conduct monthly compliance and sales assessments, consider other models including utilizing a third party with retail expertise, determine whether athletics can do retail sales in the traditional brick and mortar stores effectively, and determine other options such as shifting to an internet sales model rather than catalogs.

Committee Chair Yuen requested that the athletics department take the comments under consideration and provide the committee with brief, monthly updates on the status.

Regent McEnerney moved that the H-Zone Comments and Observations Report for the Year Ended December 31, 2015 be accepted. Board Chair Moore seconded the motion, and the motion carried upon unanimous approval.

7. **Review and Acceptance of Associated Students at University of Hawai‘i at Mānoa (ASUH) Stipend Awards and Student Services Expenses**

Director Shizumura provided a report on the audit conducted of certain accounts and processes related to stipends and general service expenses at the request of ASUH. Processes were reviewed, transactions tested, and controls evaluated, and revealed that ASUH is following their policies and procedures, all expenses are within budget, and controls were operating as intended. High level comments regarding some inconsistencies revealed no impact on general ledger recordings. The recommendation is to formalize practices to ensure consistency.

Regent McEnerney moved that the ASUH Stipend Awards and Student Services Expenses for the Year Ended June 30, 2015 be accepted. Board Chair Moore seconded the motion, and the motion carried upon unanimous approval.

8. **Update on Status of Financial Management Improvements for the Culinary Program at Kapi‘olani Community College and Leeward Community College**

Associate VP for Administrative Affairs Mike Unebasami provided a verbal report on the progress on recommendations by the Office of Internal Audit on the culinary programs at Kapi‘olani Community College (KapCC) and Leeward Community College (LeeCC).

It was discussed how the KapCC programs improved management by implementation of a new inventory management system; additional training of personnel; new processes to account for all food product expenses and payments; and monthly accounting of
physically verified inventory that enables meaningful financial analysis. Accounts receivable processes have also improved in calendaring orders, billing and invoice, and collections utilizing the University of Hawai‘i Foundation (UHF) and Kuali Financial System (KFS) of the university.

LeeCC also improved its management with a new point-of-sale (POS) and inventory management system; procedures for inventory management and control have been documented and implemented, outlining respective roles and responsibilities for instructors and support staff in coordination with the business office on reconciliation of inventory. Regarding financial operations, LeeCC implemented internal, documented procedures for business plans, and financial and operational guidelines for all revenue-generating programs, establishment of business plans, revenue and expenditures estimates, and approved fees and rates charged to customers. Actual budget reports are monitored and developed in conjunction with KFS. Internal written procedures for donations were developed, with periodic review and verification of receipts and disbursements. Subway outlet at the LeeCC cafeteria is another revenue generating program that has improved reconciliation procedures for commission paid in coordination with the business office, and new internal written procedures for the monthly monitoring and tracking of commission payments are required from all concessionaires operating on the LeeCC campus to ensure compliance with vendor contracts.

Regarding all revenue-generating programs at the community colleges, it was reported how a Financial and Operational Oversight of Revenue-Generating and Financially Self-Sustaining Programs Policy is in place that explains campus requirements for managing financials, receivables, and inventory controls, and was vetted with the campuses, the Office of Internal Audit, and the Office of Research Services. The final draft policy is expected to be approved by the chancellors next week.

Questions and comments were raised regarding incorporating the processes into a curriculum, and projections to become revenue generating enterprises in the future. It was discussed how KapCC and LeeCC both have courses teaching students how to procure, perform inventory control, and manage, and the advanced culinary program being built at Diamond Head is an additional two year program focused only on culinary business practices. It is anticipated that once the programs are back on track, the next steps are to create business plans, and assess opportunities and identify programs that need subsidies and others that can be self sufficient and revenue generating.

Committee Vice Chair Kudo reiterated that the culinary programs are excellent examples of activities that can generate profit for the university system, especially the community colleges. He would like to see them operate efficiently and effectively as possible to maximize that potential.

The committee noted that cash control had come up in a previous audit and inquired if there were any controls in place. AVP Unebasami explained there were documented procedures that address how payment is collected, deposited and reconciled in the KFS system. They have gone to a system that requires payments before an event occurs instead of after.
It was noted that revenue-generating programs at the community colleges include theaters at Windward Community College and LeeCC; culinary programs at many campuses; art galleries; automotive programs providing service and community work and provide practical training for students; concessions and vending machines; conference centers; commercial and auxiliary enterprises; noncredit programs; parking operations; and transfer/diploma/library fees that collect money.

The committee requested a written report be part of the official record, and that updated reports be sent to Secretary Quinn to apprise the committee.

9. **Update on Status of Enterprise Risk Management Program**

VP Gouveia provided an update report regarding the Enterprise Risk Management (ERM) program and that senior officers from each campus held an ERM summit in November 2015 facilitated by Lita Finch, the Higher Education National Practice Leader for Aeon, at which the top nine highest strategic risks facing the University of Hawai‘i were identified that included adverse events and missed opportunities such as facilities (deferred maintenance and financing mechanisms); enrollment (recruitment and retention); the financial model or funding mechanisms going forward; research revenue (commercialization and improving the indirect rate); Information Technology (security and infrastructure; emergency management and business continuity; discrimination-free environment; intercollegiate athletics; and workflow processes around business operations, internal control, personnel contracts and overall governance aligned with accountability and responsibility. The areas will be prioritized by the third quarter to develop strategies for monitoring, mitigating, and measuring efforts in these areas, for presentation to the committee by fourth quarter, and implementation and monitoring occurring in the upcoming year. The committee requested administration provide Secretary Quinn with a summary of the nine highest risk areas for distribution to the committee members.

10. **Update on Whistleblower Project**

Secretary Quinn provided a report regarding work with the Office of General Counsel, the Office of Internal Audit, and VP Gouveia on the whistleblower project. The goal is to provide one centralized location to report or ask questions on violations, with appropriate board policies and executive policies to implement the program housed under administration. Any anti-fraud and whistleblower cases would go directly to the internal auditor and the Committee on Independent Audit. A vendor will be utilized to intake the whistleblower reports on the UH website. The board policy is expected to be brought to the board in March, concurrent with implementation of executive policies by administration, in order for the whistleblower program to be fully implemented by June 2016.

Questions or comments are to be referred to VP Young, Director Shizumura, or Secretary Quinn.
V. ADJOURNMENT

There being no further business, on the motion of Regent Higaki and second by Regent Acoba and with unanimous approval, the meeting was adjourned at 4:32 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents