

## MINUTES

### BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

JANUARY 17, 2019

#### I. CALL TO ORDER

Committee Chair Michael McEnerney called the meeting to order at 8:49 a.m. on Thursday, January 17, 2019, at the University of Hawai'i Information Technology Building, 1<sup>st</sup> Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Michael McEnerney; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba.

Committee members excused: Board Vice Chair Jeffrey Portnoy

Others in attendance: Board Chair Lee Putnam (ex-officio voting member); Regent Kelli Acopan; Regent Randy Moore; Regent Alapaki Nahale-a; Regent Michelle Tagorda; Regent Robert Westerman; Regent Ernest Wilson Jr., Regent Stanford Yuen (ex-officio committee members); President/UHM Chancellor David Lassner; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Academic Planning and Policy Donald Straney; Vice President for Research and Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH-West O'ahu (UHWO) Chancellor Maenette Benham; Honolulu Community College (HonCC) Chancellor Erika Lacro; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

#### II. APPROVAL OF MINUTES OF THE NOVEMBER 27, 2018, MEETING

Committee Vice Chair Higaki moved to approve the minutes of the November 27, 2018, meeting, seconded by Regent Acoba, and the motion carried unanimously.

Regent Yuen and Regent Nahale-a arrived at 8:51 a.m.

#### III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office received no written testimony, and no individuals signed up to provide oral testimony.

#### IV. AGENDA ITEMS

##### A. For Review and Acceptance:

### **1. University of Hawai'i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2018 Football Season**

External Auditor Cory Kubota of Accuity LLP summarized for acceptance the agreed-upon procedures report required by the National Collegiate Athletic Association (NCAA) to confirm the program is in compliance in meeting the minimum home attendance requirements, with no exceptions noted.

A question was raised regarding whether there had been any analysis done to determine how much attendance increased due to the team winning games. Mr. Kubota responded that no specific tests were done.

### **2. University of Hawai'i Financial and Compliance Reports as of June 30, 2018**

External Auditor Cory Kubota provided an overview of the services Accuity LLP provides annually to the university, including the Office of Management and Budget (OMB) Uniform Guidance financial and federal compliance audit, and the report on the NCAA Agreed-Upon Procedures for Division I programs. Accuity also provides a report on NCAA Agreed-Upon Procedures for UHH, which is required for Division II programs every three years.

External Auditor Kubota summarized the required audit communications, financial and compliance highlights, audits of the financial statements of the University of Hawai'i, and internal control and business issues report. He noted the consolidated financial statements rely on audited financial statements issued by the University of Hawai'i Foundation (UHF) and the Research Corporation of the University of Hawai'i (RCUH), which conduct their own audits.

External Auditor Kubota noted that the university received an unmodified opinion on its financial statements, and no internal control matters over financial reporting were identified. However, Accuity issued a qualified opinion on the university's federal compliance. He highlighted noncompliance related to the failure to return unearned Title IV funds and the material weaknesses regarding financial aid compliance at UHWO. Three instances of material weakness were reported: (1) return of Title IV funds; (2) Federal direct loans enrollment reporting; and (3) Federal work-study employment earmarking requirements. He noted that the noncompliance findings were largely attributed to staff shortages caused by high turnover. The systemwide financial aid department is providing support on an interim basis, and UHWO is recruiting to fill the positions.

Chair Putnam raised a question regarding the consequences of the qualified opinion. External Auditor Kubota explained that the U.S. Department of Education (DOE) will review the findings and management's response, and follow-up on the university's progress with implementing corrective actions. Consequences could range from a warning and update to potential fines or suspension of the campus from participating in the financial aid programs, but the latter would be extreme. The U.S. DOE is likely concerned about the campus filling the vacant positions. President Lassner was requested to keep regents informed on the status of this issue.

Regent Acoba inquired about the definition of “low-risk auditee.” External Auditor Kubota explained that the term is based on past audits, and a low-risk auditee allows the external auditor to reduce the extent of audit testing over federal compliance. The university has a long track record of clean compliance audits but due to the material weakness and qualification, the university will be considered a high-risk auditee next year. As a high-risk auditee, next year Accuity will be sampling between 50-60% of the university’s total expenditures as opposed to 30% for a low-risk auditee. Accuity is on a fixed-fee arrangement so there will be no cost increase associated with the increase in transactions that have to be sampled.

External Auditor Kubota explained that UHWO qualifies for an exemption from the work-study earmarking requirement, but due to staffing shortages the paperwork was not filed in a timely manner. Many of the smaller UH campuses also qualify and take advantage of this exemption.

Regent Westerman arrived at 9:22 a.m.

President Lassner explained that this was the first material finding during his tenure as president. Discussions have been held with Chancellor Benham and all officers regarding this matter. This is an area that cannot be centralized as the federal government holds each accredited campus accountable individually. However, systemwide support can be provided and a systemic approach is being taken with regard to addressing financial aid challenges.

UHWO administration agreed with the external auditor’s findings and recommendations and has already taken steps to address the material weaknesses, including staff cross-training and implementing the pilot “Starfish” software system which helps faculty to quickly identify and report non-participatory students. UH System administration agreed with the external auditor’s findings and recommendations and has begun developing a policy to provide timely data to each campus for compliance monitoring and support.

A question was raised regarding how repayment amounts are calculated. VP Straney explained that the federal government is informed by the campuses regarding enrollment changes that drop below the minimum level and estimated repayment amounts for courses students are no longer participating in. The campuses pay the federal government and then collect from the students.

Comments were made regarding the importance of taking preventative measures and informing students ahead of time so they understand the implications of financial aid and reducing the repayment time to the university, thereby minimizing the debt load. VP Straney explained that information on financial aid is included in the award letter. Campuses are required to perform exit counseling regarding the student’s financial aid obligations. Chancellor Benham explained that UHWO has incorporated financial literacy into student orientation. VP Straney added that all campuses have this as part of their intake process.

A question was raised regarding the scope of financial liability for the university. External Auditor Kubota explained that outstanding student accounts receivables were discussed at the November 2018 committee meeting, and the accumulated balance as of June 30, 2018, was between \$8 to \$10 million, and growing, with the majority being related to financial aid. The university repays the federal government and then pursues collection from students. The amount is not written off so some of the outstanding accounts receivables are decades old. President Lassner added that the individual amounts are relatively small.

A question was raised regarding whether there were policies in place to manage the accumulated student accounts receivables. External Auditor Kubota explained that the university has policies in place that it is following. VP Young noted that the university employs extensive collection efforts. There is a collections office that attempts to recover any unearned financial aid and if that is unsuccessful, the university refers those matters to collection agencies. Administration is reevaluating the approach of not writing off debts, but it is helpful to have a record of debts to recover in the event that students request transcripts or enroll in classes.

A question was raised regarding the timeline for addressing and implementing the recommendations. VP Straney responded that the technical solutions do not require additional personnel and can be done utilizing existing personnel and consultants. He noted that additional financial officers are needed for each campus and campuses evaluate hiring plans annually. President Lassner explained VP Morton started an initiative to create a System financial aid group to build capacity in response to a pattern of non-material financial aid findings. Resources were reallocated from within the university to create the group, which currently consists of four individuals. Chancellor Benham added that this has been an important learning opportunity, and commended the System for reaching out to campuses and providing cross-training and sharing information.

### **3. Status of Corrective Action Related to the University of Hawai'i Press and Student Housing Services Audit Report**

Internal Auditor Shizumura explained that the Office of Internal Audit performed follow-up work regarding the status of corrective actions related to the UH Press and UHM and UHH student housing audit reports. These reports were performed in prior years and the substantial portion of work by the Office of Internal Audit was performed prior to June 30, 2018. UH Press has implemented all corrective actions as of June 30, 2018, and UHM and UHH addressed some of the issues raised in the report and others are in the process of being corrected and should be addressed in the upcoming years. The Office of Internal Audit will be following-up to ensure the remaining corrective actions are implemented.

A question was raised regarding whether UH Press was going to continue to lose a significant amount of revenue annually. Interim Director of the University of Hawai'i Press Joel Cosseboom explained that sales are declining overall in publishing and anticipates that it will take approximately three years before additional revenues are

realized, and that they are working on changing their budgeting model to adapt to changes in the marketplace related to books.

UHM Interim Vice Chancellor for Students Lori Ideta explained UHM student housing has accomplished many of the corrective actions and others are in progress. UHH Vice Chancellor for Student Affairs Farrah-Marie Gomes reported the overall trend has shown an increase in occupancy since the housing rates were repriced in 2017. UHH has decided to keep rental rates steady through next year to keep it affordable for students. UHH also hired a new housing director. Many of the corrective action items have been completed and the longer-term items are expected to be addressed by 2020.

A question was raised regarding the status of the UHH Adult Student Housing (ASH) lease renewal. Chancellor Sakai explained that negotiations for a five-year lease extension are currently underway. The lessee is responsible for completing improvements and major repairs as identified in the action memo that was presented to the board in October 3, 2018. The current lease is in effect until June 30, 2019, and the new lease is expected soon.

A question was raised regarding whether expenses such as utility costs would be increasing. VCSA Gomes explained that expenses are expected to increase slightly due to the increase in student occupancy. UHH is considering hiring an associate director of residence life if certain occupancy thresholds are met. UHH is in the process of recruiting a casual hire marketing position because marketing efforts have significantly increased the ability to recruit more students into the residence halls.

Committee Vice Chair Higaki moved to accept the UHM Intercollegiate Report on Agreed Upon Procedures – 2018 Football Season, the UH Financial and Compliance Reports as of June 30, 2018, and the Status of Correction Action Related to the UH Press and Student Housing Services Audit Report.

Regent Acoba questioned the charge for alcoholic beverages in the financial and compliance reports. President Lassner explained that amount is equivalent to \$59 U.S. dollars. The event was for the Pacific Disaster Center, which performs extensive work in Southeast Asia and other parts of the world, and guests started ordering before separate checks could be requested for food and alcohol. Although there are controls in place, the charge was not noticed until reimbursement was submitted. The staff has been reminded of the importance of following policies and procedures.

Regent Acoba seconded the motion to accept the reports, and the motion carried unanimously.

**B. For Information and Discussion:**

- 1. Whistleblower Reports**
- 2. FY 2018 Whistleblower Hotline Annual Report**
- 3. Whistleblower Reports Involving the President/Regent Policy (RP) 2.205, Policy on Whistleblowing and Retaliation**

Due to time constraints, these items were deferred. There were no objections.

**C. Board Education Session – Overview of Services Accuity LLP Provides to the University of Hawai'i**

This was discussed during the review and acceptance agenda items.

**V. ADJOURNMENT**

There being no further business, Committee Vice Chair Higaki moved to adjourn, seconded by Regent Acoba, and with unanimous approval, the meeting was adjourned at 10:19 a.m.

Respectfully Submitted,

/S/

Kendra Oishi  
Executive Administrator and Secretary  
of the Board of Regents