MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

MAY 2, 2019

I. CALL TO ORDER

Committee Chair Michael McEnerney called the meeting to order at 10:32 a.m. on Thursday, May 2, 2019, at the University of Hawai‘i at Mānoa Information Technology Building, 1st 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; Regent Jeffrey Portnoy.

Others in attendance: Board Chair Lee Putnam; Regent Eugene Bal; Regent Ben Kudo; Regent Michelle Tagorda; Regent Robert Westerman; Regent Ernest Wilson, Jr. (ex officio committee members); President 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 Research and Innovation Vassilis Syroms; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE DECEMBER 19, 2018, AND JANUARY 17, 2019 MEETINGS

Committee Vice Chair Higaki moved to approve the minutes of the December 19, 2018, meeting, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

Regent Kudo arrived at 10:32 a.m.

Committee Vice Chair Higaki moved to approve the minutes of the January 17, 2019, meeting, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony and no one signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Approval of Annual Review of Committee Charter

Board Chair Putnam and Regent Wilson arrived at 10:35 a.m.
Committee Chair McEnerney explained that the Committee on Independent Audit is the only committee governed by statute, which together with the bylaws comprise the charter of operations for the committee.

Committee Vice Chair Higaki moved to approve the committee charter, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

B. Approval of Proposed Internal Audit Workplan for 2019-2020

Committee Chair McEnerney explained that the workplan is the outline for the work to be performed during the coming year. Internal Auditor Glenn Shizumura explained that the proposed workplan was developed in consultation with administration and included a summary of services provided by the Office of Internal Audit (OIA) and a breakdown of new, carryover, and follow-up projects for 2019-2020. He noted that OIA was not able to provide the same level of assistance that had been historically provided to Accuity LLP (Accuity) last year due to pressing matters involving the Maunakea audit, but will be providing support this coming year.

Internal Auditor Shizumura requested feedback from the committee on Senate Resolution (S.R.) No. 120 requesting that OIA perform an audit of extramurally-funded programs at UH-West O‘ahu (UHWO), including Title III grant funding, and whether the committee wanted to proceed with the audit, and if so, the scope and timing for the project.

Regent Kudo indicated that the committee should comply with the resolution, especially because it involved federal funds and there were ramifications for non-compliance.

The committee engaged in extensive discussion on Title III funding and whether there had been any feedback from the U.S. Department of Education (U.S. DOE) regarding the prior non-compliance findings or if there was any other indication of issues warranting an audit. Internal Auditor Shizumura explained that there were previous findings by an external auditor relating to Title IV programs, but nothing related to Title III. VP Young confirmed that there was no indication of specific issues related to UHWO or Title III programs, but that administration was undergoing a management review of the issues in response to related inquiries.

Board Chair Putnam noted that there is ongoing oversight of all Title III programs. VP Young added that there are federal compliance measures in place that occur, including an annual A-133 audit. VP Syrmos noted that there are select reviews by Accuity of certain contracts and determines whether there are any findings. VP Syrmos added that the Office of Research Services serves as a pre-award office and does not conduct audits or approve financial transactions for contracts and grants, as that responsibility lies within each campus.

Board Chair Putnam asked if any committee in the House of Representatives had considered this matter or taken a position on the resolution and if administration had a procedure for dealing with single body resolutions. VP Young explained that there are single body resolutions and concurrent resolutions which are sent to the other body for
consideration. S.R. 120 is a single body resolution that was adopted by the Senate and the concurrent version that was sent to the House was not adopted. S.R. 120 represents the request of the Senate and not the full Legislature. Historically, executive branch agencies generally do not respond to single body resolutions. Executive branch agencies treat concurrent resolutions as the will of the Legislature and generally reply to those resolutions. Board Chair Putnam requested the committee consider this request in relation to the other work that the OIA is planning for this year and use discretion in determining whether this is a priority at this time.

Although he understands the issue of single body resolutions, Committee Vice Chair Higaki agreed with Regent Kudo and noted that there are expectations of increased sensitivity for federal programs like Title III. Regent Kudo reiterated that the sanctions for non-compliance of federal program expenditures are severe. Committee Chair McEnerney drew a parallel with the Maunakea audit which revealed a lack of coordination for the activities of Maunakea operations. He noted that a key criteria for an audit is the size of the grant, and smaller grants can run a higher risk of potential issues. He noted while Title III is an important issue, it is not the first priority of the committee.

Regarding S.R. No. 31 requesting the State Auditor evaluate the 2018 UH internal audit of travel policy compliance for fiscal years 2015-2017, Committee Chair McEnerney indicated that the university had been before the Senate previously regarding large amounts of travel expenditures with questionable justification. He noted that this is a serious issue and he would like the committee to consider looking at it, but was not sure where it would fall in the level of priorities.

A question was raised regarding the likelihood of OIA with its present staff being able to complete all the audits. Internal Auditor Shizumura responded that the staffing levels for this year are better than prior years and the goal is always to follow and complete everything in the plan. The highest priority audits will get done, but unforeseen delays can impact the schedule.

Regent Acoba asked if administration had a position on either S.R. No. 120 or S.R. No. 31. VP Young responded that administration views audits positively because audits present the opportunity to validate current practice as being compliant and identifies best practices, so administration has no objections. He indicated that if resources are an issue, other audits should not come at the expense of S.R. No. 120. VP Young noted that clarification is needed from the board on the audit scope, which could potentially be very large. He added that if the committee decides to pursue this audit and OIA has the capacity, it would be more valuable to do an audit of Title III systemwide, and not just UHWO. He noted that administration was supportive of S.R. No. 31 because the legislative auditor would be responsible for the audit costs and resources. If the university had to hire an external auditor to perform an audit of this caliber, the costs would likely be in excess of $1 million.

Committee Vice Chair Higaki asked whether the committee would be placed in a position of additional criticism by approving an internal audit plan that may not be completed should the internal auditor determine that resources or time prevent them
from completing all of the audits. Internal Auditor Shizumura reiterated that the goal is to complete all audits in the workplan, but the committee would need to deem the audits appropriate and provide guidance regarding the scope of the audits referenced in the legislative resolutions. An addendum to the workplan would be prepared that reflects the scope and whether any other audit projects are being removed from the plan.

A suggestion was made that VP Young and Internal Auditor Shizumura review and discuss the audit objectives and report back to the committee on the potential scope of an audit on Title III funds.

VP Young was asked if there was anything administration felt was missing from the draft workplan. VP Young responded that he met with Internal Auditor Shizumura during the development of the plan, and administration wants to remain independent of what audit areas the committee wants to pursue, but is available to offer suggestions for the committee’s consideration.

Committee Chair McEnerney reminded the committee that the workplan generally includes OIA providing 1,000 hours to Accuity, subject to availability. He expressed his hope that the committee will start prioritizing the workplan in August and will receive regular progress reports.

Committee Vice Chair Higaki moved to approve the workplan, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

C. Acceptance of the Draft Committee on Independent Audit Annual Report to the Board

Internal Auditor Shizumura explained that the annual report is prepared pursuant to Section 304A-321, Hawai‘i Revised Statutes. This annual report also includes the OIA’s Audit Results for the Fiscal Year Ended June 30, 2019, which summarizes the services provided during the past fiscal year and projects included in last year’s audit plan with current status, findings, and recommendations. He noted that the committee met all statutory and bylaw requirements.

Committee Vice Chair Higaki moved to accept the draft Committee on Independent Audit Annual report to the Board, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

D. Review and Acceptance of the Office of Internal Audit (OIA) Report on its Review of the University of Hawai‘i Sodexo Food Service Contracts

The committee reviewed the audit reports for the UH Sodexo food services contracts. Internal Auditor Shizumura explained that there are four separate contracts with varying terms and conditions. The contract administrators were effectively monitoring the contracts for compliance, and minimal and insignificant instances of Sodexo noncompliance were noted. It was recommended that future consideration be given to entering into a single contract for efficiency and ease of monitoring, economies of scale, increased financial benefit, and other factors.
Board Vice Chair Portnoy asked whether students were given the opportunity to provide feedback on quality and service, and whether the contracts were subject to procurement. Internal Auditor Shizumura explained that surveys are provided to students and that the contracts are subject to procurement laws.

Regent Acoba raised questions regarding whether the UHH commissions on page 5 were low, and whether health and safety items such as vermin control and contagious disease reporting requirements should be “must haves” in all contracts. Internal Auditor Shizumura explained that page 5 is simply a summary of the financial results. He noted that the contracts were constructed differently depending on individual circumstances. He indicated that there is some subjectivity in the categorization of “must have” terms for the contracts, and OIA did not provide opinions regarding contract provisions.

Board Vice Chair Portnoy questioned the role of the internal auditor. Committee Chair McEnerney explained that internal audit reviews the operational policies and procedures that are utilized, and expands beyond a financial or accounting role. He added that a single contract that applies to all four food operations would allow the individual managing the contract to have a common basis for contract terms. Regent Westerman noted that campuses have different operations so the requirements may vary depending on the various agreements they have entered into. Committee Chair McEnerney requested that Internal Auditor Shizumura perform a follow-up report at a future meeting informing the committee on the outcome of each of the contract recommendations and whether it is feasible to establish a system for the contracts to expire at the same time, what a basic contract might include, and alternative provisions.

Board Chair Putnam noted that most of these contracts were entered into before the university became sensitive to sustainability issues, and suggested OIA discuss the contracts with the Sustainability Office to get feedback on what they might want included in the contracts. Internal Auditor Shizumura indicated that there were some terms in the contract related to decreasing the use of polystyrene.

Regent Acoba moved to accept the report on the review of the University of Hawai‘i Sodexo food service contracts, seconded by Committee Vice Chair Higaki, and the motion carried unanimously.

E. Review and Acceptance of the OIA Report on its Review of the University of Hawai‘i Cash Receipts Process

The committee reviewed the report on the UH cash receipts process. Internal Auditor Shizumura noted that the policies, procedures, practices, and internal controls for cash receipts were sufficient. Some issues regarding timeliness in recording receipts in the Kuali Financial System were noted, and it was recommended that administration consider updating policies to include language regarding persistent and continually recurring instances of non-timeliness of the recordation of cash receipts.

Internal Auditor Shizumura explained that Payment Card Industry (PCI) Data Security Standard (DSS) compliance is very complex and university personnel understand the sensitivity. OIA is recommending that administration consider
developing a robust and comprehensive PCI DSS process supplemented with written policies, procedures, and training to mitigate risks. He explained that management’s response concurred with all recommendations and is currently working on some of the recommendations. VP Young added that training could be addressed relatively soon, but additional time may be needed to address contract and policy compliance matters. He anticipates substantial progress within the next 12 months.

Regent Acoba moved to accept the report on the review of the University of Hawai‘i cash receipts process, seconded by Board Vice Chair Portnoy, and the motion carried unanimously.

F. Follow-up Report on the Evaluation of the Status of Corrective Action Related to Travel Policy Compliance and Employee Cell Phone Charges Audit Reports

Regent Tagorda departed at 11:39 a.m.

Internal Auditor Shizumura explained that the OIA performed follow-up work regarding the status of corrective action related to travel policy compliance and employee cell phone charges audit reports that were performed in prior years. All recommendations related to cell phone charges were implemented and the university issued a new policy in January on cell phone usage. All corrective actions related to travel policy compliance were implemented, except for two “in process” actions related to implementing alternative travel payment methods and developing an audit approach/testing strategy for Research Corporation of the University of Hawai‘i-processed travel disbursements for university personnel.

Committee Chair McEnerney asked if grant travel and travel paid for by the UH Foundation was included. Internal Auditor Shizumura indicated that the $30 million in travel was included in the financial statements, and he was not sure of the funding source.

G. Follow-up Report on the Evaluation on the Status of Correction Action Related to the University of Hawai‘i at Mānoa Athletics Department Equipment and Apparel and Commuter Services Audit Reports

Internal Auditor Shizumura explained that the OIA performed follow-up work regarding the status of correction action related to the UHM Athletics Department Equipment and Apparel and Commuter Services audit reports that were performed in prior years. All items previously noted related to commuter services are being addressed. All items related to UHM Athletics Department equipment and apparel have been addressed, except for the maintenance of perpetual inventory records for equipment/apparel and development and implementation of policies and procedures related to equipment/apparel. The athletics department is evaluating inventory management software and is developing policies and procedures that will require the equipment manager’s participation in key equipment/apparel-related activities.

Committee Chair McEnerney inquired on progress made to reduce the collections backlog for commuter services and the process for citations issued to non-students. Internal Auditor Shizumura explained that citations can be mailed to the residence
address associated with the vehicle’s license plate. Unpaid citations are sent to a collection agency. For a one-year period, citations were not forwarded to collection agencies; citations receivables have increased since the forwarding of citations to collection agencies resumed.

Board Vice Chair Portnoy requested a more detailed response on management’s explanation that citations were not forwarded to collections because personnel were focused on more significant matters, including repair and maintenance concerns, and why this prevented commuter services from sending citations to collections for a period of time. Cate Matsushima, UHM Manager of Commuter and Fleet Services, explained that the entire parking staff, including student workers, left during that time, leaving few employees to prioritize work and maintain operations. She noted the difficulty in finding employees who want to work in commuter services. Before citations are sent to collections, someone must manually look up every single license plate and enter the data into the database, and there were not enough employees to manage that process. Commuter services is hiring employees, maintaining staffing, and getting caught up. Board Vice Chair Portnoy commended commuter services for their efforts.

Board Vice Chair Portnoy noted that parking was an essential function of the university and questioned whether there had been a review of the underlying issues resulting in the turnover in employment. Ms. Matsushima responded that employees are subjected to frustrations exhibited by commuters. Commuter services has taken proactive measures such as installing cameras in the parking office, and is in the process of moving to a location closer to the UH Department of Public Safety.

H. **Whistleblower Report (Deferred from January 17, 2019)**

Internal Auditor Shizumura reviewed the latest whistleblower report that includes complaints to date by campus/unit and status, and a summary of types of complaints. He noted that there were some outstanding cases for which OIA followed up with campuses and was informed that senior management is reviewing cases, gathering additional information for a thorough investigation, and working on resolution.

I. **FY 2018 Whistleblower Hotline Annual Report (Deferred from January 17, 2019)**

VP Gouveia presented the fiscal year 2018 Whistleblower Hotline Annual Report outlining the program; workflow and processing time; breakdown of reporting by month, campus, and type; and case processing time. The number of monthly complaints and reporting by campuses is similar to last year, with a reduction in cases for the community colleges and a slight increase in cases for UHH and System. There have not been any significant increases or trends that are cause for concern. Employment and human resources issues continue to comprise the majority of complaints. Administration regularly reviews the complaints and will inform the committee and the board if any alarming complaints or trends are detected.
Board Vice Chair Portnoy asked if any consideration was given to hiring an Ombudsman, and President Lassner responded that there may be plans in Phase 2 of the UHM reorganization plan.

J. **Whistleblower Reports Involving the President/Regent Policy 2.205, Policy on Whistleblowing and Retaliation (Deferred from January 17, 2019)**

The committee discussed possible changes to Regents Policy (RP) 2.205 to include provisions for the handling of whistleblower complaints against the President.

Board Chair Putnam suggested that any references to the board or committee chair should include the ability to name another regent as a “designee.”

Regent Wilson departed at 12:05 p.m.

Board Vice Chair Portnoy suggested that instead of saying an investigation “may” be conducted, that it should be “must” or “shall” because all complaints should be investigated and using “may” could lead to the complaints being disregarded. VP Okinaga explained that a number of complaints are received that have no merit. President Lassner indicated that the term investigation has a specific meaning, and to assemble even a perfunctory investigation for cases without merit would not be appropriate, but administration would take the suggestion under advisement.

President Lassner clarified that the new language in RP 2.205 only applied to the president, and was revised to remove administration from being involved with complaints involving the president. Regent Westerman suggested the title be changed to make that distinction. VP Okinaga explained that the policy contains provisions that relate to a broader group.

Regent Bal departed at 12:11 p.m.

Board Vice Chair Portnoy expressed concern about any findings of violation being presented in executive session and that there are no provisions for next steps. He indicated that consideration should be given to whether the public is entitled to know if any finding is upheld. VP Okinaga explained that the language in the draft policy would allow for maximum flexibility to be exercised depending on the circumstances.

Regent Westerman departed at 12:12 p.m.

Regent Acoba suggested the Office of General Counsel (OGC) review the state whistleblower statute to determine if it contains any applicable information. VP Okinaga responded that there are discrimination laws regarding anti-retaliation of complaints and other matters and that OGC would review the whistleblower statute.

K. **Committee Annual Review**

The committee reviewed the Annual Review for the 2018-2019 Academic Year showing the committee duties per bylaws, and the 2018-2019 committee goals and objectives and accomplishments. Committee Chair McEnerney noted that this item is for information only and asked committee members to forward to the Board Secretary
three items the committee did well, three items that were missed, and comments related to the Internal Auditor.

V. ADJOURNMENT

There being no further business, Regent Acoba moved to adjourn, seconded by Board Vice Chair Portnoy, and with unanimous approval, the meeting was adjourned at 12:15 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary of the Board of Regents