MINUTES
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

DECEMBER 5, 2019

I. CALL TO ORDER

Chair Michael McEnerney called the meeting to order at 9:00 a.m. on Thursday, December 5, 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: Chair Michael McEnerney; Vice-Chair Wayne Higaki; Regent Randy Moore; Regent Robert Westerman; and Regent Ernest Wilson Jr.

Others in attendance: Board Chair Ben Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal; Regent Alapaki Nahale-a (ex officio committee members); President David Lassner; Interim Vice President (VP) for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Academic Planning and Policy Donald Straney; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Mānoa (UHM) Provost Michael Bruno; UH-West O‘ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE OCTOBER 3, 2019 MEETING

Regent Wilson moved to approve the minutes of the October 3, 2019, meeting, seconded by Regent Moore, 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 individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Review and Acceptance of University of Hawai‘i Audited Financial and Compliance Reports as of June 30, 2019

Ms. Jamie Asato, with Accuity LLP, provided an overview of Accuity’s audit of the consolidated financial and compliance reports of UH. She highlighted revenue trends noting that tuition revenues remained relatively flat as tuition rate increases were offset by declines in enrollment; that federal contract and grant revenues increased by 1.1%; and that State general fund appropriations increased by approximately 4.4% as a result of collective bargaining agreements. She also highlighted financial liabilities noting that Governmental Accounting Standards Board Statement No. 83 (GASB 83) regarding
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Ms. Asato discussed compliance issues with regard to federal expenditure requirements noting that Accuity would issue a modified opinion on the audit conducted in 2018 in response to the resolution of a compliance matter discovered in the 2018 audit. The 2019 audit discovered 8 compliance findings, mostly relating to student financial aid requirements.

Ms. Asato noted that the 2019 audit did not find significant risks, exposures, weaknesses, difficulties, material uncertainties, acts of fraud, or illegal activities, but did note minor internal control deficiencies which will be reported to the Board in 2020.

Regent Acoba arrived at 9:07 a.m.

Regent Acopan arrived at 9:09 a.m.

Regent Moore asked whether the $11 million for decommissioning of the telescopes was based on current costs or an estimate of costs at the time of decommissioning. Ms. Asato replied that the estimates were based on current costs and the figures would be updated annually to account for inflation.

Chair McEnerney inquired as to whether the approximately $4 million of unadjusted differences of deferred resources in Accuity's report was accounted for and adjusted in the actual financial statements or whether the figure was simply reported. Ms. Asato responded that this figure was related to split interest agreements with the University of Hawai'i Foundation and was reported in accordance with GASB 81. She also remarked that GASB 81 has been in effect for years, but that this is the first time the dollar amount for this subject exceeded Accuity's de minimis threshold of $3 million.

Regent Nahale-a arrived at 9:13 a.m.

At the request of Chair McEnerney, Ms. Asato provided a brief overview of the summary of the Accuity's financial audit and compliance report. She noted that while no material weaknesses, deficiencies, or compliance issues regarding financial statements were discovered, Accuity identified deficiencies with regard to federal awards that were not considered material weaknesses. Ms. Asato mentioned that of the identified deficiencies, one deficiency related to issues regarding payroll expenditures incurred by employees, including one instance where an employee of the Research Corporation of the University of Hawai'i (RCUH) was erroneously compensated for 30 hours of work, which was considered significant.

Board Chair Kudo asked if Accuity conducts its audit via statistical sampling and whether Accuity changes its sampling technique if deficiencies are discovered in the
initial sampling. Ms. Asato replied that Accuity does conduct its audit via random sampling and when an exception is found, attempts are made to quantify the magnitude of the exception to determine if the problem is pervasive. Depending on these findings, Accuity may change its sampling techniques or take additional samples. In this instance, Accuity reviewed a total of 480 samples which it felt was a good and adequate representation of the population.

Regent Moore questioned whether the significant deficiency regarding payroll expenditures was limited to one campus or spread over several campuses. Ms. Asato responded that of the 4 issues discovered regarding payroll deficiencies, one occurred at RCUH, one occurred at Windward Community College (TRIO), and two occurred at UHM (GEAR UP).

Regent Westerman inquired whether the cost-basis contained in the audit was based on the actual findings or projected estimates of other possible infractions. Ms. Asato replied that the financial numbers reported by Accuity are based only on actual findings. Accuity does provide a percentage and context of the sample used to determine their findings to the federal government which allows the federal government to use their own parameters to make their own determinations as to the magnitude of the issue.

Chair McEnerney asked about the $19 million in Title III grants and the process used by Accuity when reviewing these grants. Ms. Asato answered that there are 13 compliance requirements that are tested by Accuity and that Accuity also performs direct-cost testing by sampling transactions. In this case, Accuity sampled 60 transactions (28 payroll and 32 non-payroll) and found no issues. Chair McEnerney queried whether requesting the Internal Auditor to specifically audit Title III grants would be duplicative of Accuity’s work. Ms. Asato responded in the affirmative.

Chair McEnerney questioned whether the 7% annual investment rate of return used in the actuarial assumptions underlying the determinations of pension liability was determined by Accuity. Ms. Asato replied that the determination of pension liability is based on actuarial assumptions adopted by the Board of Trustees of the Employees’ Retirement System.

Chair McEnerney inquired as to whether Accuity tests other grants besides federal grants. Ms. Asato replied that Accuity did not test non-federal grants as part of this audit.

Regent Moore moved to accept the audited financial and compliance reports, seconded by Vice-Chair Higaki, and the motion carried unanimously.

B. Discussion on Title III Grants – Senate Resolution (SR) 120 (2019)

Internal Auditor Shizumura provided an update to a memo provided to the Committee in October that responded to an audit request of the Title III Program pursuant to SR120. The memo was updated to include additional 2019 financial information. It was reiterated that no issues regarding non-compliance with Title III Program grants were discovered.
Chair McEnerney inquired as to whether the request made by SR 120 contained more than just Title III grants. Internal Auditor Shizumura replied that they were two items included in SR 120 that were not Title III Program grants, including grants of approximately $450,000 from Kamehameha Schools, and that he was awaiting direction from the Committee as to how to proceed on these two items.

Chair McEnerney posed a question to Committee members seeking discussion on how the Committee wanted to proceed on the response to SR 120 and whether the Committee wanted to ask the Internal Auditor to develop a proposal to review the two, non-Title III issues separately. He noted that Title III Program grants are already subject to an audit performed by Accuity and that requesting the Internal Auditor to perform another audit would be duplicative, particularly since there were no findings of non-compliance by Accuity. Discussions transpired regarding this issue and the Committee concurred that the Internal Auditor should be proactive and fully compliant with SR 120 by reviewing the two non-Title III Program grant issues.

Regent Acoba asked whether an official report would be issued by the Internal Auditor in response to SR 120 and whether an official response would be sent to the Legislature. Chair McEnerney replied that the compliance report that was issued is considered an official report and that he has already been in communication with the Senator requesting this information, but will send additional correspondence.

Regent Moore moved to request that the Internal Auditor develop a plan to address two programs noted in SR 120 that were not covered by the audit conducted by Accuity and that the Internal Auditor report back the Committee in a timely manner, seconded by Vice-Chair Higaki, and the motion carried unanimously.

C. Review and Acceptance of University of Hawai’i at Mānoa Intercollegiate Athletics Audit Reports for the Year Ended June 30, 2019

Ms. Asato provided an overview of Accuity’s report on agreed-upon engagement procedures to ensure that the UHM Athletic Department’s statement of revenues and expenses for the year ended June 30, 2019 was compliant with the National Collegiate Athletics Association (NCAA) bylaws. She noted that no material misstatements were made by the UHM Athletic Department, that one issue regarding the reporting of Pell Grant information to the NCAA was detected and corrected, and that some deficiencies in the internal control procedures of UHM Athletics were discovered.

Board Chair Kudo asked whether the agreement between Accuity and the University concerning the operations of the UHM Athletic Department include the retail functions carried out by the Athletic Department. Ms. Asato responded that the agreement did not cover this function as it is no longer a primary function of the UHM Athletic Department. However, she noted that revenues from retail operations conducted by the UHM Athletic Department in "pop-up" shops, especially during road games, were included as revenues under this audit.

Regent Westerman asked if the $3.06 million in net loss experienced by the UHM Athletic Department was the result of not raising those funds or a result of the UHM
Athletic Department spending funds it did not have. Ms. Asato replied that the net loss was for the entire UHM Athletics Department and that no significant fundraising efforts were undertaken during this period which may have helped to reduce expenditure deficits.

Additional discussion occurred on the financial health and activity of the athletics department.

Vice-Chair Higaki moved to accept the audit report, seconded by Regent Wilson, and the motion carried unanimously.

D. **Review and Acceptance of the Annual Report to the Legislature on Material Weaknesses and Fraud**

Internal Auditor Shizumura reported that there were no findings of material weaknesses, fraud, or illegal acts and noted that a report will be sent to the Legislature.

Regent Moore moved to accept the annual reports, seconded by Vice-Chair Higaki, and the motion carried unanimously.

E. **Review and Acceptance of Office of Internal Audit Review of Clearing Accounts**

Internal Auditor Shizumura provided a brief overview of an audit conducted on UH clearing accounts to better understand the transactions using clearing accounts and what financial impacts, if any, this policy had on UH. He noted that no significant issues or impacts to financial statements were discovered. During the review of the clearing accounts it was learned that not all fiscal administrators were aware of, or familiar with, the policies governing these accounts. Additionally, the high volume and use of clearing accounts (approximately 1,000 accounts), and some revisions to the process for, or controls on the use of, clearing accounts may be warranted.

Regent Westerman inquired as to how the funds in clearing accounts were properly accounted for if these accounts were used to pay for charges in situations where it was unclear where the charge would be assigned. Internal Auditor Shizumura replied that these charges are reclassified once it is determined where the charge should be applied but that the process can be improved.

Regent Wilson moved to accept the report, seconded by Regent Moore, and the motion carried unanimously.

F. **Whistleblower Report**

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports. He noted that some of the cases, particularly those that are HR related, are dated and may take some time to process due to a variety of reasons.

Chair McEnerney noted that discussions have occurred as to whether there was a process that could be used to determine if there were clusters of whistleblower reports to identify any possible trends and that VP Gouveia was working on this. He also noted
that while the amount of whistleblower reports looks large, the list provided only notes whether the cases were closed or remained open and that closed cases were not removed from the list.

Board Chair Kudo noted that UH is embarking on providing mental health care services to students and inquired as whether this would have an impact on whistleblower complaints. Internal Auditor Shizumura responded that he believes there were a few related cases in the past and that those cases were referred to the proper individuals in the respective departments.

Vice-Chair Higaki inquired as to the reason behind the fluctuation in the number of whistleblower complaints experienced by UHH over a number of reporting periods. Internal Auditor Shizumura replied that the major anomaly was the receipt of 49 reports during one period that was due to multiple reports being made regarding the same issue. He also noted that when the whistleblower hotline reminder email is sent, there tends to be a spike in reports received.

Regent Acoba noted that figures related to UHH should be looked at further as UHH appeared to have an inordinate amount of complaints per capita when compared to other campuses and inquired as to whether each campus receives reports on the complaints made at other campuses. Internal Auditor Shizumura responded that each gets a report specific to their campus and that it was possible to provide reports noting complaints made at other campuses, but that specific details as to the nature of the complaint would need to be removed. Chair McEnernery remarked that removal of the specific details of the complaint was particularly important to protect the identity of the whistleblower.

V. ADJOURNMENT

There being no further business, Vice-Chair Higaki moved to adjourn, Regent Wilson seconded the motion, and with unanimous approval, the meeting was adjourned at 10:11 a.m.

Respectfully Submitted,

/S/
Kendra Oishi
Executive Administrator and Secretary of the Board of Regents