

Notice of Meeting

UNIVERSITY OF HAWAI'I
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT
Members: Michael McEnerney (Chair), Randy Moore (Vice-Chair),
and Regents Higaki, Portnoy

Date: Wednesday, April 4, 2018
Time: 10:00 a.m.
Place: University of Hawai'i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai'i 96822

AGENDA

- I. Call Meeting to Order**
- II. Approval of Minutes of the March 8, 2018 Meeting**
- III. Public Comment Period:** All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting written testimony are not automatically signed up for oral testimony. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Oral testimony is limited to three (3) minutes. All written testimony submitted are public documents. Therefore, any testimony that is submitted verbally or in writing, electronically or in person, for use in the public meeting process is public information.
- IV. Agenda Items**
 - A. For Action:
 1. Recommendation to Approve Selection of External Auditor and Delegation of Authority to President to Finalize Agreement Fee Schedule
- V. Adjournment**



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UNIVERSITY OF HAWAII
BOARD OF REGENTS

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DTS 18805

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

RECEIVED

March 29, 2018

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Jan Naoe Sullivan
Chairperson, Board of Regents

Michael McEnerney
Chair, Committee on Independent Audit, Board of Regents

VIA: David Lassner *David Lassner*
President

FROM: Kalbert K. Young *Kalbert K. Young*
Vice President for B&F/CFO

SUBJECT: Request Approval of Selection of External Auditor

SPECIFIC ACTION REQUESTED

Pursuant to Section 304A-321, Hawaii Revised Statutes (HRS), the Board of Regents of the University of Hawaii is requested to approve the selection of Accuity LLP as external auditors to conduct work for:

- (1) Audited consolidated annual financial statements of the University.
- (2) Single Audits of the University to comply with Office of Management and Budget (OMB) Uniform Guidance.
- (3) Audit of UH Manoa Athletics.
- (4) Annual NCAA Agreed Upon Procedures (UH Manoa).
- (5) UH Hilo NCAA Procedures review.
- (6) Other services related to the completion of schedules, financial statements, reviews, etc., for the construction of audited reports.

RECOMMENDED EFFECTIVE DATE

Board of Regents approval of the selection of Accuity LLP, is requested to be effective as soon as procedurally executed by the Board of Regents but not later than May 31, 2018 so that audit work for the fiscal year to conclude June 30, 2018 can begin immediately.

Work by Accuity LLP, as the external auditor is operationally necessary to conduct financial audits for the fiscal year ending June 30, 2018.

ADDITIONAL COST

The contract with Accuity LLP, is estimated to cost:

- \$807,489 for the FY18 audits (anticipated to be expended FY19)
- \$827,733 for FY19 audits (anticipated to be expended in FY20)
- \$869,890 for FY 20 audits (anticipated to be expended in FY21)
- At the University's discretion, Accuity LLP, can be extended for the FY 21 audits (with cost anticipated to be expended in FY 22) for an amount to be negotiated and mutually agreed upon.

PURPOSE

As a governmental business entity of the State of Hawai'i, the University of Hawai'i ("University") is required to produce audited financial statements on an annual basis. The Consolidated Annual Financial Statements (CAFS) of the University and other related annual audits are required by HRS and expected as a matter of governance and transparency. In order to produce the CAFS and other related annual audits, the University has contracted with external auditing and accounting firms to assist with the work, review, compilation, and production of financial schedules or components to be included as part of audit reports and the CAFS.

The audit reports are used for a variety of purposes and are intended for general public audience, which includes Regents, management, legislature, investors, and the public at-large. In general, such audit reports are expected as standard financial reporting governance – of which timely review is expected as part of normal management procedures.

BACKGROUND INFORMATION

Accuity LLP is the currently contracted external auditors of the University for producing and auditing the annual financial statements. The current contract with Accuity LLP has been in place for the last three years, but the current contract concluded for audit work for the year ended on June 30, 2017 (FY17). Accuity LLP had been the contracted external auditor for a number of years on the prior contract as well. With conclusion of their current contract with the FY17 audit, it was necessary to procure for a new contract for external auditing services.

The University advertised to procure for auditing services in conformance with Chapter 103D-104, HRS. Three auditing firms did respond to the advertisement. A selection committee comprised of eight university personnel evaluated the submittals and based on their collective evaluations, selected Accuity LLP, as the finalist. Attached is a presentation that highlights the selection process, criterion, and estimated fee schedule provided under the intended contract.

ACTION RECOMMENDED

University Administration recommends the Board of Regents – Committee on Independent Audit recommend to the Board of Regents the selection of Accuity LLP as the University's contracted external auditors for a contracted period to complete audits pertaining to fiscal years FY2018, FY2019, and FY2020. University Administration recommends the Board of Regents – Committee on Independent Audit to authorize the President or designee to sign a contract with Accuity LLP for audit services.

Attachments

- c: University Internal Auditor (w/o Attachments)
- University Controller (w/o Attachments)

External Audit Services Contract

Kalbert K. Young

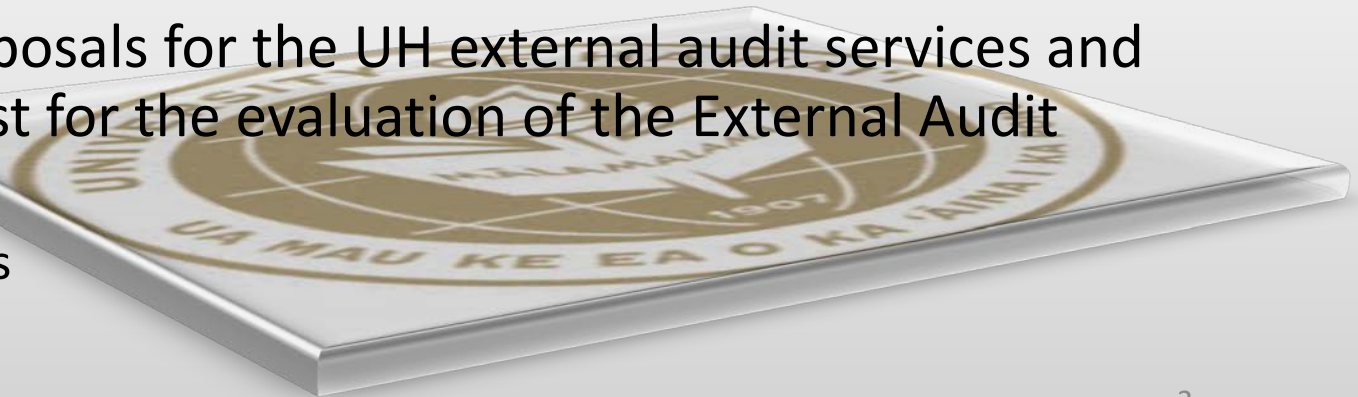
Vice President for Budget & Finance / CFO

University of Hawai'i System



Procurement for External Auditor

- Professional services pursuant to HRS Section 103D-104 are those services within the scope of the practices of architecture, engineering, law, medicine, accounting, etc.
- UH management conducted the following steps in accordance with HRS Section 103D-104:
 - A solicitation notice was sent out to invite accounting firms to submit service proposals.
 - Three firms submitted their proposals for the UH external audit services and were included in the qualified list for the evaluation of the External Audit Services Selection Committee.
 - Accuity LLP, KMH LLP, Moss Adams



Selection Criteria

- Pursuant to HRS Section 103D-104, the following selection criteria were employed
- Evaluation Items
 - A. Experience and professional qualifications relevant to the engagement
 - B. Past performance on projects of similar scope
 - C. Ability to meet project schedule
 - D. Audit plan and audit approach
 - E. Interest in required services

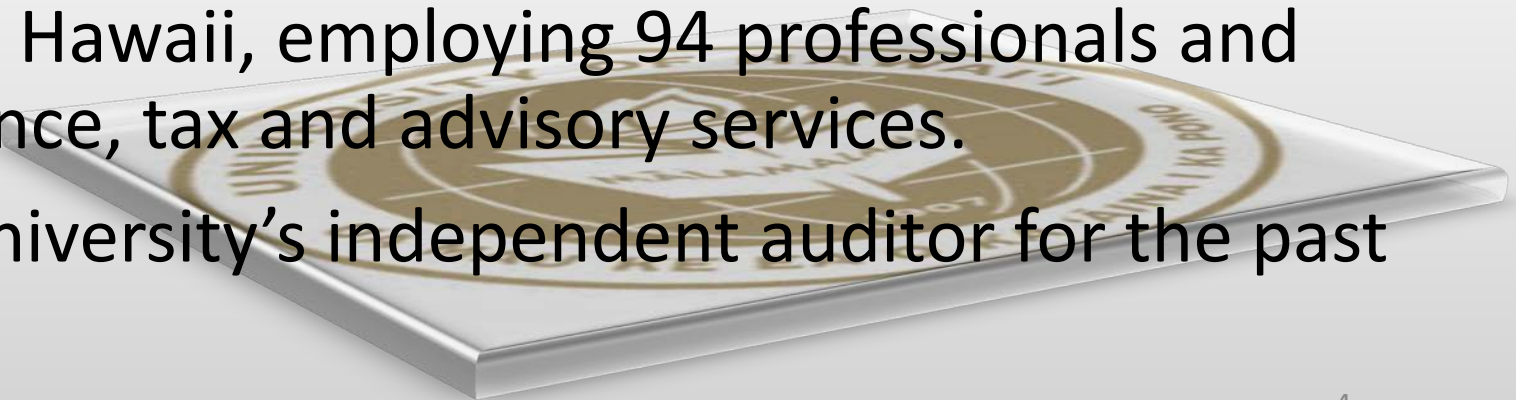


Selection Results

- External Audit Services Selection Committee evaluation recommended Accuity LLP for selection.

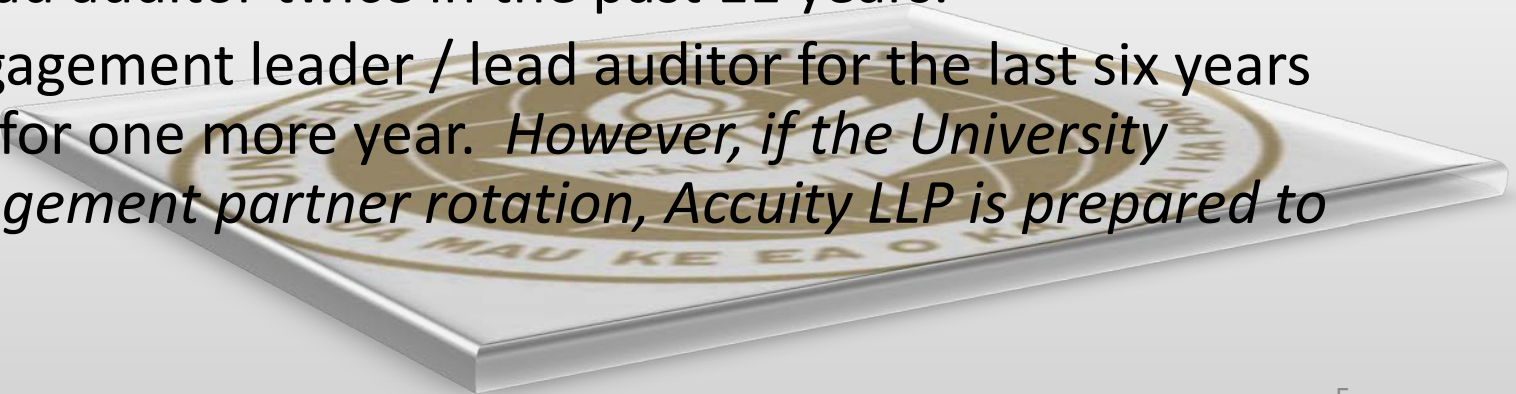
Accuity LLP

- Accuity LLP is a local firm in Hawaii, employing 94 professionals and offers a full range of assurance, tax and advisory services.
- Accuity LLP has been the University's independent auditor for the past eleven years.



Issue: Auditor Rotation

- There is no statutory or regulatory requirement for the University to rotate audit firms.
- The Government Accountability Office (GAO) does not require government agencies to rotate the lead auditor/partner.
- Accuity LLP's internal audit quality procedures require engagement leader / lead auditor rotation on government audits every 7 to 10 years.
 - Accuity LLP has rotated the lead auditor twice in the past 11 years.
 - Cory Kubota has been the engagement leader / lead auditor for the last six years and will serve in this capacity for one more year. *However, if the University desires to accelerate the engagement partner rotation, Accuity LLP is prepared to accommodate the request.*



Approval Request - Auditor

- UH management recommends Accuity LLP to be the audit firm to performs the UH external audit services for the next three fiscal years with the option to extend for one additional year:
 - Fiscal year July 1, 2017 to June 30, 2018
 - Fiscal year July 1, 2018 to June 30, 2019
 - Fiscal year July 1, 2019 to June 30, 2020
 - Fiscal year July 1, 2020 to June 30, 2021 (option to extend)



Scope of External Audit Services and Estimated Costs

	Actual Costs						Proposed Costs							
	FY 2014		FY 2015		FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
	Hours	Fee	Hours	Fee	Hours	Fee	Hours	Fee	Hours	Fee	Hours	Fee	Hours	Fee
Consolidated Financial Statements & Supplemental Schedules (Bond)	2,276	\$374,178	2,665	\$331,413	2,420	\$337,749	2,592	\$366,073	2,750	\$376,963	2,750	\$384,440	2,750	\$392,136
Single Audit (formerly A-133 Compliance Audit)	2,533	314,675	2,319	281,989	2,919	295,372	2,672	307,707	2,280	\$312,649	2,280	\$322,816	2,280	\$325,319
Manoa Athletics Financial Statements/NCAA Review	632	79,911	730	75,602	493	54,398	353	55,342	355	\$56,812	355	\$57,979	355	\$59,110
Subtotal	5,441	768,764	5,714	689,004	5,832	687,519	5,617	729,122	5,385	\$746,424	5,385	\$765,235	5,385	\$776,565
UH Hilo NCAA Agreed Upon Procedures (only conducted every three years)	154	25,583					147	27,749	0	\$0	0	\$0	183	\$29,373
A-133 Compliance Additional Programs	140	22,026	370	58,022	380	58,022	175	29,021	0	\$0	0	\$0	0	\$0
Audit Assistance (Preparation of Report and Footnote Schedules)	333	30,387	289	24,084	333	24,607	333	25,131	325	\$25,942	325	\$26,523	325	\$27,063
Campus Supplemental Schedules	264	36,805	262	27,749	258	28,325	258	28,901	258	\$29,534	258	\$30,193	258	\$30,917
University Bond System Procedures	53	6,080	55	5,236	53	5,340	53	5,445	53	\$5,589	53	\$5,782	53	\$5,972
Total Fees	6,385	\$889,645	6,690	\$804,095	6,856	\$803,813	6,583	\$845,369	6,021	\$807,489	6,021	\$827,733	6,204	\$869,890

Notes:

- Proposed and actual hours include 1,000 hours of assistance provided by internal audit (IA). 500 additional Accuity staff hours would be required if 1000 hours of audit assistance were not provided by internal audit.
- 2% inflation is built into the contract each year.
- Increased Out-of-pocket expenses due to: 1) \$3,500 expense incurred each year to have the pdfs of the Financial and Compliance reports prepared in compliance with Section 508 ADA Compliance; 2) Testing approach is to visit campuses every other year (with the exception of Manoa). As such, expense increases in FY 2019 to cover visits to the neighbor island campuses.

Conclusion

